אדמה פתרונות לחקלאות בע"מ

ADAMA Agricultural Solutions Ltd.

PERIODIC REPORT FOR THE YEAR 2013

The information contained herein constitutes an unofficial translation of the Annual Report for the year 2013 published by the Company in Hebrew.

The Hebrew version is the binding version.

אדמה פתרונות לחקלאות בע"מ
ADAMA Agricultural Solutions Ltd.

Periodic Report for the Year 2013

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Chapter A

Description of the Company's Business

Chapter A

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CHAPTER A – DESCRIPTION OF THE COMPANY'S BUSINESS

ADAMA Agricultural Solutions Ltd. (formerly Makhteshim-Agan Industries Ltd.) hereby submits its Annual Report for 2013. The Annual Report consists of five complementary chapters and should be seen as a single document ("the Report").

In this Report, the following terms have the meaning appearing alongside them:

ADAMA	-	ADAMA Agricultural Solutions Ltd.
The Company or the Group or ADAMA Group	-	ADAMA, including all its subsidiaries, unless expressly stated otherwise.
Koor	-	Koor Industries Ltd.
CNAC	-	China National Agrochemical Corporation, a Chinese company of the ChemChina Group.
CC or ChemChina	-	China National Chemical Corporation.
Makhteshim	-	Makhteshim Chemical Works Ltd.
Agan	-	Agan Chemical Manufacturers Ltd.
TASE	-	The Tel Aviv Stock Exchange.
Financial Statements	-	The Company's consolidated financial statements as of December 31, 2013 attached to this Periodic Report.
Merger Agreement or Merger Transaction	-	As defined in Section 1.1 below.
Koor Companies	-	Koor and M.A.G.M. Chemical Holdings Ltd.[1]

Unless expressly stated otherwise, all financial data in this report are denominated in USD.

Translation of financial data in various currencies to USD: Transactions in foreign currency are translated to USD, the Group's functional currency, at the exchange rate effective on the transaction dates. Assets and liabilities denominated in foreign currency on the reporting date are translated to the functional currency at the exchange rate effective on that date.

Interest rates: The interest rates referred to in this chapter are annual interest rates.

Unless expressly stated otherwise, the Company's operations and financial data are described on a consolidated basis. The Company's separate financial report is attached to this Report.

[1] On December 26, 2013 M.A.G.M. Chemical Holdings was merged with and into Koor and ceased to exist.

Part I – Description of the Company's General Business Development

1. THE COMPANY'S ACTIVITIES AND GENERAL BUSINESS DEVELOPMENT

1.1. General

The Company and its subsidiaries (which, as noted, will be jointly referred to as the "**Company**") specialize in the chemicals industry, and at the time of this Report have focused mainly on agro-chemistry. Within this framework, the Company is engaged in the development, manufacturing and marketing of crop protection products (see Section 6). In addition, the Company also operates in other areas, based on its core capabilities (in the fields of agriculture and chemistry), which at the time of this Report are in a non-substantial extent, as detailed in section 18.

At the time of this Report, the crop protection products produced by the Company are based mainly on generic substances ("**Generic Products**"), i.e. products similar to patent-protected products in terms of their active ingredients (after the patents have expired), and its products are usually not protected by patents but require registration. A significant part of the Company's products in its additional activities are specialty products developed by the Company, and the Company continually examines additional options for developing or marketing specialty products.

At the time of this Report and to the best of its knowledge, the Company is the world's largest generic company in its field, and is ranked seventh in the world (in terms of sales) among companies engaged in the field of crop protection (both specialty/research-based and generic). At the time of this Report, the Company sells its products in approx. 120 countries, through some 50 subsidiaries worldwide, all as described in this Report below. For details regarding the Company's objectives and strategy, see section 31 of the Report.

The Company was incorporated in Israel as a public company in December 1997, as part of a settlement for changing the holdings structure in the Makhteshim-Agan Group.

On October 17, 2011, the Company closed the merger with a corporation of the ChemChina Group, which is a large Chinese Group controlled by the Chinese Government, engaged in the chemicals and agrochemicals industry ("**Merger Agreement**" and/or "**Merger Transaction**").

On October 19, 2011, after the Merger Transaction was closed, the Company's shares were delisted and the Company became a private company, with 60% held indirectly by CC (through a sub-subsidiary of CNAC) and 40% held by Koor Companies, although the Company continues to be a reporting corporation, as this term is defined in the Securities Law, 1968 since the debentures issued by the Company in the past continue to be listed for trading on the TASE after the merger was closed. It is noted that commencing from the date on which the Companies Law (Amendment No. 17), 2011 came into force, the Company is a debentures company. For additional information on the Merger Transaction and its related agreements, see section 2.1 of this Report.

As part of the process of building a new marketing strategy, the Company intends to launch, during 2014, a new and uniform global brand for all its products and those of its subsidiaries – "ADAMA". The branding process will be implemented globally and its assimilation in all Group companies is expected to be completed within 18 months. As the first stage in the process, the Company changed its name on January 23, 2014 from Makhteshim-Agan Industries Ltd. to ADAMA Agricultural Solutions Ltd.

As of February 7, 2014, Mr. Chen Lichtenstein has been serving as President and CEO of the Company, after Mr. Erez Vigodman, who served as President and CEO from January 1, 2010, gave notice of his resignation, effective February 6, 2014.

1.2. The Company's area of operation

☑ Crop Protection Products (Agro) - At the report date, the Company is focused on the development, manufacturing and marketing of generic crop protection products (hereafter "**Crop protection products area**"). The company's main products in this area of operation are: (1) herbicides, (2) fungicides, and (3) insecticides, all of which are designed to protect agricultural and other crops at various stages of their development, during their growing season. Furthermore, the Company develops and markets agrochemical products for seeds treatment, and uses its expertise to develop and adapt similar products for non-crop uses. The Company has a diverse offering of products (portfolio), and differentiates its offered products by the development, manufacturing and marketing of unique mixtures and formulations. In 2013, the Crop protection product area (including use of these substances for non-crop purposes) represented approximately 93.5% of Company sales.

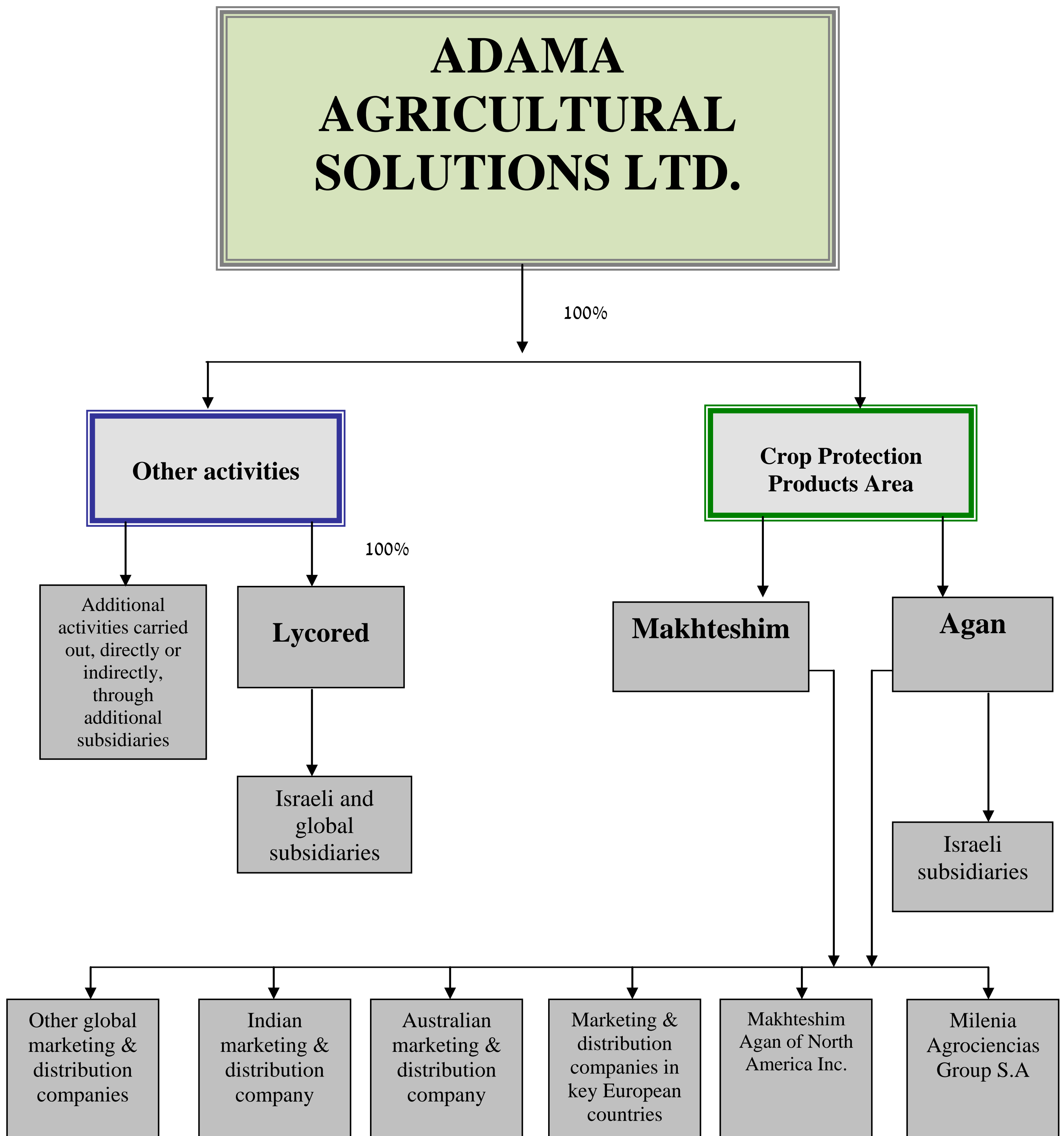
Commencing 2011, the Company operates a division for agricultural technologies, designated to expand the Company's areas of business activity to the sector of unique agricultural technologies, which will be integrated into the Company's core businesses. In this division, the Company is focusing on development and promotion of activities

involving seeds and biotechnology, and is reviewing possible entry into other complementary agricultural sectors.

See section 6 for additional information and a description of the crop protection products area.

☑ Other activities of the Company – As part of its core capabilities in the chemical industry, the Company is engaged in several other non-agricultural areas, which together accounted for 6.5% of the Company's sales in 2013. These activities include mainly the manufacturing and marketing of nutritional additives and food supplements, aroma products for the perfume, cosmetics, body treatments and detergents industy, industrial products and other non-material activities. At the report time, none of these activities, of itself, is material to the Company. See section 18 for a description of these company activities.

1.3. Hereunder is the Company's main operational structure, as of the reporting date[2]:



2 This diagram does not show all the Company's subsidiaries, but only those that are material to its operations. See the Appendix to the Company's financial statements for a complete list of the Company's subsidiaries and affiliates. See section 31 for details about the Company's strategy and its implications on the organizational structure as illustrated in the diagram, including with regard to its main sales regions.

1.4 Description of the structural changes in the Group's development, material M&A's

1.4.1 In recent years, the Company is in a growth trend, both organic and through the acquisition of companies and of registrations and distribution rights for existing and additional products in its areas of activity.

See Section 1.5 for details on the acquisition of material companies made by the Company in the five years preceding the report date.

As of the Report date, as part of the said mode of operations and its strategic goals (as detailed in Section 31 below), the Company continues to evaluate from time to time different collaborations or acquisitions of companies, operations and products in the fields of chemicals, agriculture and seeds, which are in its core business.

1.4.2 The Company is implementing a comprehensive strategic plan, which it began in 2010, intended to adapt the Company's business operation model to the changes in the industry's competitive environment and to strengthen its major areas of activity, as described in Section 31 below.

As a part of implementation of this plan, the merger transaction was closed in October 2011, which, the Company's management believes will facilitate strengthening the Company's ability to provide simple, effective and reliable solutions to farmers worldwide, while creating a unique business model that will enable the Company to differentiate its activities in the agrochemical industry.

The Company is working intensively to maximize the potential of the Merger Transaction, and in this framework is continuing, pursuant to the Merger Agreement and its related agreements,[3] to move forward with the process of assessing the purchase of all or part of the shares or assets of several companies and their subsidiaries which are directly and/or indirectly controlled by CNAC, among them the Class A shares of Hubei Sanonda Co., Ltd. ("**Sanonda**"), which are held indirectly by CNAC and account for approx. 20.15% of the issued capital of Sanonda ("**the Assets**").[4] As of the report date, the Company has not yet completed the assessment process and analysis of the Assets, negotiations between the Company and CNAC are in their initial stages, no agreements have been reached and until such agreements are reached, if reached, including on the Assets that will be purchased by the Company and which, as of the report date, have not yet been definitively identified, the Company cannot assess the cost of the acquisitions of

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[3] For details about the Merger Agreement and related agreements, including the shareholders agreement which regulates matters agreed among the shareholders concerning the sale of certain agrochemical assets if CNAC to the Company, see the transaction report dated July 2, 2011 (Ref. 2011-01-199371) and a supplementary transaction report dated July 31, 2011 (Ref. 2011-01-336866).

[4] For the review process, the Company appointed a special committee comprising members of the Board of Directors and of the Audit Committee.

such Assets to be purchased, the expected contribution of those Assets to the Company's revenues, and the expected future impact of such acquisition. If a binding agreement is signed, its performance will be subject to receipt of the requisite regulatory approvals and to other preconditions as provided in the agreement, including obtaining the required financing. The Company assesses that the process has potential for growth in sales and gross profit, and will enable the Company to create a significant operational and commercial infrastructure in China which will integrate into its operations and will also enable it to sell ChemChina products in its global sales and distribution networks. The Company believes that the process, may be executed, in all or in part, in several stages and it is expected to take several years.

With respect to the process, in November 2013 the Company completed the purchase of 10.6% of the Class B shares of Sanonda by way of a partial tender offer published by the Company.[5]

Additionally, the Company is evaluating additional business opportunities in China that will support the creation of significant research, operational and commercial infrastructure in this country, in a manner that will contribute to the presence of the Company in the Chinese market, to the strengthening of its growing presence in the Asia-Pacific region, and the solidification of its global capabilities.

Within this process, the Company had negotiations with Shenzhen Noposion Agrochemicals Co., Ltd. ("**Noposion**"), a Chinese distribution company in the field of marketing and formulation of agrochemical products and whose shares are traded on the Shenzhen stock exchange in China, concerning a transaction which the Company estimates that if it results in a binding agreement could be material, for the establishment of a joint company to which some of Noposion's operations will be transferred (including a number of formulation plants and registrations), and concerning a collaboration with regard to distribution in China. As of the publication date of this report, the negotiations did not consummate into a binding agreement. (See also the immediate report of August 27, 2013, Ref. 2013-01-128526.)

The Company is also in preliminary discussions with a company operating in and outside China, on an outline for cooperation in the distribution field in China and is in contact with other companies within and outside China that own products and technologies that could contribute to broadening the Company's array of products.

These contacts are at non-binding stages, and will include, to the extent they

[5] For more information about the tender offer and its results, see the immediate reports dated August 5, 2013, September 10, 20913, October 9, 2013, October 13, 2013 and November 12, 2013 (Refs. 2013-01-108531, 2013-01-140892, 2013-01-162315, 2013-01-163575, and 2013-01-188793, respectively).

continue to progress, business examinations and due diligence of the relevant activities, as well as negotiations regarding binding agreements. Each of these possible joint ventures and acquisitions could constitute considerable sums of investment and/or acquisition, which the Company estimates will not exceed several tens of millions of dollars for a single transaction. The Company is advancing these processes, although they are still in the evaluation stages and the Company is unable to estimate, as of the report date, when they will progress to closing stages.

For additional information on the Merger Transaction and the implications of the merger on the Company's operations, see sections 2.1 and 31.3.

Management's assessment of the results of the strategic plan, regarding the possible effects of the acquisition of assets and the actualization of additional business opportunities in China and regarding the effect of the merger on its operations is forward-looking information, based on information currently possessed by the Company's management. The Company's assessments may not be realized, inter alia, due to factors that are not under the Company's control, including the actions of its potential competitors, the agreements that will be signed with the controlling shareholder and companies within its group, and the changes in the markets of its operations.

1.5 Acquisitions of companies performed by the Company

Presented below are key transactions for acquisition of the shares or operations of significant companies, executed by the Company during the five-year period ended on the report date*:

Date	Country / Region	Acquired company	Acquired company's operations	% of stock acquired	Cash payment* (in USD millions)	Acquiring objective
May 2009	Czech Rep.	Agrovita SPOL S.R.O	Distribution company in the Czech Rep.	Completing 100%	Not material	Important step in the materialization of the Company growth strategy in Eastern Europe.
Sep. 2009	U.S	Bold Formulators LLC	Formulation of Crop protection products	100% (exercise of option to acquire all the shares)	Not material	Expanding the manufacturing and formulation capacities in the U.S
Feb. 2010	U.S	Alligare LLC	See above	Acquiring additional 10%	Not material	At the report date, the Company holds 80% in Alligare LLC
Oct. 2010	Korea	JK Inc.	Formulation and distribution of Crop protection products to the Korean market	51%	Not material	Expanding the sales and formulation capacities in Korea
Jan. 2011	Mexico	Companies of the Bravo AG group	Manufacture and distribution of pesticides, including copper-based pesticides, considered environmentally friendly, used mainly in organic farming	100%	Cash proceeds not to exceed USD 20 million, as well as additional amounts that the Company may pay in the future based on formulas stipulated in the agreement.	Expanding the distribution, manufacturing and formulation capabilities in Mexico
Jan. 2011	Colombia	Proficol Andina B.V	Formulation and distribution of Crop protection products in South America	An additional 17.5% (in addition to 57.5% held by the Company) ***	16	
Nov. 2013	China	Hubei Sanonda Co., Ltd.	Development, production and sale of Crop protection products, active ingredients including intermediate ingredients used in the production of the active ingredients and in particular, production and sale of formulated products.	10.6%	Approx. 57	Step in the creation of an operational and commercial infrastructure in China

* In addition to the said acquisitions, the Company made non-material investments in several other companies.

** In this table, "not material" payment means payment not exceeding USD 10 million.

*** On January 2014, after the report date, the company received a formal notice regarding the partners' intention to realize their right to sell to the Company the remaining shares held by them. The price of the acquisition shall be a material amount which according to the Company's estimation will not exceed approx. USD 30 million.

2. INVESTMENTS IN COMPANY EQUITY AND TRANSACTIONS IN ITS SHARES

To the best of the Company's knowledge, during 2012-2013, no off-exchange transactions were made by interested parties nor any buy-back of shares or securities convertible to shares of the Company.

For information about the Merger Transaction that was closed on October 17, 2011, including other agreements signed in addition to and as part of the Merger Transaction, including an agreement that regulates the relations among the Company's shareholders after the date of closing the Merger Transaction, see the transaction report of July 2, 2011 (Ref. 2011-01-199371) and the supplementary transaction report of July 31, 2011 (Ref. 2011-01-226866) (together: "**the Transaction Report**"), which are included here by way of reference.

The Company entering into a merger agreement

2.1. Merger agreement

On January 8, 2011, following the approval of the Company's Audit Committee and Board of Directors, the Company entered into a merger agreement to which the parties are: (1) the Company; (2) CNAC; (3) a wholly-owned private company (indirectly, through a wholly-owned corporation) of CNAC that was established in Israel for the purpose of entering into the merger agreement ("**the special purpose company**"); (4) Koor companies. On August 7, 2011, a general meeting of the Company's shareholders approved the Company's entering into the merger agreement and the additional agreements ancillary to it.

On October 17, 2011, the Company completed the merger transaction, and on this date the merger took effect. Under the terms of the merger agreement, within the framework of the merger, CNAC acquired Company's shares which, on the closing date constituted 60% of the Company's issued and outstanding share capital (including acquiring of all of the public's holdings, as well as acquiring the shares from Koor companies that constituted 7% of the issued and outstanding share capital of the Company), at a price that reflected a company value of USD 2.4 billion, calculated based on the effective holdings that do not include Company shares held by the Company and by its subsidiary.

Pursuant to the merger agreement the special purpose company, which had no assets or liabilities (except for the liabilities under the merger agreement), was merged with and into the Company, and all the entitling shares, which are all of the Company's shares, including those in respect of options, and except: ordinary shares of the Company that had been held by Koor companies, which constituted 40% of the Company's issued equity on the merger closing date, were converted to the right to receive the merger proceeds in cash from CNAC.

The merger proceeds for each share were USD 5.57450, which is the amount obtained from dividing: (a) USD 1,440,000,000 by (b) the number of entitling shares as they were on the merger's closing date.

After the closing of the merger agreement, the Company's shares were delisted from the TASE on October 19, 2011, and the Company became a private company held by CC (through a sub-subsidiary of CNAC) at the rate of 60% and by Koor companies at the rate of 40%. Although the Company became a private company, it continued to be a reporting corporation, as the term is defined in the Securities Law – 1968, in view of the fact that the debentures issued by the Company in the past continue to be listed for trading on the TASE even after the closing of the merger. As of February 17, 2012, after Amendment No. 17 to the Companies Law, 1999, took effect, the Company is a "debentures company".

2.2. Additional agreements

Moreover, and as part of the merger, the parties to the merger transaction – all or some, as applicable and as provided below – entered into additional agreements, as follows: (1) a loan agreement between CNAC, Koor and a PRC bank, whereby CNAC caused a non-recourse loan to be provided for the benefit of Koor, through a PRC bank, totaling USD 960 million, secured by a lien on the Company's shares held by Koor, which may be repaid in cash or through the pledged shares, and a letter of credit was furnished to Koor to secure the providing of the loan, all as detailed in Section 2.4 of the Transaction Report; (2) on the signing date of the merger agreement and in connection thereto, the Koor companies and CNAC signed a voting agreement, as detailed in Section 2.5.1 to the Transaction Report, and a shareholders' agreement, as detailed in Section 2.3 below; (3) on June 28, 2011, the Company, Koor companies and CNAC entered into a registration rights agreement (see Section 2.5.2 of the Transaction Report); (4) in effect as from June 28, 2011, trust agreements were signed between the parties (see Section 2.5.4 of the Transaction Report).

2.3. Shareholders agreement

As noted above, concurrent with the signing of the merger agreement, a shareholders' agreement was signed between the Koor companies and CNAC to regulate the relationship among the Company's shareholders after the merger closing date. The shareholders' agreement took effect on the merger closing date, and within its framework, it regulates matters including the following:

Directors – Koor and CNAC, as long as it holds at least 10% of the voting rights in the Company, shall each be entitled to appoint a number of directors (excluding external directors) to the Company's Board of Directors that will reflect the ratio of their holdings in the Company, at the terms prescribed in the agreement. As long as CNAC will be the largest shareholder, the number of directors that CNAC is entitled to appoint will be higher by at least one than the number of directors that Koor will be entitled to appoint, such that CNAC will have a majority on the Board of Directors; Further, in the period in which the Company will be a "debentures company" (as defined in the Companies Law), obligated to appoint two external directors ("**Period of Record**"), provided that CNAC will hold at least 50% of the Company's issued capital, the number of directors that CNAC is entitled to appoint will be higher by at least two than the number of directors that Koor will be entitled to appoint.

The Company's Board of Directors shall include not less than three directors. As long as CNAC will be the largest shareholder, it will be entitled to appoint the Chairman of the Board (who will have the decisive vote in the Board of Directors), and as long as Koor will hold at least 10% of the voting rights in the Company, it will be entitled to appoint the Deputy Chairman. The aforementioned provisions will apply, with the requisite changes, also with respect to the Board of Directors' committees.

External directors – During the Period of Record, Koor and CNAC each have the right to appoint one external director, the appointment of which will be brought to the Board of Directors for approval, in accordance with the provisions of the Companies Law.

Majority required for passing resolutions – As a rule, resolutions of the Board of Directors and in a general meeting of the Company's shareholders will be passed in an ordinary majority. However, as long as Koor will hold at least 15% of the voting rights in the Company, Koor's consent will be required to pass certain material resolutions prescribed in the shareholder's agreement and in the Company’s articles of association; Further, during the Period of Record, and as long as CNAC will hold at least 15% of the voting rights in the Company, the consent of CNAC will be required in order to pass those same resolutions.

Appointment and dismissal of senior management – Appointment and dismissal of senior management (as defined in the agreement, including the CEO and CFO) of the Company, will be subject to the approval of CNAC and Koor, as long as Koor holds at least 15% of the voting rights in the Company, and will be done by the Company's Board of Directors.

IPO – The parties to the shareholder's agreement will act in order to complete an IPO[6] of the Company within three years from the merger closing date. If an IPO will not be completed within 3 years from the merger closing date, Koor's registration rights will take effect as described in the Transaction Report and the dividend distribution policy shall be matched to an enlarged distribution rate as described Section 3 below. After the IPO, Koor will be entitled to demand that the Company register its shares in the Company for trading and include them in future registration for trading of the Company's shares, under the terms prescribed in the registration rights agreement (see Section 2.5.2 of the Transaction Report).

Offer to acquire the Company – In the period of 7 years after the Company's IPO, and in the event an offer to acquire the Company (as defined in the shareholder agreements) shall be made, requiring a vote of the Company's shareholders, Koor and CNAC will discuss how they will vote, and in the event that one of them will oppose the offer, they will both vote against the offer.

Limitations on transfer of shares – The shareholder agreement prescribes various limitations on the transfer of shares and convertible securities of the Company, including reciprocal rights of first refusal or reciprocal right of first offer (in the periods prescribed), and Koor's tag along rights toward CNAC, subject to the exceptions provided in the agreement, as well as certain limitations on the transfer of control in Koor and CNAC, including Koor's commitment that before the end of 3 years from the closing date of the merger, DIC will not cease to be its controlling shareholder (unless another entity from the IDB Group (i.e. IDB Holdings or a company it controls) will continue to control Koor), and that subsequently, control in it will not be sold to a competitor of the Company or of CNAC[7], and CNAC's commitment to hold at least 51% of the voting rights in the Company until the date of the IPO and to remain the largest shareholder in the Company until the end of 6 years from the date of the IPO.

Injecting assets – Immediately after the closing date of the merger, and subject to obtaining the requisite governmental approvals and Koor's consent (that will not be refused due to reasons that are not related to the transferred assets or businesses of the Company), CNAC will be allowed to sell to the Company certain of its agrochemical assets, which will be approved by Company management (*"***CNAC Assets***"*), provided that the EBITDA of the CNAC Assets for the 12 months prior to the sale will not be less than

[6] Initial public offering of the Company's shares on the Hong Kong, London, New York or other stock exchange agreed to by Koor (including, subject to the consent of Koor, an issuance of shares to a corporation that will hold, directly or indirectly, all shares of the Company).

[7] In the event of a change in control in Koor after the end of 3 years, some of the rights given to Koor pursuant to the agreement and were defined as personal rights – will expire.

USD 70 million and not more than USD 120 million (unless Koor and CNAC agree otherwise)[8], and that the net debt of CNAC Assets as of the date of sale shall not be more than 5 times the said EBITDA. The consideration for the CNAC Assets shall be equal to 10 times the said EBITDA less the net debt of CNAC Assets as of the date of sale. It was prescribed that the payment for the CNAC Assets will not impair the Company's ability to meet its existing liabilities during the ordinary course of business and its projected cash flow requirements. Regarding the examination of the acquisition of CNAC Assets by the Company, also see Section 1.4.2 above.

Non-competition – With respect to Koor – commencing on the closing date of the merger, and with respect to CC and CNAC – commencing on the earlier of the completion of the injection of the assets or 24 months after the merger closing date, then – (a) all of the activities of Koor and CNAC and the entities they control in fields related to crop protection products, seeds and genetic applications for crop traits or intermediary ingredients in the manufacturing of agrochemical products, and (b) all the activity of CC and entities it controls in fields related to crop protection products, seeds and genetic applications for crop traits – will be executed solely through the Company.

Earnings distribution policy - see Note 21F to the financial statements.

Termination of shareholder agreement - As a rule, it was prescribed that aside from certain provisions, the shareholder agreement will be terminated on the earlier of the following dates: (a) termination of the merger agreement; (b) consent of all the parties to the shareholder agreement; (c) discontinuation of the Company's operations or its liquidation; (d) on the same date that Koor or CNAC will hold less than 10% of the voting rights in the Company (in such case, some of the limitations on the transfer of shares will remain in effect even after termination of the agreement, all as will be prescribed in the shareholder agreement).

For additional details on the merger transaction, see the Immediate Reports detailed below, the contents of which are included by means of reference:

For details on the merger agreement and approval of the merger by the Audit Committee, the Company's Board of Directors and its general meeting – see the Company's Immediate Reports dated January 9, 2011, January 20, 2011, August 7, 2011 (RN 2011-01-009165, RN 2011-01-024423, and RN 2011-01-233517).

For additional details on the closing of the merger transaction – See the Company's Immediate Report dated October 17, 2011 (RN 2011-01-302640).

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[8] Note that the agreement does not prohibit CNAC and the Company from entering into other agreements between them, including with respect to the injecting of assets to the Company by CNAC, all as will be agreed between them and subject to all laws and the provisions of the shareholder agreement.

3. DIVIDEND DISTRIBUTION

3.1. For details on the dividend distribution policy prescribed in the shareholder agreement and the Company's articles of association, and other limitations regarding distributions of earnings, see Note 21F to the financial statements.

3.2. The Company did not declare or distribute a dividend during the years 2012-2013 or during 2014 until the report date.

3.3. The balance of distributable earnings according to the Company's financial statements as of December 31, 2013 is USD 715,275 thousand (net of the cancellation of shares in the Company's equity that were owned by the Company on the merger closing date)[9].

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[9] For details on the tax aspects applicable to the distribution of some of these earnings, see Section 24 below.

Part II - Additional Information

4. FINANCIAL DATA

As detailed above, at the report date, the Company is engaged in one core area of operation. For financial information and financial data regarding the Company's operations see the financial statements. For further explanation of developments in the figures presented in the financial statements, see the Company's Board of Directors' Report, attached herein.

Furthermore, here is the Company's consolidated income by segment, from its core area of operation and from its additional activities (in a format identical to the segmentation in its financial reports and without adjustments to the consolidated financial statements)[10] in the three years prior to the report.

2013 (in $ thousands)							
Segment of Operation	Segment revenues	Segment Costs[11]	Income from regular activities (Operating income)		Operating Income Margin (in %)	Total Assets	Total Liabilities
			Attributed to owners of Parent Company	Attributed to non-controlling rights			
Crop Protection Products	2,876,198	2,583,114	293,261	(177)	10.2%	3,503,432	576,960
Other Activities	200,157	184,252	15,905	-	7.9%	178,429	64,565
Total	3,076,355	2,767,366	309,166	(177)	10.0%	3,681,861	641,525
2012 (in $ thousands)							
Segment of Operation	Segment Revenues	Segment Costs	Income from regular activities (Operating income)		Operating Income Margin (in %)	Total Assets	Total Liabilities
			Attributed to owners of Parent Company	Attributed to non-controlling rights			
Crop Protection Products	2,648,673	2,377,351	271,212	110	10.2%	3,337,745	565,327
Other Activities	185,830	175,561	10,269	-	5.5%	232,398	31,918
Total	2,834,503	2,552,912	281,481	110	9.9%	3,570,143	597,245
2011 (in $ thousands)							
Segment of Operation	Segment Revenues	Segment Costs	Income from regular activities (Operating income)		Operating Income Margin (in %)	Total Assets	Total Liabilities
			Attributed to owners of Parent Company	Attributed to non-controlling rights			

[10] At the report date, revenues and income from inter-segment sales are negligible.

[11] At the report date, the Company management believes that segmenting the core activity area's costs into fixed and variable costs (as required by the Securities (Prospectus Details and Prospectus Draft – Structure and Format) Regulations, 1969, is not relevant to the Company's operations; therefore, the management does not analyze these data and they are unavailable.

Crop Protection Products	2,502,749	2,276,811	225,773	165	9.0%	2,984,633	499,394
Other Activities	188,625	171,461	17,164	-	9.1%	219,583	29,177
Total	2,691,374	2,448,272	242,937	165	9.0%	3,204,216	528,571

5. GENERAL ENVIRONMENT AND THE EFFECT OF EXTERNAL FACTORS ON THE COMPANY'S OPERATIONS

The following is a description of trends, events and key developments in the Company's macro-economic environment that have or may be expected to have, to the best of the Company's knowledge and estimate, material impact on its business results or developments. The factors listed below affects differently in various geographic regions in the world and on different products of the Company. Since the Company's product range is broad and it is active in many geographic regions, the aggregate effect of changes in the factors detailed below, in any given year, is not uniform and may sometimes even be mitigated by the effects of other factors in a particular region or time of year.

The Company's estimates presented in this section and in the rest of this report are based, among other things, on data published, and that have not been independently assessed by the Company, by (1) *Phillips McDougall* (http://www.phillipsmcdougall.com) – an independent consultation and research firm specializing in agriculture, crop protection and biotechnology (data received in November 2013); (2) *Cropnosis* – crop protection and biotechnology market research and consultation firm (http://www.cropnosis.com); and (3) the US Department of Agriculture (USDA) website (http://www.usda.gov/wps/portal/usdahome).

Global Factors

☑ Demographic changes, economic growth and rising standards of living

Multi-year global economic growth, the population explosion, urbanization and rising standards of living in various populations in the world, particularly in emerging economies, such as Brazil, China and India, have led to an increase in food consumption, particularly animal-derived food consumption. Accordingly, there has been a clear trend of rising demand for agricultural crops to meet this said rising food consumption, and for for crops containing vegetable proteins used by the food industry (cereals, mainly corn and soybean), and for grain being use for feeding animals that are to be consumed.

This demand fueled the growth of the agricultural sector, concurrent with stabilization of planting areas (whose global maximal area is limited), reduction of the arable land areas (among other things due to the demand for such areas to build new cities), and at the same time led to taking steps to maximize crops production per unit land area and enhance crop quality.

☑ Agricultural commodity prices

The trends described above led to an increase in demand for agriculture commodities and as a result, a constant rise in commodity prices, which peaked in 2011, and to a similarly high level in mid-2012. During 2013, the prices of agricultural commodities gradually declined, owing mainly to more stable weather conditions in the states where the main crops are grown and to an increase in growing areas.

The high prices of agricultural commodities contributed in the past few years to growth in farmers' profits. The higher the prices of agricultural commodities, the greater the desire of farmers to reach maximum output from their existing seeding areas. Moreover, the higher profitability is to farmers, the more worthwhile it is for them to increase crop protection. Accordingly, demand for Crop Protection Products increases. The Company estimates that in the long run, the relative stability in planting areas, population growth and high standards of living, will continue to positively impact demand for Company's Crop Protection Products.

☑ Trend of use of agricultural-based oil substitutes

Oil and its derivatives are presently the main raw material in most of the world's countries for energy production for various purposes.

The importing of this resource is mainly from a few countries in the world, most of them are Arab countries, some of which are characterized by geopolitical instability and some of which have problematic relations with many western countries. Therefore, and in view of the fact that oil is a limited global resource, many countries are interested in reducing their dependency on the major oil importers and to develop alternative energy sources. This need is reinforced by the growing strength of the concept of sustainability in western culture, whereby it is preferable to use renewable energy sources. These factors have led in recent years to technological development and to the adoption of policies by governments that encourage the production of organic fuels, produced from certain agricultural crops, such as corn and cane sugar. The increase in demand for organic fuel leads to further demand for agricultural commodities.

The profitability of agricultural crop production is also dependent on the ratio between food prices and oil prices. As oil prices climb higher, some farmers prefer to convert their cultivation areas to manufacture crops for organic fuel, at the expense of growing agricultural crops for food. Therefore, this trend increased the ties between the energy market and the agriculture market, and in all cases, strengthens the demand for agricultural commodities, which itself also contributes to the global food crisis, due to the decrease it creates in crop areas for the production of agricultural food products.

☑ <u>Significant fluctuations in global oil prices and impact of natural gas</u>

In the first half of 2013, oil prices rose because of a lack of stability in various Arab countries and an increase in demand, but in the second half of 2013 that price rise was offset almost completely by ever-increasing production in USA. In the global market, in the Company's core area of operation, the price of oil has several cumulative effects: (1) About 75% of the sales costs of the Company's products are due to the purchase of raw materials – chemicals produced, inter alia, as third- or fourth-order oil derivatives. Therefore extreme changes in global oil prices lead to changes in the price of these chemicals (affecting the Company's sales costs),but such changes are only partial, due to the fact that they are distant derivatives of oil and the effect of the change in prices is evident in the Company's results only months later. (2) In addition, oil is used by the companies operates in this area of operations as an energy source for operating production facilities and overland and oversea transportation of their products. Global oil price fluctuations thus affect energy costs directly, fully and immediately. Nevertheless, the level of these costs is relatively lower than those resulting from using oil derivatives as raw materials as above mentioned.

Natural gas is an alternative energy source to mazut, diesel and condensed carbon gas, which are more expensive and polluting than natural gas. Therefore, developments in the natural gas market, which impact the price or availability of natural gas could have an effect on the Company's businesses. Following an agreement for the supply of natural gas signed by the Company in March 2013, natural gas became part of the Company's sources of energy during 2013. In the Mediterranean, within Israel's territorial waters, natural gas reserves have been discovered in recent years, in very large volumes, and according to third-party assessments, the sea has additional gas reserves. These discoveries could provide additional natural gas sources for the Company in the next few years, and contribute to reducing the production costs of the Company in Israel.

☑ <u>Development of the genetically modified seeds market (GMO)</u>

Over the past decade, genetic engineering technology has developed through crop seed enhancement. At the start of the development of the genetically modified seeds market, prices of certain crop protection products fell, leading to rising demand for non-selective products at the expense of selective products, while putting pressure on the profitability of the selective products. Nevertheless, over the years the increased use of certain non-selective products led to the development of weeds and pests that are resistant to these materials, leading to an increase in demand for certain non-selective and selective products. Moreover, due to the effectiveness of genetically modified seeds against certain insects, other pests have flourished in their stead.

In some countries, the use of genetically modified seeds is prohibited (such as EU countries, and accordingly, sales to these places do not include genetically modified seeds products), while in other markets the use of genetically modified seeds is allowed and is even encouraged (e.g. North and South America), and at the date of the report there is a large market for them (and accordingly, in these markets the mix of products sold by the Company includes products that supplement its genetically modified seeds products). In the US, Canada and Argentina the use of genetically modified seeds in main crops is close to 100% of the relevant market. In contrast, in Brazil, where the use of genetically modified seeds was only recently allowed, the rate is lower and should grow in the next few years, whereas in Europe and China, the use of genetically modified seeds at the Report Date, is very limited.

The use of genetically modified seeds affects the mix of crop protection products used by farmers in the countries where the technology is used. Although the expanding use of genetically modified seeds directly influences supply and demand of the various crop protection products in countries where the use of genetically modified seeds is permitted (which in turn influences their prices proportionally), the mix of products in these countries also indirectly affects supply and demand for crop protection products in the rest of the world where the use of genetically modified seeds is not allowed, the reason being the changes in the prices of those products at the global level.

☑ Patent expiry and growth in volume of generic products

The Company estimates that in recent years, the market share of patent-protected crop protection products has been consistently shrinking due to patent expiry and the reduced amount of new ethical products. This means growth potential for companies engaged in developing new generic products competing with the products whose patents have expired. Nevertheless, the growth potential for the volume of generic products globally is expected to lead to increased competition for market shares, including on the part of ethical companies, which may even erode product prices.

☑ Chemicals industry in China , including agrochemicals

During the last decade, China has developed a chemicals industry that the Company estimates to be the largest in the world. Within this industry, the agrochemicals industry has also developed, including thousands of players who invested in manufacturing infrastructure, of which half of their production capacity is presently directed to exports, intended for sale through small and large companies, including the Company and its competitors. The growth in production capacity, on one hand, and the price levels and competitiveness of the products produced in China on the other hand, affect the structure of competition in the entire industry. However, price levels of the products manufactured in

China started to rise, in view of the trend of rising manufacturing costs in China, which originated in the increase in wage costs and other inputs, including environmental costs.

Localized Factors

☑ The agricultural market and severe weather conditions

Weather conditions during the growing season in each country where the Company operates impact directly on the demand for its products. See Note 1A(2) to the Financial Statements and section 33 below ("Exceptional changes in weather and in various global agricultural markets") for details.

☑ Regulatory changes

Environmental protection

The company's core area of operation is subject to strict and rigorous regulatory requirements in the environmental protection area, applicable both to the Company's production processes and the production environments of Company's products. Moreover, these vary according to the policies of each country where the Company operates. In addition, use of company products is subject to registration by health, environmental protection and agriculture agencies in the various countries. For details, see section 25 to this report).

Registration

The company's core area of operation is subject to product registration requirements, based on the policy in each of the countries in which it operates, with these registration processes being characteristic of the crop protection product's industry and also constitute an entry barrier. Moreover, the Company is required, from time to time, to renew or modify its registrations by conducting new tests and studies as well as compliance with new requirements. See section 15.2 and also section 33 to this report ("Changes in legislation, standards and regulation for registration of the Company's products") for details.

☑ Government policies

Governments often use subsidies and/or other types of governmental support as incentives to increase and/or reduce the extent of the Agricultural sector it that country. The nature of government policies and resulting extent of arable lands in a given country affect the demand for and prices of the Company's products.

Additionally, since the Company operates globally, its export and import activities are subject, among other things, to a variety of national requirements and standards related to registration and to processes opposite the customs and port authorities in different countries.

☑ <u>World ports</u>

Imports and exports of products and raw materials by multinationals in the Company's activity area depend mainly on worldwide port services. In this regard, see section 33 ("Disruptions in supply of raw materials and/or disruptions in shipping and port services").

Monetary Policy and the Financial Market

☑ <u>Foreign exchange volatility</u>

See section B3 of the Company's Board of Directors' Report, "Currency Risks".

☑ <u>Consumer price index (CPI) volatility</u>

See Section B3 of the Directors' Report, "Exposure to CPI Indexation".

Note that The Company's business activity and results may be affected by the above mentioned factors, either positively or negatively, also in the future. The extent of such effects depends on factors including the intensity of said events, their duration and the Company's ability to cope with them. For further details on risk factors relevant to the Company's operations see Section 33 below.

The Company's assessments regarding the rising standards of living, commodity and raw material prices, developments in the industry and the different markets, legislative developments and their effects on Company results relies on information from proprietary Company data, studies and other publications as detailed below, as well as on the Company's own estimates at the report date of the effects of market trends on supply and demand for its products.

This information is inherently uncertain as it depends, among other things, on additional factors beyond the Company's control, including activities by its existing and potential competitors, regulatory and economic processes in the world and in different countries and the economic situation in these countries. Company estimates might thus prove incorrect should it become apparent that said data were wrong or should other factors beyond the Company's control, affected supply and demand as mentioned above.

Part III - Description of the Company's Business

6. CROP PROTECTION PRODUCTS (AGROCHEMISTRY)

6.1. General Information-Introduction

The Company's crop protection product area includes research, development, production and marketing of products which enhance crop quantity and quality by protecting against the damaging and destructive effects of a variety of weeds, pests and fungi. The Company's product range includes three main product families: (1) *herbicides*; (2) *insecticides* and (3) *fungicides*. In addition, the Company develops and markets agrochemical materials for treating seeds. The Company markets (mostly directly and otherwise through external distributors and agents) the products it develops and produces, as well as other crop protection products it buys from third parties.

Crop protection products in the global market are divided into (1) *patent-protected ethical products* originally developed by leading companies in the field (research-based companies, as described below); and (2) *generic products*, such as the Company's products, which are similar to patent-expired source products (in terms of composition and modus operandi) and are produced by generic companies and by research-based companies.

The Company sells crop protection products in over 120 countries and at the report date, is the world's leading generic company in crop protection products manufacturing and distribution.

Crop protection products are used mainly by the agricultural sector. However, the Company uses its expertise to develop and adapt similar products for non-crop uses as protection against weeds, pests and fungi in roadsides, forests, lawns, parks, institutions, the wood and paint industry, and private facilities, homes and gardens.

6.2. Legislative Restrictions, Regulations and Special Constraints in the Crop protection products Area

See Sections 15 and 26 below for more information about these aspects of the Company's operations and details on the various restrictions.

6.3. Trends in the Crop protection products Area Volume and Profitability

According to data reported by Phillips McDougall, an independent professional company,[12] the Company estimates that over 70% of the world crop protection products market is controlled by six large multinational research-based companies, or RBCs, which develop and produce the original (ethical) products and patent the research rights in most world countries ("Ethical Companies").

In addition, since the patents on some of the ethical companies' products have expired, they also sell patent-expired products (which represent, at the time of this Report, a significant share of the products sold by those companies).

The Company, which, as noted, mainly produces and markets generic crop protection products which compete with patent-expired products of ethical companies, ranks seventh worldwide in terms of its sales turnover, with annual sales of approx. USD 3,076.4 million in 2013 (of which approx. USD 2,876.2 million is from crop protection products), making it the largest generic company in its field in the world.[13]

According to preliminary estimates, the sales turnover of the leading crop protection products companies for both the crop- and non-crop markets in 2013 totaled about USD 59,160 million[14] (compared with USD 53,732 million in 2012).

Below is total sales turnover of crop protection products area to the agricultural and non-agricultural[15] markets by the leading companies for 2013:

Company	Sales turnover (in $ millions)*
Syngenta AG	10,923
DuPont**	11,739
Bayer CropScience (of Bayer AG)	9,551
Dow AgroSciences** (of Dow Chemical)	7,137
BASF SA	6,940
Monsanto***	4,804
ADAMA Agricultural Solutions Ltd.	3,076

Source: Financial statements for 2013 as published by the companies.

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* The Company estimates that the turnovers above also include sales among the companies included in the table.

** Including modified seed sales.

*** The company's financial statements are for the four quarters period ended in November 2013.

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12 Source: According to preliminary estimates submitted to the Company by Phillips McDougall in November 2013.

13 This figure is based on the Company's financial reports attached herein, and includes sales from crop protection products segment and other activities.

14 According to preliminary estimates submitted to the Company by Phillips McDougall in November 2013.

15 Excludes sales of modified seeds.

Since 2000, the global agricultural sector experienced growth, leading to expanded planting areas (which are limited as it is) and increased crop volumes to meet the growing demand for crop protection products – which was expressed in the quantitative increase in crop protection products sales. For additional details on the global factors causing growth in the agricultural market and increased demand for crop protection products, see Section 5.

The trend of Company's global sales growth, which began in 2010, continued in 2013, similar to the positive trend that characterized most of its competitors. The increase in the prices of agricultural commodities as well as the pleasant climatic conditions contributed to growth in farmers' profits and to growth in demand for crop protection products, which led to quantitative sales growth for the industry, including the Company's products. In 2013 there was stability in the basic long term trends that effects the crop protection products area, including stability in amount of planting areas and a high level (in a multi-year comparison) of agricultural commodity prices.

Below are estimates submitted to the Company by Phillips McDougall on the market distribution and growth rates in the crop protection products for the agricultural market alone, according to geographic regions (in current prices, in sales to distributor terms) in 2013 compared with 2012:

	NAFTA	**Latin America**	**Europe**	**Asia**	**Rest of world**	**Total**	**Nominal year-to-year change (total)**
$M	9.955	14,547	13,608	12,634	1,921	52,665	+11.2%
%	19%	28%	26%	24%	3%	100%	

	2012 to 2013 growth (%)
NAFTA	7.8%
Latin America	26.9%
Europe	9.5%
Asia	1.3%
Rest of world	9.7%
TOTAL	11.2%

Source: Phillips McDougall – Industry Overview; data provided in November 2013.

Multi-year rise in standards of living in the Western world also increases demand for crop protection products in non-crop segments.

See the Board of Directors' Report below for further details on the 2013 trends and their effect on the Company's results

6.4. <u>Technological changes that could affect the area of operation</u>

The development of genetically modified organisms (GMOs) caused the replacement of selective herbicides designed to destroy weeds of a certain kind (without harming the crop they are designed to protect) with nonselective herbicides (which could also damage the crop it is supposed to protect).

To the best of the Company's knowledge, there are two genetic seed engineering families: (1) Input traits: products implanted with properties which benefit the farmers by, among other things, protecting their crops against nonselective substances, thus saving farmers the costs of buying several selective crop protection products; and (2) Output traits: products implanted with properties which improve the crop's quality and nutritional composition. To the best of the Company's knowledge, at the report date, most of the industry's investments and development are done in the first type of seeds, whereas recently, there has been an increase in investments in the second type. Towards the late nineties, genetically modified seeds sold on the market to farmers enabled the use of a single, nonselective herbicide – Glyphosate – require them to buy less selective herbicides.

At the report date, genetically modified seeds are sold mainly in the US, Brazil and Argentina, and recently also in India and China (in which the permit is limited only to cotton). EU countries prohibit the use of genetically modified seeds, although it enabled a country-level decision on certain matters. At the Report Date, except for a few European countries, which approved limited use of corn crops alone, no European country has approved the use of genetically modified seeds. Note that Company crop protection products sales in Europe represent some 37% of its total turnover.

The Company purchases Glyphosate, the world's most widely sold non-selective herbicide, which is used for basic treatment of many crops, from Monsanto (one of the world's largest ethical companies in its area of activity) as well as from other suppliers, and markets it in Brazil, Europe and other countries. As a result of the change in the company's portfolio, Glyphosate is no longer a material product of the Company, although the Company still maintains minimum inventories of Glyphosate, as it is an important product and is still one of the most sold products by the Company.

Additionally, the Company produces and markets complementary crop protection products for genetically modified seeds. The Company estimates that this technological innovation offers new opportunities for companies producing selective products. Nevertheless, should the Company not properly adjust its product range to these technological changes; this might affect the demand for its products.

In addition, the Company estimates that continued R&D in the genetically modified seeds area will focus mainly on output traits, making crops more valuable to the farmer, and will increase the incentive for him to invest in protecting crops from insects and diseases. Therefore, this trend also represents a potential for increased demand for Company products designed to protect those same crops.

The above mentioned company assessments of the effects of recent technological developments, new business opportunities for companies manufacturing selective products and foreseeable GMO trends constitute forward-looking statements as defined in the Securities Law, based on subjective Company estimates and various publications, as well as on the Company's estimate regarding the potential implications of the development of GMOs and the extent of Glyphosate consumption. The realization of these estimates is uncertain, among other things due to the materialization of risk factors or the effects of extraneous factors (such as changed trends in the Company's area of operation or the GMO area) beyond the Company's control.

6.5. Success Factors Critical to Company Operations

The Company estimates that the following factors are critical to its successful operations:

General:

(a) Reputation, expertise and Accumulated knowledge in the area of operation in the various countries and among customers and suppliers;

(b) Financial strength and resilience combined with consistent growth, allowing the Company to realize an M&A strategy and provide immediate response to attractive business opportunities to expand its product range and volume of its operations;

(c) Access to funding sources and reasonable funding conditions allowing the Company to make investments and ensure positive ROI;

Generic development stage:

(d) Dedicated knowledge and technologies, financial investments, skilled manpower and registrations required to develop the designated product and to use it;

(e) Successful completion of generic product development with proven effectiveness and quality of the developed product compared to the ethical product, as well as timely market entry;

(f) Consistent and continued development of additional products, including unique formulations, based on the Company's accumulated technological expertise;

Raw material procurement stage:

(g) Raw material availability and supply chain efficiency;

(h) Appropriate raw material costs, prices, quality and quantities, and operational flexibility for meeting actual demand;

(i) Flexible procurement system, including infrastructures in China;

Production stage:

(j) Efficient production costs structure combined with appropriate and efficient global deployment;

(k) Obtaining regulatory approvals and permits for the product's commercial production and marketing in relevant markets;

(l) The Company's extensive technological knowledge accumulated over years of industrial production of its products, particularly in chemical synthesis and formulation, which ensures its products are high quality, effective and safe;

(m) Appropriate dedicated manufacturing facilities and efficient and well-controlled production operations, at minimal health risks to Company employees, while complying with quality and safety standards;

Commercial marketing stage:

(n) An efficient and wide-ranging marketing organization, allowing the Company to distribute its products to a maximum number of prospective clients, as well as entering into commercial agreements for production and marketing of products at competitive terms, while relying, among other things on the Company's subsidiaries to forge close local relationships and develop new marketing niches in those and other countries;

(o) A global marketing and distribution network, including through the Company's subsidiaries, offering an advantage over generic competitors active in only some of the Company's markets, enabling the Company to sell its products throughout the year according to the seasons of each geographic region;

(p) Ability to utilize marketing and sales management knowledge, expertise and experience in target countries, allowing the Company to enter markets at the right time and secure a competitive edge;

(q) Stable and ongoing relationships with strategic clients building trust in the quality of the Company's products and their dependable supply, which also allow the Company to reasonably forecast its future sales volumes;

(r) Broad and diverse product portfolio which includes unique products such as unique mixtures and formulations, for every agricultural season and crop, providing a comprehensive response to farmer requirements;

(s) Expertise in registering its products in various countries, thereby speeding up the process of introducing a new product into markets and providing the Company with a marketing edge.

6.6. Segment Entry and Exit Barriers

The crop protection products market is characterized by high entry barriers which include high development costs (particularly for companies developing patent-protected ethical products) as well as payments for use of know-how for registration purposes, all requiring high equity and financial strength, knowledge and expertise requirements, and particularly extensive technological know-how in industrial production of chemical syntheses and formulations, relying on professional and skilled human resources or external consultants, high marketing and distribution costs, compliance with strict registration requirements, in accordance with the existing regulation in each country, significant investments in building and maintaining production facilities, positive reputation and strong customer loyalty. Nevertheless, in markets where relatively lenient registration requirements expedite the process and reduce its costs, the entry barriers are lower and, together with options for outsourcing production, this could allow smaller companies to start limited crop protection products operations.

Additionally, and to the best of the Company’s knowledge, in China, which is the world’s most developing market, there are various restrictions involving the holding of seed companies by non-Chinese companies, in a manner which, in the Company’s estimation, could constitute a major entry barrier into the Chinese seeds market. The Company assesses that this barrier will not apply to it, although it is merely an assessment, the

actualization of which is uncertain.

The Company estimates that there are no significant exit barriers in the crop protection product market, apart for those related to future uses of capital assets and the dedicated facilities used by companies engaged in this area, among other things since it is not characterized by long-term customer relationships.

6.7. Substitutes for Company products

To the best of the Company's knowledge, no other service or products may be deemed as bona fide substitutes for its products designed to protect plants against weeds, pests and fungi that are not of the same type of products produced by the Company or related source products. Nevertheless, some view genetically modified seeds and nonselective herbicides such as Glyphosate as products, which may partially substitute for the Company's selective products in certain territories and for certain crops. Additionally, natural and/or biological materials that harm weeds, insects and diseases constitute a substitute for the Company’s products, but as of the report date, they have negligible scopes.

6.8. Competition Structure in the Company's Operating Activity Area

See section 13 below regarding competition in the Company's area of operation and changes therein.

7. COMPANY PRODUCTS

7.1. Crop protection products

As mentioned above, the Company manufactures and sells a broad range of crop protection products, divided into three main categories (based on their active ingredient): (1) herbicides, (2) insecticides and (3) fungicides.

Herbicides

During cultivation, crops are exposed to various weeds which grow in their environment and compete it for water, light and nutrients. Herbicides are designed to prevent the development of such weeds or delay their growth in order to allow the designated crop to develop optimally in the different stages of its cultivation and to reach optimum yield. As already mentioned, the herbicides marketed by the Company are both selective and non-selective, as detailed in Subsection 6.4 above. According to the Company's estimate, the best-selling herbicides are designed to protect soybean, corn, cereal, rice and cotton crops

Insecticides

During the crop growing process, crops are often exposed to various insects and other pests which damage their quality and even threaten their future development. The insecticides produced by the Company are designed to destroy various types of such insects selectively, that is, without damaging or destroying the crop itself. The use of genetic modified seeds that are capable of releasing active ingredients which remove damaging insects makes usage of some of the Company's insecticides essentially redundant; however, at the time of this report, they are used to a limited extent, mostly in non-edible crops. The Company estimates that the best-selling insecticides are designed to protect fruit and vegetable, corn, cotton and soybean crops. At the time of this report, the Company's gross profit from insecticides sales is higher than its gross profit from herbicide sales.

Fungicides

In the course of the growing process, crops are attacked by various diseases and types of parasitical fungi negatively affecting crop quantity and quality. The fungicides produced and marketed by the Company are designed to combat such diseases. On the other hand, when weather conditions in the growing season are dry, the outbreak of crop diseases is much smaller, reducing demand for such products. The Company estimates that at the time of this report, the crops in which fungicides are used most frequently are grains, fruits, vegetables, soybean, vines and rice. At the report date, even the gross profits from the Company's fungicide sales are higher than those resulting from herbicide sales.

In addition, the Company develops and sells agrochemical materials for seed treatment and uses its expertise to develop and adapt similar products for use in non-crop areas, so as to protect against weeds, disease and pests in road infrastructures, forests, lawns, gardens, institutions, the timber and paint industries, installations and the gardens of private houses.

7.2. Key markets

The Company's operations are focused on Europe, North America, South America and Asia-Pacific, and the Company sells its products in 120 countries worldwide. In recent years, the Company has taken action to expand its presence in the European (including Eastern Europe) market, the American market, the growing markets of Latin America and Asia-Pacific and Africa, which are characterized by steady growth and rising standards of living as detailed above. At the report date, Company sales in Europe (including Eastern Europe) represent some 37.1% of its total crop protection products sales. The North-American market also constitutes an important target for further growth and expansion of Company operations. In the South American market, which is currently the market with the highest growth in the industry, the Company has been working to solidify its position by focusing on expanding and diversifying its product portfolio and providing a more comprehensive response to the variety of customers in this region, with their diverse requirements and characteristics.

For details on the Company's total crop protection products sales in its major markets in the years 2012-2013, see the attached Directors' Report.

7.3. Company's Products

As mentioned above, the Company produces and markets generic crop protection products. Generic products are similar to ethical products developed by RBCs over a long R&D process whose patents have expired. See subsection 6.3 above for further details.

The generic crop protection products area has several distinct characteristics:

- ✓ Although their development is generic, developing new products in the area still requires advanced development and registration processes and production process adjustments. In order to complete development, companies in this area of operation have to meet high costs. Nevertheless, the Company estimates that the development costs of generic products are significantly lower than ethical product R&D costs.
- ✓ As aforementioned, registering the products for marketing in the various target markets is subject to obtaining regulatory approval and marketing permits for each market, a process which may take between three to seven years (together with the development period). For more details on regulations applicable to the Company's

activity area, see sections 15 and 25 below. The procedures of obtaining the required regulatory approvals in each country carry considerable costs for these companies.

- ✓ Regulatory authorities in the different countries dictate rules and conditions for development of search studies for the registration of crop protection products. Research conducted for preparation of a registration portfolio must be conducted in certified laboratories (good laboratory practices, or GLP). These conditions are updated from time to time and entail prolonged registration procedures. Furthermore, it is required to implement work procedures for the documentation and control which promise withstanding of periodic tests and reviews conducted by the regulatory authorities.

For additional details on the Company's estimates regarding the decrease in the market share of patent-protected ethical crop protection products, see Section 5 above, "Expiry of patents and growth in generic products scope".

In recent years, the Company has been striving to turn its products' portfolio to a more diversified one (Hybrid), to be based on generic products, mainly the more complex ones, based on unique formulations and mixtures, and on a selective basis, even on innovative products.

At the time of this Report, the Company intends to operate according to its strategy by expanding its product portfolio and increasing its market share, among other things through the development and registration of new generic products based on patent-expired ethical products.

7.4. Production Process in the Crop Protection Segment

The Company's operations include production and marketing of active ingredients (over 120 in number) through multi-stage synthetic chemical processing of raw materials; production and marketing of end products (some 1,400 different formulations, as defined below); and buying active products and processing them through various formulation activities before selling them to third parties. The Company's production sites use active ingredients both for itself, as inputs in the process of producing end products, and for sale to third parties. At the report date, the annual sales of each product sold by the Company do not exceed 10% of total Company sales.

The Company's main production process is a chemical reaction (synthesis). Various products require between one and several reaction stages.

Formulation is a process wherein active ingredients produced by the Company or bought from third parties are adapted for preparations designed for various uses by the agriculture. During this adjustment and preparation stage, the concentration of active ingredients is reduced, and various additives are added. Sometimes, the active

ingredient's physical form is transformed (including its liquefaction or solidification, as the case may be). This modification is hereafter called "formulation" or "formulization", as the case may be.

About half of the production of active ingredients is produced in one of the Company's plants, while final formulation and packaging – which require less complex production facilities – are completed in the Company's main plants or in the customer's country or a nearby country where the Company operates formulation facilities or is party to a formulation services agreement. The highest percentage of active ingredients is produced in Israel. Outside Israel, the Company operates active ingredient plants in Poland, Brazil and Columbia. It also operates formulation facilities in Brazil, Poland, Greece, Spain, Italy, Columbia, the US, Mexico and Korea, and a formulation and laboratory facility in India.

In addition to the Company's manufacturing activity, it also operates commercially, on a smaller scale, in buying end products and/or active agents from third parties and selling them "as is", without any manufacturing intervention (usually to complement the Company's product offerings).

7.5. Product Pricing

The Company's products are sold in competitive markets, such that well-known competing products exist for almost all its product range. It estimates its global market share at about 5%. For the most part, the Company usually adjusts the prices of its products to those of market available products. However, the Company also raises its prices based on its marketing policy. Nevertheless, the Company usually operates to maximize the inclusion of raw material costs in its sales prices.

7.6. Product Branding

The Company has a flexible policy regarding its worldwide use of brands. The decision to use brands is made on an individual case basis. Sometimes, the Company retains the original brand names and sometimes it changes the brands to its own. As part of the process of building a new marketing strategy, the Company intends to launch, during 2014, a new and uniform global brand for all its products and those of its subsidiaries – "ADAMA". The branding process will be implemented globally and its assimilation in all Group companies is expected to be completed within 18 months. As the first stage in the process, the Company changed its name on January 23, 2014 from Makhteshim-Agan Industries Ltd. to ADAMA Agricultural Solutions Ltd.

7.7. Product Return and Liability Policies

On the whole, Company policy does not allow the return of non-defective sold products. The amount of products returned in 2013 was immaterial, and Company policy dictates the

creation of appropriate provisions for expected refunds in its financial statements. At the report date, the Company has a third-party liability and defective products insurance policy of up to USD 350 million in aggregate annual damages.

8. NEW PRODUCTS

As discussed above, the Company's strategy is to maximize its agrochemical capabilities and expand its product portfolio and create a diverse array of products intended to fulfill market needs, penetrate new markets and reinforce its position in existing ones by developing and producing either complementary or new generic products as well as through M&A's. Accordingly, the Company is continually developing and registering new herbicides, insecticides and fungicides alongside new mixtures and formulations of existing products. In 2013, the Company continued to pursue this policy of investing in new product development and manufacturing, launching new active Ingredients and formulations, and obtained 413 new registrations (includes 93 expansions for new crops for licensed products) for marketing its products. In this framework, during 2012, the Company completed development of NIMITZ (known as MCW2 in the development stage), a specialty product, and an anti-nematode also used to treat seeds, and filed product registration requests for the product in different regions of the world (except for Europe, where separate approval processes are required).

To the best of the Company's knowledge, at the report date, the NIMITZ product mentioned above is not material to the Company and it will not materially impact the volume of sales or development expenses for 2014.

9. PRODUCT REVENUE SEGMENTATION

Company revenues by major product groups exceeding 10% of total Company revenues (in USD thousands):

2013		
Product Group	**Revenues**	**Percentage of Company Revenues**
Herbicides	1,592,976	51.8%
Insecticides	711,703	23.1%
Fungicides	571,519	18.6%
Total of all crop protection products	**2,876,198**	**93.5%**
Other operations	**200,157**	**6.5%**
Total	**3,076,355**	**100.0%**
2012		
Product Group	**Revenues**	**Percentage of Company revenues**
Herbicides	1,510,780	53.3%
Insecticides	648,675	22.9%
Fungicides	489,218	17.3%
Total of all crop protection products	**2,648,673**	**93.4%**
Other operations	**185,830**	**6.6%**
Total	**2,834,503**	**100.0%**
2011		
Product Group	**Revenues**	**Percentage of Company Revenues**
Herbicides	1,339,985	49.8%
Insecticides	670,371	24.9%
Fungicides	492,393	18.3%
Total of all crop protection products	**2,502,749**	**93.0%**
Other operations	**188,625**	**7.0%**
Total	**2,691,374**	**100%**

Note that the volatility of insecticide and fungicide sales is higher than that of herbicide sales, since the former are more sensitive to the presence or lack of particular diseases or pests.

Likewise, note that Company's scope of sales of active ingredients by the Company is immaterial in comparison to end product sales (such as mixtures and formulations).

10. CUSTOMERS

10.1. Customer Characteristics and Nature of Business Relationship

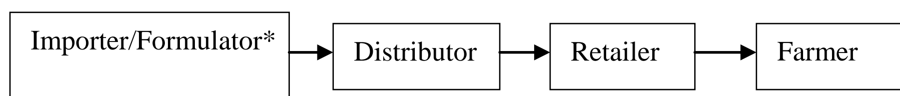
In this area of operation the Company has numerous customers that are scattered in many countries throughout the world. In some countries, sales are being made to a small number of customers. Generally, the Company's agricultural products are sold to regional and local distributors in the different countries, who in turn market them to end customers in that country, some of which are large cooperatives. The Company also sells to multinationals companies (which buy its products in order to market them either as end products or as intermediate materials for their manufacturing operations) and to other producers who manufacture end products based on the Company's active ingredients.

Almost all sales are made to regular customers, normally without long-term supply contracts. In most countries, purchases are made without requiring long-term advance orders, while in some areas they are made on the basis of (non-binding) rolling sales forecasts and actual orders, such that the Company's actual production is based on these forecasts.

Customer sales prices are determined, among other things, by the quantity procured, with discounts given occasionally dependent on minimum order quantities. These discounts are included in the Company's financial statements relative to the progress in meeting its targets, but only when these targets are expected to be reached and discount totals may be reasonably estimated. The lead supply times of products in countries where company subsidiaries operate are very short, usually a few days after receiving the order.

10.2. The Company Supply Chain

Generally, the supply chain between the Company and the final customer who purchases its products in the different countries may be characterized as follows:



*At the report date, in most cases, the formulator and/or importer are Group companies.

In view of the expansion of the Company's activities and the acquisition and establishment of subsidiaries in different regions of the world, the Company's subsidiaries carry out the role of importer, and occasionally also distributor and retailer.

In the past, farmers stored the inventory in their own warehouses, but today most of the goods are stored in the importers' (in recent years, mainly subsidiaries') warehouses. In recent years, the increasing competition in the area of operation led many to maintain sufficient inventories in order to respond more quickly to ad hoc customer demand.

10.3. Customer Credit Policies

For information on the Company's customer credit policies, see Note 29B to the Financial Statements.

For changes in the provision for doubtful debts during 2013, see Note 29B(2) to the Financial Statements.

10.4. As the report date, the Company has no single customer whose purchases exceed 10% of its turnover, and according to the Company's estimate, it is not dependent on any single customer.

11. DISTRIBUTION AND MARKETING

Modes of marketing and distribution and chains of supply

The Company's marketing operations are global and designed to consistently increase market share. Over the years, the Company strengthened its marketing channels and focused on independent distribution of its products. It established and acquired distribution companies in various regions which import end materials and active ingredients to carry out any formulations required (by themselves or through third parties), and then sell to cooperatives or local distributors (occasionally Company subsidiaries), which sell them to the end customers. Recently, the Company began focusing in several countries on increasing its direct sales to end customers rather than through third parties.

Within this framework, the Company carried out during the past years, actions to strengthen its marketing network, including by way of: (1) the process of building a new marketing strategy that emphasizes marketing that will enable the strengthening of the differentiation of the Company’s products, with a change in its operational approach, from emphasis on products to emphasis on the market and customers, while building infrastructure for the launch of a global brand; (2) building a global network of management teams, for agricultural crops in a cross-section of different crops, who analyze the market and facilitate the development of unique products, formulations and compounds, while providing a solution for the needs of farmers, with reciprocal communication and exchange of information; (3) strengthening the Company's global marketing network by recruiting a highly experienced team in the field of marketing of the Company's products and by way of establishing and acquiring companies in several countries, including in India, Korea, Mexico, Columbia, Ecuador, Peru, Vietnam, Chile and Slovakia.

The Company operates in three key regions: (1) Europe; (2) the Americas (includes the US, Canada and South America, including Brazil); (3) Asia-Pacific, Africa and the Middle East (including Israel). The Company's global sales network, which equally serves all product groups, has been organized into these geographic regions. The Company has a marketing team and product managers teams responsible for developing and marketing the products under their responsibility worldwide. Through its own startups and acquisitions, the Company created a global network of subsidiaries responsible for marketing, selling, developing and registering Company products.

In countries where the Company has no subsidiaries, it operates networks of local agents and marketing channel (mostly exclusive, commission-earning at rates ranging mainly between 3% and 5% of sale value - paid after receipt of customer payment).

The Company's marketing activity is handled by local salespersons and directed at distributors, agricultural consultants and farmers.

The Company's strategy of enhancing its independent marketing and sales capabilities in its key markets is designed to continually reduce its dependence on external distributors and maintain high profit margins (which would otherwise shrink due to payments to distributors and other players along the supply chain).

Since in the main Company's markets, the marketing networks rely on subsidiaries, the Company estimates it is independent of external marketing channels whose loss might significantly compromise its operations.

The Company's marketing and sales expenses in the crop protection products’ segment totaled some USD 501.1 million in 2013, constituting 17.4% of its total crop protection products sales for the year.

12. ORDERS BACKLOG

Since the Company's products are sold on a current basis and over the immediate term as customary in the segment, rather than based on long-term contracts, it has no significant amount of order backlog in the area of operation. At the time of this report, Company estimates are based on non-binding forecasts of annual order volume by its key customers.

13. COMPETITION IN THE AREA

As noted in Subsection 6.3 above, the crop protection product market is controlled by six large multinational ethical companies, each with an annual turnover, exceeding two billion dollars in the crop protection product segment (excluding seeds activity). The Company estimates that the entry barriers for the crop protection product market are relatively high, but vary from region to region.

The Company, to the best of its knowledge, is the world's largest generic crop protection products company. According to Phillips McDougall's list of both ethical and generic companies, the Company is ranked seventh (7) worldwide in 2012, with a market share of 5% in 2013, based on preliminary estimations made by Phillips McDougall regarding the total sales in the crop protection products industry in 2013.

The Company's competitors are multinational ethical companies which continue producing and marketing their ethical products after their patents have expired, as well as other generic companies. According to the Company's estimate, in most cases the original producer's market share falls to between 60% and 70% within a few years after patent expiry, leaving the remaining market share open to competition among generic companies, in addition to the competition between them and the ethical company (which continues manufacturing the product in question and even leads its market prices and sales conditions).

The Company competes with ethical companies in all the markets in which it operates, since they also have global marketing and distribution networks. In addition there are several smaller ethical companies that also produce competition for the Company's products. As a rule, other generic players who do not have international marketing and distribution networks compete with the Company focally in those geographical markets in which they operate.

In the recent few years, some new emerging trends may affect the nature of competition in this area of operation: (1) The proportion of products whose patents have expired continues to rise relative to that of patent-protected ethical products, due mainly to the fact that the rate of patent expiry exceeds that of new patent registration; (2) Some generic companies[16] have been expanding (among other things, as a result of mergers and company and product

16 Such as the Indian UPL and American FMC.

acquisitions) and increasing their market shares, and in the future they may compete with Company products in world markets they have hitherto neglected; (3) Smaller companies have begun operating in a reduced volume, in certain markets with relatively lower entry barriers, as detailed in subsection 6.6 above; (4) Development of agrochemicals industry in China; and (5) Aggressive price cutting in certain markets by multinational ethical companies and/or extending the number of credit days.

The Company's expertise in successfully launching new generic products, as soon as possible following the expiry of their patents, represents a crucial factor in maintaining the Company's status in the global market. The Company normally pilot tests the feasibility of manufacturing and producing a patent-protected ethical products some five to six years prior to patent expiry. These tests include market size analysis and future demand forecasts, as well as assessments of the potential to expand the use of the product in question compared to others. Moreover, the Company estimates expected changes in the product's price and global market share against the share it may be able to capture as it begins to market it. All these factors are evaluated, among other things, in reference to market aspects and the availability of competing products launched over the same period, genetic engineering developments (as described in subsection 6.4 above) and their potential impact on product launch (for better or for worst), as well as the Company's estimated technological ability to manufacture the product efficiently and economically. Finally, possible means of manufacturing and marketing the product are evaluated.

In recent years, the area of operation has been characterized by growing competition, among other things due to the following key factors: (1) Growing competition by Southeast Asian producers (which conversely reduces raw material and product costs); (2) The generic market's growth potential, as detailed in subsection 7.3 above.

According to the Company's estimate, at the time of this Report it enjoys material competitive advantages arising, among other things, from its technological and chemical capabilities; professional knowledge; strong agronomical capabilities; wide portfolio of unique products suited for the needs of the farmers; reputation; financial strength and the availability of financial resources for building and upgrading production facilities; development capabilities; experience in registration processes in various markets around the world (and the resulting ability to launch generic products soon after patent expiry); an operational system that begins with the R&D stage until the manufacturing stage (synthesis and formulations), in which some 75% of the products sold by the Company are manufactured by it, in a manner that sets the Company apart from the competing generic companies; stringent quality assurance; strict observance of environmental standards; global marketing and distribution network; and, finally, production and marketing collaborations with multinationals companies.

Moreover, in recent years, the Company has been striving to adapt its business model to the changing conditions in the competitive environment in which it operates. The Company assesses that the combination of all the measures instituted by the Company and the potential of the merger, will enable the Company to present a business model that sets it apart, which will contribute to the continuing strengthening of its competitive position.

14. SEASONAL EFFECTS

For information on the influence of agricultural seasons and weather, see Note 1A(2) to the financial statements.

Below is the geographical breakdown of Company's quarterly sales (in USD thousands) in each of the years 2013 and 2012:

2013	Q1		Q2		Q3		Q4		Annual	
Israel	27,210	3.1%	27,788	3.5%	26,648	3.6%	27,535	4.2%	109,181	3.5%
North America	145,789	16.5%	150,801	18.8%	93,592	12.8%	125,971	19.2%	516,153	16.8%
Latin America	128,311	14.5%	139,848	17.4%	237,596	32.5%	251,763	38.4%	757,518	24.6%
Europe	435,982	49.2%	340,619	42.4%	227,511	31.1%	136,234	20.8%	1,140,346	37.1%
Asia-Pacific and Africa*	148,093	16.7%	144,199	18.0%	146,681	20.0%	114,184	17.4%	553,157	18.0%
TOTAL	**885,385**	**100%**	**803,255**	**100.0%**	**732,028**	**100.0%**	**655,687**	**100.0%**	**3,076,355**	**100.0%**
Quarterly percentage of annual sales	**28.8%**		**26.1%**		**23.8%**		**21.3%**		**100.0%**	
2012	**Q1**		**Q2**		**Q3**		**Q4**		**Annual**	
Israel	24,071	2.9%	28,222	3.6%	25,134	3.9%	26,977	4.7%	104,403	3.7%
North America	131,860	15.9%	169,616	21.7%	88,454	13.7%	107,613	18.6%	497,542	17.6%
Latin America	107,397	13.0%	137,338	17.5%	188,076	29.2%	210,094	36.3%	642,906	22.7%
Europe	423,518	51.1%	320,598	40.9%	211,698	32.9%	136,559	23.6%	1,092,373	38.5%
Asia-Pacific and Africa*	141,188	17.1%	127,649	16.3%	130,177	20.2%	98,265	17.0%	497,280	17.5%
TOTAL	**828,033**	**100.0%**	**783,423**	**100.0%**	**643,539**	**100.0%**	**579,508**	**100.0%**	**2,834,503**	**100.0%**
Quarterly percentage of annual sales	**29.2%**		**27.6%**		**22.7%**		**20.4%**		**100.0%**	

15. DEVELOPMENT AND REGISTRATION ACTIVITY

Generally, the Company, as a generic products manufacturer, does not conduct studies to discover and/or develop new molecules, but rather develops production processes and licensing data for existing molecules in the ethical product, and hence spends a lot less compared to ethical companies, which involve many years of extensive investment in order to discover the appropriate active ingredient and molecules until successful and complete development of the product. However, and as detailed below, the Company is selectively developing several innovative materials and unique processes, formulations and mixtures.

15.1. Development

The Company's main development and registering activity focuses on the chemical-engineering development of production processes for new generic products, biological and agronomical tests designed to meet registration requirements, in-house development of compounds, as well as streamlining of production processes and development of innovative and unique formulations of existing products. The Company also provides scientific-technological support for existing production processes, emphasizing quality improvement, efficiency, safety, environmental protection as well as production cost reduction. Some development activities are conducted in Company and subcontractor labs, in Israel and other countries (including in China). Such development efforts may be based on exclusive proprietary knowledge, on knowledge jointly developed with the subcontractor, or on knowledge exclusively owned by the latter.

Additionally, the Company develops several innovative materials, based on molecules acquired after a screening process, in which their effectiveness is proven. The Company develops the product's biological uses and licenses them in the target countries, and also conducts chemical development of the production process.

The fact that the Company's development and registration costs are lower than those of multinational companies gives it a competitive edge and allows it to offer a broad and diverse range of generic products at competitive costs. Nevertheless, introducing a new generic product in the market still requires considerable investment in development and registration, particularly in view of the development of and increasing competition in the generic market. See Subsection 7.3 above for more on this matter.

In 2013, the Company's recognized R&D expenses (excluding registration expenses) totaled approx. USD 33.7 million, which constitute approx. 1.09% of its consolidated revenues. R&D expenses are not recognized as intangible assets.

According to the Company's estimate, and subject to fulfillment of its work plan, during the twelve months following the publication of this Report, it projects expenses of some

USD 36.8 million on R&D activities. At the report date, the Company operates several analytical labs in Israel, China, India, U.S. and Brazil, which also conduct QA tests for its various products and tests for registration purposes. Makhteshim and Agan have the standard certificates from the Israel Laboratory Certification Authority, attesting to the high quality of working procedures in its analytical labs (GLP, or Good Laboratory Practice). In 2012, the registration laboratory in Brazil received GLP certification from the Laboratory Certifying Authority in Brazil, allowing it to perform chemical studies for registration purposes. The Company employs some 200 development and registration workers, most of whom have academic degrees.

Up to the time of this report, the Company has financed its registration and development investments using its own funds, bank and non-bank funding, and in the past, immaterial grants by the Ministry of Industry, Trade and Labor's Research and Development – Chief Scientist's Bureau ("the Chief Scientist").

At December 31, 2013, the balance of Chief Scientist grants to R&D programs currently pursued by the Company or such that have been completed successfully, net of royalties paid (recorded in the financial statements as liabilities for development grants), totals some USD 2.0 million. See Note 19B to the Company's Financial Reports for details on development grants.

15.2. <u>Registration – General</u>

The materials and products marketed by the Company require, at various stages of their production and marketing, registrations in every country where the Company intends to market them. For this purpose, the company employs approx. 140 professional registration workers – mostly researchers, engineers and technicians in chemistry, agronomy, biology and other life sciences – and also hires the services of external contractors in order to develop registration data.

Crop protection products are sold worldwide under the supervision of state authorities in every country (usually the Ministries of Agriculture, Health and Environment), with these registration proceedings characteristic of the crop protection products industry and constitute an entry barrier to the industry. Registration requirements change from time to time and tend to become stricter with time in various countries, consequently, registration costs rise and more time is required to prepare registration portfolios. In some countries, registrations have no time limit, although additional tests are required every several years. In other countries, registrations are limited to 10-15 years and have to be renewed, with additional tests and data required for that purpose. All or part of the registrations might be revoked should such information fail to meet the required updated criteria. The cost of registration and the time required obtaining a registration, or

amending it, varying by country, and they may last for several years. Likewise, since formulations and active ingredients of products distributed by the Company also change over time, the Company is required to make modifications in order to correlate fully between the specific registration requirements of a specific country and any relevant product. In order to comply with these requirements, the Company is continuously examining the compliance of its products with the registration requirements in the different countries and works to amend and modify them, as required. In this framework, the Company continuously files a large number of requests to amend the registration of its products with the different registration authorities worldwide. Some of these requests were approved and some are being examined by the authorities, with these examination processes possibly lasting several years.

For additional information on the registration requirements applicable to the Company and the related risks, also see Section 33.2 of the Periodic Report, "Legislation Changes, Standards and Regulation of Company Products".

Registration costs are typically several hundreds of thousands of US dollars per product, and in countries such as the US the EU and Japan, they may even total several millions per product.

The US, Japan, Brazil and the EU have the most stringent standards. Other countries are gradually adjusting their own requirements to those standards. Obtaining a registration requires meeting health, safety and environmental standards.

During 2013, the Company obtained some 413 new registrations for active materials, formulations and various mixtures in the crop protection products area. This total includes 93 new crop indications for registered products, but does not include renewals.

In 2013, the Company's registrations expenses totaled some USD 80.88 million net, plus depreciation, or about 2.6% of Company revenues, gross.

<u>Registration in the United States</u>

The registration process in the US includes federal registration by the Environmental Protection Agency (EPA) for the active material and chemical preparations, which are the end products for sale. Moreover, several states require special permits and registrations for the various preparations and configurations of active materials already registered at the federal level, based on the criteria of the state.

There are two main methods for obtaining federal registrations:

1) Submitting a complete portfolio which includes all the data and studies required. Preparing this portfolio takes 4-5 years, and the EPA review in this type of process takes 2-4 years.

2) Following 10 registration years, citing all the existing data on another company's active material (Cite All), and demonstrating that the active material to be registered is chemically similar to the existing material in that country. In this method, the generic company is required to compensate the development company with the original registration by an agreed amount which is a function of the data's value and the cost of registering the original product, as well as the value of the time saved by speeding up the registration process. If the generic company and the original registration owner fail to agree on the compensation amount, a mandatory mediation mechanism is introduced. This procedure takes between nine and twelve months. Fifteen years after having obtained a registration, the data at its basis are open to the public, and from this time on there is no compensation liability.

As part of the EPA's additional re-registration requirements (re-registration is a procedure in which a company is required to periodically provide additional data), several companies may pool their resources to save time and money to prepare the newly required data by creating a "re-registration task force". The Company is reputed to be a professional and reliable group, so that international companies tend to cooperate with it in this process.

Registration in Europe

In the recent, years the registration processes of EU members have been consolidated, which resulted in new crop protection products regulations. Today, every new material intended for use in EU countries passes through a rigorous registration process composed of two main stages. Stage 1 enables the producer to include the active material in the list of materials allowed for use in EU countries (Annex I). In Stage 2, the final product has to be registered for its various uses in EU countries.

In July 2011, a new registration regulation (1107/2009) took effect, replacing Directive 91/414. This new regulation involves rejecting products based on their potential hazard.

The Company cooperates with several companies, and such cooperation is aimed at jointly developing the data and information as required with regard to several of the materials distributed by the Company which are being reevaluated. Note that even after the abovementioned consolidation, additional data must be submitted for registration in each country separately.

In December 2006 the European Parliament and Council of Ministers ratified the Framework Legislation for the Registration, Evaluation and Authorization of Chemicals (REACH). REACH came into effect on June 1, 2007, and it applies to existing as well as to new chemicals either produced in or imported into Europe.

REACH will be implemented gradually over the years 2007-2018 under the supervision of a new agency – European Chemical Agency (ECHA). The company has already met the first (pre-registration) period deadlines, during which importers and exporters were required report materials designated for registration in order to receive an extension for completing their full registration, allowing it to continue selling them. At the report date, the Company complied with the timetables also required by the REACH legislation.

At the report date, the Company estimates that the costs involved in implementing this legislation during the coming year would not be material. For more on registration as an external factor liable to affect company operations, see section 5 above.

The Company's assessments regarding the completion of approval procedures and/or the projected costs involving REACH implementation detailed in this subsection constitute 'forward looking statements' based on the Company's familiarity with the procedures required as well as Company tasks required thereby. These assessments may not materialize should the relevant authorities' requirements and/or the Company's failure to meet them prolong the process and make it more costly.

Registration in Brazil

The generic substance registration procedure in Brazil is based on chemical identity of an active substance available in the market. Generally, if the registration applicant proves such chemical identity and includes within the registration file chemical data and additional registration work on the AI and on the chemical preparation including efficacy and residues work, it may be granted a registration following an review process of three to four years, due to rigorous review by the Health Ministry (Anvisa) and the Ministry of the Environment (IBAMA) and the present portfolio overload, due to the numerous materials filed for registration.

16. INTANGIBLE ASSETS AND INTELLECTUAL PROPERTY IN THE CROP PROTECTION PRODUCTS AREA

Most of the Company's crop protection products (both in absolute and in relative sales terms) are generic products, and therefore not protected by patents. Nevertheless the Company has 4 patent families that protect innovative materials and 35 more patent families, relating to generic materials and innovative materials that protect processes, formulations, material properties and unique mixtures. The Company also relies on trademark registration to establish its reputation for products it manufactures and markets. At the time of this Report, the Company owns more than 7,200 such active trademarks.

The Company purchased all of the rights to the NIMITZ (known as MCW2 at the development stage) a nematicide, including families of patents that protect it. The patent on NIMITZ is

registered in more than 20 countries and is expected to expire between 2020-2022. Additionally, the Company acquired rights to families of patents related to mixtures of NIMITZ with fungicides, insecticides and to processes for the manufacture of NIMITZ, which will expire between 2022-2024.

The Company also owns an exclusive registration for the Novaluron (Rimon®) insecticide whose patent extensions have expired in various countries during 2007-2012. The Company filed applications to register additional patents related to the unique compounds and formulations of this material.

The Company also owns an exclusive registration for the Flufenacet/ Diflufenican (Herold®) herbicide whose marketing and production rights apply in Germany and Belgium alone, the patent for has expired in July 2013. At the report date, these are not significant products for the Company.

The Company also owns several exclusive local registrations for other materials.

For information on patents and intangible assets of the subsidiary Lycored, see section 18.1 of the Report.

The Company has an intellectual property department responsible for protecting the Company's intellectual property through registering patents on company developments and for trademarking its products. The Company, through the intellectual property department and the legal department works to penetrate new products based on the genetic materials, while refraining from infringing on the relevant valid patents. The Company also takes measures to cancel invalid patents of third parties and defends itself in processes and threats to its products and/or its intellectual property through the relevant forums and authorities.

The Company acts to safeguard and protect its unregistered commercial secrets through confidentiality clauses, differential authorization, etc.

According to generally accepted accounting principles, the amounts recognized as the Company's major intangible assets at December 31, 2013 (including subsidiary goodwill) totaled some USD 723.7 million.

17. RAW MATERIALS, INVENTORIES AND SUPPLIERS

The Company buys a large variety of raw materials, the lion's share of which is distant oil derivatives, which may not be uniformly characterized. It also buys complementary raw materials required to produce the finished product and/or its formulation.

The shelf lives of most of these raw materials are several years, and they maintain their stability throughout the years. Moreover, the shelf lives of raw materials may usually be extended by simple treatments. In view of this fact, raw material losses in Company warehouses due to obsolescence are negligible.

The most significant element of the Company's sales costs is the cost of raw materials used in its industrial activities. This cost is affected by the volatility of global oil prices. The cost of buying finished products for marketing to third parties is also significant.

During 2013, mainly in the second half of the year, there was an increase in the prices of raw materials used in the Company's operations.

In 2013, the cost of raw materials and packaging totaled USD 1,316,503 thousand. This cost accounted for 74.7% of the Company's total manufacturing costs for crop protection products (excluding finished goods), which totaled USD 1,762,333 thousand.

In contrast, in 2012, the cost of raw materials and packaging totaled USD 1,301,353 thousand. This cost accounted for 80.5% of the Company's total manufacturing costs for crop protection products (excluding finished goods), which totaled USD 1,615,710 thousand.

The Company buys its raw materials from various suppliers, mainly in Europe, the US, China and South America. The Company's supplier network has not changed significantly over the past few years, but nevertheless, it gradually increased the volumes procured from various Chinese suppliers (such that most of the increase derived from purchases in China, with no significant reduction in the quantities bought from the Company's other suppliers) in view of their lower costs.

The Company stores raw material inventories in accordance with the order forecast for each season, for periods averaging two to three months. At the time of this Report, the Company estimates itself to be independent of any single supplier. For further details on supplier credit, see subsection 22.5 below. The Company contracted an agreement with a Chinese supplier for exclusive material production and marketing for the Company. The agreement provides for completing materials in the process of development, as well as development of new materials by the Chinese supplier, based on its own and the Company's knowledge. The company undertook to invest an immaterial amount in researching, developing and manufacturing the new materials, as well as to buy from the Chinese supplier a significant share of the new materials produced. The agreement also governs the parties' joint proprietary rights to the developed products. Finally, the two parties also signed an exclusive supply agreement to be applied to each of the fully developed products. At the report date, the parties are acting according to the agreement.

Additional Activities

18. GENERAL

In addition to the Company's main area of operation, it is also active in various other, non-crop protection products areas. The Company's aggregate revenues from and investments in these additional activities do not exceed 10% of its total consolidated revenues and investments. At the time of this Report, the Company has the following additional activities, in order of importance: (1) dietary supplements and food additives; (2) aroma products; (3) industrial products.

In these additional activities, the Company takes advantage of its knowledge, experience and chemical and industrial capabilities. In view of the highly diverse nature of those additional activities and products, and since they do not represent core Company activities in view of their small scales, they are reviewed and analyzed below separately, to an extent commensurate with their share of Company results.

18.1. Dietary supplements and food fortification

Products

At the publication date of this report, the Company holds 100% of LycoRed Ltd. ("LycoRed"). LycoRed is engaged mainly in developing, manufacturing and marketing dietary supplements (DS) and special food additive ingredients (Food Fortification), and in developing and manufacturing materials and applications for dietary supplements ("the Supplements"), mainly for non-Israeli markets. The ingredients for food fortification are ingredients added to food during industrial production that give the final product the characteristic of nutritional or health value, marketed as individual ingredients and/or in mixtures for fortification of food and for the DS industry.

LycoRed manages independent and separate operations, including its own development, production, and marketing and distribution organization. The LycoRed plants are located in Israel (Beer Sheva and Yavneh), the US, England, China and the Ukraine.

(a) Lycopene - At the time of this report, one of LycoRed's unique products is natural lycopene produced from tomatoes. LycoRed has developed a unique and innovative process for producing this material (the carotenoid which gives the tomato its red color), which some ascribe with properties for protecting the human body against degenerative and malignant diseases. In order to produce lycopene, LycoRed has developed unique tomato strains (mainly intended for industrial applications), with particularly high lycopene content. In addition, LycoRed has developed technological capabilities for

extracting, separating and concentrating the products of tomato processing and adapting them to market requirements.

(b) Beta-carotene and Lutein - LycoRed develops, produces and markets beta-carotene (including synthetic) and lutein, products designed mainly for the DS and beverage industries.

In addition to carotenoids, LycoRed has several secondary activities: (1) It provides formulating services for active DS materials; (2) It provides coating for active ingredients and prepares mixtures, such as vitamins, minerals and other natural materials for food fortification.

LycoRed's gross margins are not materially different than those of the Company's in the crop protection products area.

Structure, recent developments and competition in the DS market

The food and nutrition industry may be characterized by retail-based competition, technological conservatism and increasing commitment to the quality of food and supplements, health consequences, consumer nutritional habits and changes in consumer tastes. From the producers' point of view, these factors require technological innovativeness, responsiveness to the requirements of customers – both food and DS producers – as well as the ability to meet high quality standards. In recent years we have witnessed a growing consolidation trend in the area, with M&A's and consequent shrinking of supply chains, which have resulted in reduced competitiveness by small companies. Nevertheless, companies with unique and innovative products such as LycoRed have managed to grow and establish their position despite said trend.

In recent years, consumers worldwide have grown more aware of the nutritional importance of carotenoids, including lycopene, mainly as a dietary supplement and food coloring.

The Company assesses that the more extensively the food market uses bi-products of carotenoid production, LycoRed will be able to launch new carotenoid-based products and will be able to compete with its competitors' lower prices.

The DS industry is exposed to competition from manufacturers from Eastern Asia, which market raw materials and also, recently, formulated materials. Synthetic lycopene producers such as BASF ZMC and DSM Nutritional Products compete with LycoRed in the carotenoid area. Other competitors are natural lutein producers like Kemin Industries, Inc., formulators like DSM Nutritional Products and vitamin and mineral mixture producers such as Glanbia Fortitech Strategic Nutrition.

Volume and profitability developments

In 2013, LycoRed's sales outside the group totaled some USD 97.3 million, compared to USD 85.5 million in 2012. At the report date, LycoRed's market share is immaterial in all of its product groups.

Critical success factors

The Company estimates that the main success factors in LycoRed's DS operations are: (1) technological capability, leadership and innovativeness; (2) responsiveness to the changing requirements of the food and nutrition industry, and ever-changing consumer preferences; (3) maintaining and reinforcing its relationships with regular clients, while providing optimal customer service; (4) global marketing deployment allowing it to form tight relationships and develop new marketing niches in the markets it operates in as well as in other countries and improve international trading relations; (5) expertise and experience.

Entry barriers

Like all companies in the DS areas, LycoRed is required to obtain and maintain various permits and registrations, as well as to meet a large number of quality standards required by customers in various countries. In addition, DS companies require, among other things, knowledge, unique technologies and rich experience in scientific development, extraction technologies and storage techniques (to make the most of DS products), chemical expertise and advanced technology to produce relevant product applications. In turn, these require own capital, financial standing and reputation since it takes a long time to establish a position in the DS area. Furthermore, proven technological knowledge and extensive experience are required to manufacture market and distribute DSs, together with the ability to extract, separate, stabilize and fully utilize the manufacturing process's various products and byproducts.

Customers

In the DS area, LycoRed's customers are mainly manufacturing companies, including those which produce and sell end products to retailers, shops and industrial companies, which then formulate and package ingredients supplied by LycoRed for dietary supplements and private labels.

Marketing and distribution

At the time of this Report, LycoRed sells its products mainly in North America, Europe, Japan and other countries in the Far East. These sales are usually based on specific, current orders received shortly before supply deadlines. LycoRed's estimates are based on non-binding forecasts of annual order volumes from key customers. Over the years, it has developed its own marketing and distribution channels, as well as customer and

technical support services. Sometimes, LycoRed also relies on local agents.

R&D

Most of LycoRed's activities are carried out from independent sources, mostly in LycoRed's labs, and in research institutes with which LycoRed has annual agreements. The research focuses on cultivation of strains of tomatoes, sophisticated formulation capabilities, isolation of active ingredients, food colorings and clinical research to examine the health aspects of the Company's products.

Regulatory restrictions, registrations and permits

Production and marketing of dietary supplements and food additive ingredients are the responsibility of national health agencies registration and quality requirements. LycoRed has FDA approval for using natural lycopene as a natural food color for the U.S. food industry, in addition to permits it has already received from European and Japanese authorities. Receipt of this FDA approval had great significance for the Company, since the authorities in the US have not approved the use of synthetic lycopene as food coloring.

In 2001, based on new EC regulations, Israel adopted Public Health (Food) (Dietary Supplements) Regulations, 2001, which list permitted supplements, measures and values. Most of the vitamins and minerals imported by Lycored require import permits from the Health Ministry.

Raw materials and suppliers

At the time of this Report, the raw materials of LycoRed's products are tomatoes, Marigold flowers (Tagetes erecta), algae, vitamins and minerals and amino acids. Consequently, its main DS suppliers are farmers so that supply is also dependent on factors affecting the agricultural industry. Moreover, LycoRed has contracted with Zeraim Gedera, Ltd. for the supply and development of special tomato strains, as well as with growers whom it supplies with seeds and growing instructions. In addition, LycoRed buys vitamins and minerals from Western and East Asian companies.

The Company processes tomatoes in California, in a local tomato plant, and the processed product is imported to Israel for use in the Beer Sheba plant.

Intellectual property

All of LycoRed's products are original developments. At the time of this Report, LycoRed has some 24 registered production and formulation process patent families, as well as some additional 29 patent families in advanced registration stages. Some of the patents refer to production and formulation processes, as mentioned above, while others refer to

the health-promoting properties and characteristics of active materials developed by LycoRed. LycoRed also owns several brands, registered as trademarks.

18.2. Aroma products for the cosmetics and flavors & fragrances (F&F) Industries

At the report date, the Company indirectly holds 100% of the shares of Agan Aroma and Fine Chemicals, Ltd. ("Agan Aroma"), which mainly develops, manufactures and markets synthetic chemicals and fragrances for the detergent industry (soaps, washing powders, laundry softeners, cleaning agents, etc.), for the cosmetics and body care industry (lotions, shampoos and deodorants) and for the fine fragrances industry. The great majority of these products are intended for export. Agan Aroma owns a number of aroma chemicals used to produce scent extracts. It focuses on R&D, manufacturing and marketing of added-value aromatic chemicals. Its products are raw materials included in the final product. The aroma products manufactured by the Company's subsidiaries are generic products.

Agan Aroma's activity focuses on synthetic chemical production based on organic synthesis of fragrances for the aromatic industry in its dedicated facilities in Ashdod. Most of its raw materials are high-grade chemicals.

The Company has a joint venture with a Swiss company to produce and market fragrance and taste materials in its Agan plant. In addition, the Company in a joint venture with the Swiss Company jointly developed a unique process for manufacturing an aroma and taste product. As part of this joint venture a manufacturing facility was built at the Makhteshim site in Neot Hovav, which began to operate during the second half of 2012. The facility is in the stage of running and stabilization.

Structure, recent developments and competition in the aroma market

The aroma chemicals market has developed considerably over the past few years in view of rising standards of living and changing preferences of end consumers. Concurrent with the market's development, there was an increase in the number of manufacturers, mainly in China and India, which led to price reductions and a significant decrease in Agan Aroma's market share during 2012-2013. Activity in this area requires innovation, expertise and advanced R&D, as well as the technological know-how required for sophisticated production, low-cost manufacturing, optimal deployment and management of an international sales network, and initial capital for investment in complex production facilities.

Critical success factors are good reputation and branding, reliability and consistency.

Customers in aroma products market

About 75% of Agan Aroma's customers in the FF area are multinationals. The rest are medium- and small-scale companies. Agan Aroma supplies most of the leading FF companies (with an aggregate market share of 75% of world activity). Its major customers in this area include multinationals such as Firmenich, Givaudan, Symrise, International Flavors and Frangranceds ("IFF"), Takasago, Inc., and Robertet Flavors. Aromatic chemicals are usually developed in response to customer demand, requiring long-term strategic relationships with clients, as well as collaboration in development and customization efforts.

Marketing

Most aromatic products sales are based on long-term contracts and orders, and the rest on current orders. Agan Aroma's estimates are based on non-binding forecasts of annual order volumes by key customers. Its marketing, distribution and sales network is based on: (a) direct sales (including through other Company subsidiaries) to end customers; (b) commission-based sales through agents; and (c) sales through a company jointly held (50%) by Agan Aroma (for joint company products alone).

Competition

Agan Aroma's main competitors include leading F&F multinationals having production capacity in this area, such as IFF, leading chemical companies, such as BASF SE and other companies in Eastern Asia. Nonetheless, the entry of manufacturers from China and India into the market, with products of improved quality, led to a significant drop in prices, which brought about a significant drop in the profitability of these products.

R&D

Agan Aroma focuses on constant development and improvement of manufacturing processes and applying technologies appropriate for cleaning the chemicals, as well as R&D activities designed for QC, to ensure company products meet global standards.

Regulatory restrictions, registrations and permits

Agan Aroma products are being gradually subjected to strict health and safety standards. For further details, see "REACH legislation", in subsection 15.2 above. Customers require producers to provide certificates demonstrating that their FF products meet regulatory standards and legal requirements.

Raw materials and suppliers

In order to maintain high quality and availability, FF producers such as Agan Aroma need to forge long-term relationships with suppliers. Recently, production of certain chemicals

– particularly aromatic chemicals – in low-cost economies such as China and India has increased. Agan Aroma's main raw material suppliers are based abroad. At the time of this Report, it is independent of any single supplier. Finished products in the FF area may be stored for a period of several months.

Turnover and profitability developments in DS segment

The group's sales of Agan Aroma's products to customers outside the group totaled USD 37.2 million in 2013 and USD 35.5 million in 2012.

18.3. Industrial Products

At the time of this writing, the Company produces and markets industrial products, mainly byproducts of its crop protection products production processes, and sometimes raw materials, as detailed below:

- ✓ *Hydrogen peroxide,* used mainly in the production of detergents for the paper and chemical industries.
- ✓ *Electrolysis products, sold by the Company to manufacturers, mainly in Israel.*
- ✓ *CO2 and hydrogen for industrial uses, mainly in the food industry.*

The Company's industrial products operations include the production of chemicals, as well as their importation and marketing in Israel. It is its industrial chemical capabilities which allow it to produce these products. Note some production activity is carried out in the Company's ordinary facilities, while others are carried out in dedicated facilities.

In 2013, industrial chemical sales outside the group totaled USD 62.2, compared with USD 61.2 million in 2012.

Customers

Since this activity area involves basic chemicals, it caters to a variety of customers, including mainly manufacturers in areas such as food, energy, textiles, plastics, construction and chemistry. As already mentioned, most of the Company's industrial chemicals customers are Israeli. Products in this area are marketed through dedicated distribution agreements or based on orders, as the case may be.

Competition

The company controls about half of the Israeli industrial chemicals market. Its main competitors in Israel include importers as well as local producers, such as Fertilizers and Chemicals, Ltd., Maxima Air Separation Center Ltd., Deptochem, Ltd. and Chemkol Chemicals Ltd.

Raw materials and suppliers

Most raw materials inputs in the industrial chemical market derive from the Company's crop protection products activity. Since most industrial chemicals are raw materials produced by the Company or byproducts of end product manufacturing processes, inventory periods are short, usually no more than a few weeks.

Issues Relevant to the Entire Group

The issues detailed below are presented with respect to the entire Group, since they are common to all of its activities.

19. FIXED ASSETS, REAL ESTATE AND FACILITIES

The Company's fixed assets are mainly the plants where it manufactures, researches, develops, formulates and packages Company products. Its main production facilities are in Israel Brazil and Poland; it also owns several formulation and packaging facilities around the world (including through distribution companies acquired over the years). See subsection 7.4 above for a description of the Company's production, formulation and packaging processes.

19.1 Production Plants

The Company continues the implementation of a changed strategy plan, as described in Section 31.2 below, whereby the Company is in the process of optimizing its production plants, procurement and supply chain.

Below is a short description of the Company's major production plants:

Facility in Beer Sheba

The Company's facility in Beer Sheba currently formulates and packages the insecticides and fungicides produced in the Neot Hovav plant. The plant also formulates and packages other products produced by third parties and sold by the Company. Additionally, LycoRed facility is situated within the premises of the facility in Beer Sheva, on land purchased by LycoRed from Makhteshim.

For information on the land leased by the Company, see Note 9B(1) to the financial statements.

Neot Hovav Plant

At the time of this Report, the Company's Neot Hovav plant manufactures all the Company's active materials used for insecticide and fungicide production. The plant also packages active materials. Furthermore, it is used to manufacture industrial products for the Company and other industries, as detailed in Subsection 18.3 above.

Company land in Neot Hovav

For information on the land leased by the Company, see Note 9B(1) to the Financial Statements.

Makhteshim signed an agreement with Ramat Negev Energy Ltd. ("Negev Energy") – a third party unaffiliated with the Company, which has been amended from time to time, to build and operate a power plant in Neot Hovav ("the Agreement"), based on the use of

natural gas, on a land area that Makhteshim sublets to Negev Energy. After Negev Energy received all of the requisite approvals during 2012, including the providing of the necessary financing, in December 2012, preparations began for construction of the power plant. The construction works are under Negev Energy's responsibility and at its expense, and so are obtaining the legally mandated permits and registrations. For additional information on the engagement with Negev Energy, see Note 19A(6) to the financial statements.

For information on the new manufacturing facility in Neot Hovav for aroma products, see subsection 18.2 above.

Ashdod Plant

The Ashdod plant, located in the city's northern industrial area, is mainly used to manufacture the active materials used for herbicide production, as well as for producing the Group's aromatic products, as detailed above in subsection 18.2. The plant also includes formulation and packaging facilities and additional buildings (manufacturing facilities, storage space, etc.). The Company owns a logistics center and a wastewater treatment plant which are located near the plant's grounds.

For information on the land leased and rented by the Company, see Note 9B(1) to the financial statements.

Agan signed an agreement with Ashdod Energy Ltd. (*"Ashdod Energy"*) – a third party unaffiliated with the Company – according to which Ashdod Energy will build an electric and steam power plant using natural gas (subject to the availability of a pipeline and regular supply of natural gas). After Ashdod Energy received all of the requisite approvals during 2012, including the providing of the necessary financing, the construction of the power plant began. For additional information on the engagement with Ashdod Energy, see Note 19A(5) to the financial statements.

Plants in Brazil

The Company has two plants in Brazil: (1) a Plant located in the city of Londrina, which is fully owned by the subsidiary Milenia Agrociencias Group S.A. ("Milenia"). The plant is built on an area of 60 acres of which 36,000m^2 are constructed and include manufacturing, formulation and packaging facilities, as well as warehouses. This site is also the location of Milenia's Brazilian HQ; (2) a Plant located in the city of Taquari, which is owned by Milenia. The plant's is built on an area of 120 acres, with a constructed area of 68,000m^2, and include manufacturing, formulation and packaging facilities.

According to the reorganization plan related to Milenia, commencing in 2010, the plant's production activity was partly reduced.

The Company has additional manufacturing facilities in Poland and Colombia, which, at the report date, manufacture a small quantity of products and represents a relatively small part of the Group's total operating activities.

19.2 Packaging and Formulation Plants

In addition to the abovementioned production plants, the Group operates several facilities in its activity areas worldwide, including in the US, Columbia, Spain, Italy, Greece, Korea, Mexico and India. These facilities are designed mainly for final formulation and packaging of products and materials produced in Israel. At the time of this Report, however, their operations are immaterial in relation to the Group's volume of operations. Moreover, the Group has agreements with different companies around the world, some of them under its control for outsourced formulation and packaging services.

19.3 Additional plants supporting the Company’s additional activities

As already above mentioned, LycoRed has a facility in Beer Sheba adjacent to the Company's own facilities, over an area of 17,200m^2. LycoRed also has a plant in Yavneh, where it leases an area of 2,707 m^2 from a third party, which after extension of the initial rental period, is to terminate on July 9, 2018, with an option for early vacating of the property. Likewise, LycoRed has additional wholly-owned plants in the UK, the US and China. Finally, LycoRed has operational rights in other plants in Israel and abroad.

19.4 Company HQ

The Company agreed to lease office space of some 6,000m^2 (at a cost immaterial to the Company) in an office building located in the Airport City center, in which the Company's HQ have been located since the end of 2007, including its management, sales, development and registration, finance and human resources, main subsidiary managements and its procurement operations in Israel. According to the leasing agreement, the lease periods ends in 2022, but the Company has the option of terminating the agreement, based on the terms prescribed in the agreement.

19.5 Machinery

The main machinery in the Company's facilities includes active material production lines. Its size, constituent materials and number of units change from one facility to another. Company facilities include the following items:

(a) Revolving machine tools, such as pumps, reactors and compressors of various types.

(b) Static machinery and pipelines, such as distillation columns, containers and cooling towers.

(c) Electricity and control, such as computerized control systems.

(d) Civil engineering and iron or concrete constructions.

At December 31, 2013, the depreciated cost of machinery and fixtures totaled USD 567.6 million.

19.6 Investments in Production Facilities

The Company acts continuously to expand its production capacity, mainly by expanding existing synthesis, formulation and packaging facilities and by building new production facilities on its existing locations, operating production facilities owned by acquired distribution companies, expanding its R&D infrastructures and various environmental protection projects. The Company completed the construction of three ecological treatment plants: a biological sewage treatment facility at Neot Hovav, a thermo oxidizer facility at the Agan plant and a thermo oxidizer facility at Neot Hovav. In addition the Company constructed an additional sewage treatment plant at the Agan plant, which the Company upgraded at a non-negligible investment.

In 2013, the Company invested a total of some USD 74.0 million in facilities and machinery. The Company intends to continue expanding its production capacity by investing in production facilities, as and to the extent required, subject to various applicable legal restrictions and requirements.

Moreover, the Company intends to continue expanding its environmental investments, whether of its own initiative or to meet contractual commitments, regulatory and legal requirements. For details on the Company's investments in environmental facilities within the three years prior to the report date, see Section 25.2 of the Report.

On March 24, 2013 the Company entered into an agreement for the supply of natural gas, following which, the supply of natural gas was renewed during 2013 in a manner that led to and is expected to mean minor savings in energy costs for manufacturing.

Various expansions of the Company's plants in Israel have been granted Approved Enterprise status eligible for investment grants and/or tax benefits under the Law for the Encouragement of Capital Investments, 1959. In this regard, see Note 17 to the Financial Statements.

For information regarding the investment grants for the purchase of fixed assets, see Note 9E to the Financial Statements.

The balance of the depreciated cost of fixed assets in the Company's consolidated financial statements as of December 31, 2013, net of investment grants, totals some USD 723.2. (See Note 9 to the financial statements.)

20 PRODUCTION CAPACITY

The Company's production capacity is affected mainly by the location of production, formulation and packaging facilities in several sites in Israel and abroad, their output and each one's area and time allocation at full capacity.

In general, the Company's production plants (described in section 19 above) operate around the clock, in shifts, apart for self-initiated stops for occasional maintenance work, during which the Company sells mainly inventoried products. At the time of this Report, the average number of annual actual production stops due to such maintenance work, as well as malfunctions, holidays and other such events is fifteen (15) days.

The Company's production sites house two types of facilities: (1) *Dedicated facilities* designed to produce a single product or product family; and (2) *versatile facilities* – over half the Company's facilities – where several different kinds of products may be manufactures. The latter provide the Company with manufacturing flexibility and enable it to prepare for the production of new products, subject to observing quality requirement.

As mentioned above, the Company continuously invests in expanding its production capacity. The Company estimates that its existing sites have enough facilities and land areas to expand its production capacity, if necessary.

In general, the Company's average output is about 80%. Nevertheless, some of its facilities operate on a seasonal basis, and therefore periodically operate at higher outputs (exceeding 90%), and in some of the Company's facilities, at lower output. As the demand for products manufactured in these plants increases, the Company will consider expanding them or alternatively, purchase the same materials from other suppliers. According to the Company's estimate, expanding a production facility may take between six (6) and eighteen (18) months, following regulatory approval. Facility expansion costs vary with the nature of each facility and extent of expansion required.

Please note that this section includes forward-looking statements, as defined in the Securities Law - 1968, based on subjective Company estimates of uncertain validity as to the output of its production facilities, facility expansion timeframes, and the availability of its existing locations and facilities. Such estimates may not necessarily materialize due, among other things, to the risk factors enumerated in Section 33 below as well as failure to complete facility expansion on schedule due to dependence on subcontractors, and – as concerns facility output – machinery and equipment wear and tear.

21 HUMAN CAPITAL

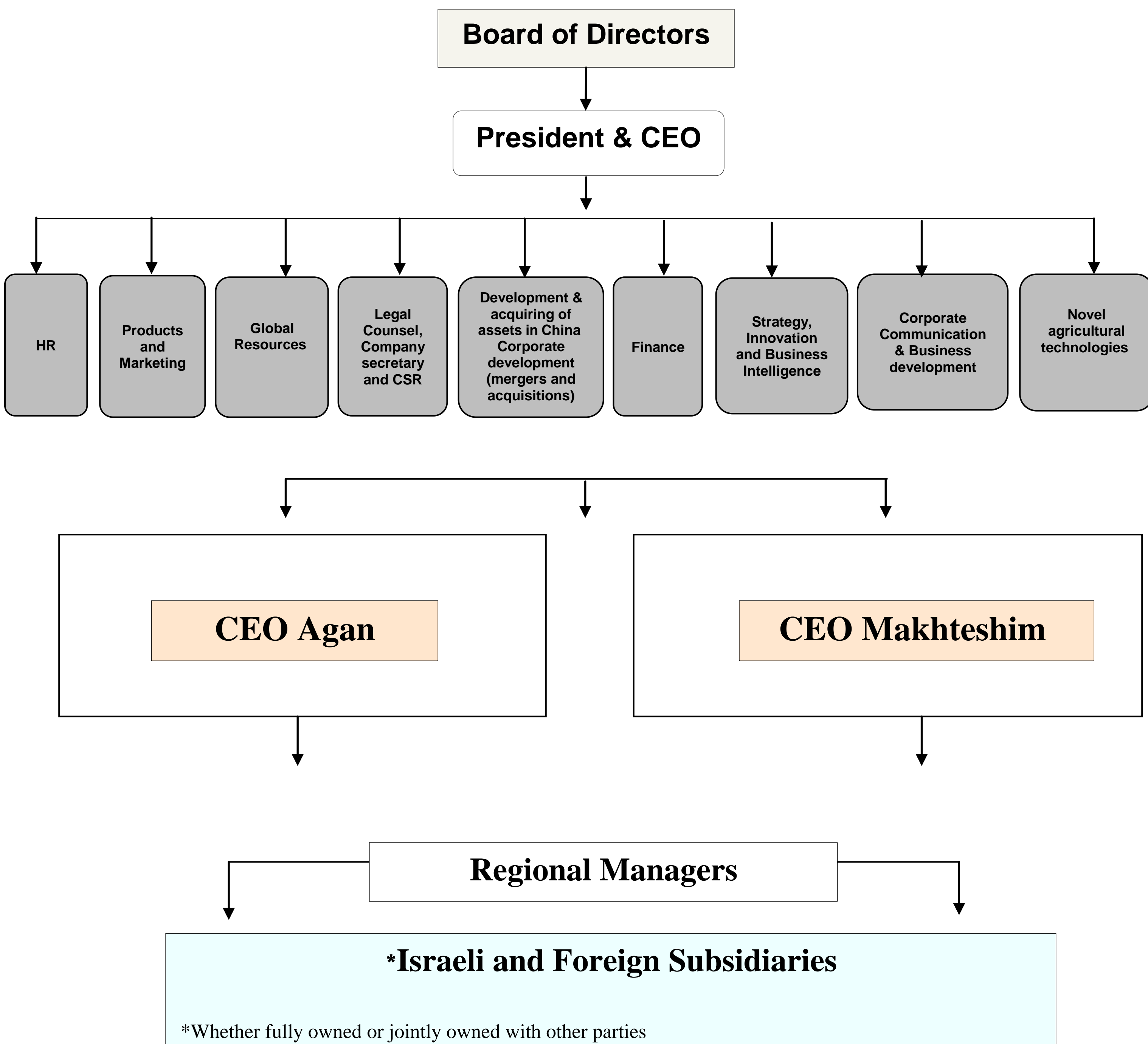
21.1 At December 31, 2013, the Group employed 4,564 employees. During the two years prior to the Report date, the employees were employed according to the following breakdowns*:

	December 31, 2013	December 31, 2012
Production	1,839	1,956
R&D	205	172
Sales and Registration	2,012	1,909
Management & Administration	508	471
TOTAL	4,564	4,508

	December 31, 2013	December 31, 2012
Israel	1,340	1,302
Latin America	973	959
Europe	990	1,050
North America	372	344
Asia-Pacific and Africa	889	853
TOTAL	4,564	4,508

* It should be noted that the list regarding 2012 included employees in companies which are treated by way of partial consolidation while the list regarding 2013 does not include employees which are treated according to the balance sheet value method.

21.2 The Company's Organizational Chart:



21.3 Labor Relations and Employment Agreements in the Company's Key Subsidiaries, in which most of the Company's employees are employed:

Makhteshim

Makhteshim employees are represented by a Workers' Council. From time to time, collective agreements and pay contracts are signed for predetermined periods, which set forth pay conditions as well as benefits. Some of Makhteshim's employees are employed in personal contracts.

In 2007, a collective labor agreement was signed which states, inter alia, that the parties thereto accept the principle that allowances be paid only out of Makhteshim profits. It also includes a commitment to industrial peace and avoidance of unilateral steps. Finally, the agreement determines the extent of promotions and makes them contingent on employee performance.

In October 2010, the Company reached agreement with the Histadrut and with the Histadrut Haovdim Haclalit, whereby the labor disputes that had been declared, inter alia, with respect to Makhteshim plants, would end. For details on the highlights of the agreements between the parties, including the Company's commitment to continue to engage in manufacturing activity, in volumes and in certain production lines in the plants of the subsidiaries in Israel, until the date designated, as well as the agreement on voluntary retirement of employees, see Note 19A(10) to the Financial Statements.

During 2011, a special collective agreement was signed between Makhteshim and the Histadrut and the labor union of Makhteshim, whereby, inter alia, it was agreed to extend the collective agreements in the Company for an additional period until the end of 2011, without derogating from the provisions of the memorandum of understanding (as defined below).

During 2012, a special collective agreement was signed, which extends, subject to several changes stipulated in the agreement, the period of the existing collective agreements until the end of 2013, and for two additional years if prior notice is not served by one of the parties.

Some of Makhteshim's employees are employed under personal contracts.

Agan

Labor relations in Agan are governed by a special collective agreement signed in 1973 on behalf of employees by the Ashdod Workers' Council. From then on, Agan and the Histadrut and the labor union sign special collective agreements, usually for periods of two years each time, which update select issues included in the historical agreement and introduce new arrangements. The period of the current collective agreement is until

December 31, 2014, and it governs the following issues, among others: employee recruitment and promotion arrangements; working conditions; pay, bonuses, etc. as well as a commitment by the employees to maintain industrial peace throughout said period.

In October 2010, the Company reached agreements with the Histadrut, ending the labor disputes declared, inter alia, with respect to the Agan plant.

For details on the highlights of the agreements between the parties, including the Company's commitment to continue to engage in manufacturing activity, in volumes and in certain production lines in the plants of the subsidiaries in Israel, until the date designated, as well as the agreement on voluntary retirement of employees, see Note 19A(10) to the financial statements.

At the report date, labor relations between Agan management and employees are correct, with no strikes or labor disputes in the last ten years.

Some of Agan’s employees are employed under personal contracts.

Milenia – Brazil

The employment conditions of *Milenia* employees follow CLT (Consolidação das Leis Trabalhistas) rules – the federal legislation rules governing employment in Brazil. Every private company in this country is required to meet their labor requirements. Labor relations at the Taquari and Londrina plants are governed by a biannually renewed collective agreement. At the time of this Report, labor relations there are correct and to the best of the Company's knowledge, no significant labor disputes have plagued this plant in recent years. The President and senior management of Milenia are employed based on personal contracts.

M.A. India

The employment terms of the employees of M.A. India comply with the labor and welfare laws in India, and the rules prescribed by the relevant authorities in India.

The company has no labor union and at the report date, labor relations are proper.

21.4 Investments in Training, Employee Development and Incentives

From time to time, Group members offer their employees training in accordance with their positions and Group requirements.

The Company has measurable criteria for bonus allocation as part of the Company's general policy of compensating non-executive, senior and junior management Company employees, in reference to both annual bonuses and long-term compensation programs. These criteria are subject to the framework of an allocation budget to be annually

approved as part of the Company's work plan. The extent of the bonus, should there be any, is a function of employee performance and Company results.

21.5 Executives and Senior Management

At the publication date of this Report, the Company's senior management team comprises 12 members, mostly employed in its offices in Israel and abroad (sometimes through a management services agreement). As of February 7, 2014, Mr. Chen Lichtenstein has been serving as President and CEO of the Company, after Mr. Erez Vigodman, who served as President and CEO from January 1, 2010, gave notice of his resignation, effective February 6, 2014.

When Amendment 20 to the Companies (Terms of office and employment in public companies and debenture companies) Law, 2012, came into force, and pursuant to the provisions of section 267A of the Companies Law, and following the approval of the Compensation Committee and Board of Directors of the Company on December 11, 2013 and December 24, 2013 (respectively), the shareholders of the Company approved the adoption of a policy for the terms of office and employment of officers and senior managers who are not officers ("the Compensation Policy"), which will be in force for three years commencing on the date of the shareholders' approval. For details, see the immediate report of December 25, 2013, Ref. 2013-01-107488.

For further details about the employment terms of senior Company officers, as well as the remuneration policy approved subsequent to the balance sheet date, see the Directors' Report, Chapter D of this Report, as well as Note 28 to the financial statements.

21.6 Stock Options Plans

For information a stock options plan and the supplement to it, adopted by the Company on December 24, 2013, and options allotted to employees and officers of the Company and the subsidiaries based on the plan, see Note 21 to the financial statements.

21.7 Senior Executives' Indemnification and Insurance

For details on the indemnification and insurance of officers, see Provision 29A in Chapter D of this Report.

21.8 At the Report date, the Company estimates that it is not dependent on any of its employees.

21.9 For details on the Company's obligations for employee termination benefits, see Note 18 to the Financial Statements.

22 WORKING CAPITAL

22.1 General

Company Working Capital in 2013:

Quick ratio	Current ratio	Working capital balance
1,117,655	1.69	0.94

22.2 Customer Credit

As a rule, the Company follows a customer credit control procedure which sets forth the conditions for providing customer credit limits, as well as collection follow-up. The Company normally gives its customers credit of between several months and one year, such that a separate liability is managed for each customer according to its profile (*i.e.*, previous transactions between the Company and the customer and their relationships, the customer's collaterals, the insurance the Company received for the customer, if any, etc.), its specific requirements and the type of business relations it has with the Company. For additional details on this procedure, Note 29B to the financial statements.

The days of credit extended to customers varies as a function of the competitiveness in each of the Company's markets, the types of crops in the region in question, the number of entities involved in the supply chain, and other such factors which may affect the days of credit at any given time. In certain regions, mainly in South America, the credit period is long (compared to that given to West European customers), and sometimes, among other things, due to bad crops or difficult economic conditions, the Company may find it difficult to collect its debts, prolonging the collection period for up to several years. This risk also exists in developing countries where the Company is less familiar with its customers, their collaterals are of doubtful quality and there is no certainty as to such customers' insurance cover. In this context, see also Note 29B(2) to the financial statements in reference to provisions for bad debts.

The Company usually extends days of credit to its customers according to the credit terms common in the markets in which it operates. Accordingly, the increase in Company sales in developing countries where the extent of credit days is greater, has led to and could continue to involve an increase in the total credit days extended by the Company.

Recently, in view of the economic situation, large ethical companies began to increase the credit days to customers, which compelled and will continue to compel the Company to increase also the credit days that it extends to its customers in certain regions.

The average customer credit days extended in the three years preceding the report date:

	31.12.2011	**31.12.2012**	**31.12.2013**
The average customer credit days	122	124	124

Crop protection products sales are directly dependent on the growing seasons and crop cycles. Therefore, the Company's sales are not divided evenly over the year, and accordingly, there is variation between the first and second half of the year in customer characteristics and average credit days. Countries in the southern hemisphere are characterized by similar timing of growing seasons, and therefore, these countries usually have their highest sales in the first half of the calendar year, whereas the growing season is the opposite in the southern hemisphere (except for Australia), and most sales are effected in the second half of the year.

The customer credit days in the northern hemisphere countries are lower than the average for Company customers, and the customer credit days in southern hemisphere countries are higher than the Company customer average. Due to these seasonal factors, for the most part, the average credit days on June 30 of every year is lower. Sales in Brazil, accounting for 15% of the Company's sales in 2013, are affected mainly in the third and fourth quarters, and collections are made mainly in the second quarter of the subsequent year.

The Company's trade receivables at December 31, 2013 totaled USD 991,585 million. For additional details, see Note 4 to the Financial Statements.

The Company's bad debts expenses totaled some USD 3,326 thousand in 2013.

22.3 Customer Debt Securitization

The Company has undertaken ongoing customer debt securitization under which a foreign company (not owned by the Company) which is funded by international financial institutions will buy Company's customers' debts.

For details of this agreement, including the period of the credit facility within its framework, its key conditions, and the maximum amount of securitization it allows, see Note 4 to the Financial Statements; see Note 20D to the financial statements for restrictions the securitization agreement imposed on the Company.

22.4 Inventory and Raw Material Policy

In view of the seasonal nature of Company sales, the relative distance of its production plants from its various markets and the high importance attached by the Company to the quality of its customer service, the Company usually follows a flexible inventory policy with regard to both raw materials and finished goods.

The Company's production plan is based on a projection of periodic (seasonal) orders, which is updated on a continuous basis according to updated projections and actual orders. According to this plan, the Company normally orders its raw materials from suppliers in view of their expected future availability and logistical considerations, and subject to the various production limits, if any; however, it plans, to the extent possible, to receive the raw materials in close proximity to the planned production deadlines (for reasons of funding and efficiency). The Company usually stores in its plants an inventory of raw materials in line with such projections. The shelf lives of most raw materials are several years, and may even be extended by simple treatments.

The Company has a dedicated inventory policy for each finished product, based on its profitability as well as production deadlines and expected orders. In addition, the Company attaches great importance to managing its current inventory efficiently and to shortening its global supply chain. Due to the fact that the Company's customer sales are based on orders submitted on short notice, its inventory policy enables it to maintain product availability throughout each season and according to its stages.

Presented below are data on total inventory (including packing materials and spare parts) and inventory days, December 31, 2013 (in USD thousands):

Company produced inventory	1,166,090
Marketed products inventory	77,294
Total inventory*	1,243,384
Inventory days (for historical sales)	208

Total Inventory and inventory days in the three years prior to report date:

	31.12.2013	31.12.2012	31.12.2011
Total inventory (*) ($K's)	1,243,384	1,280,047	1,086,131
Inventory days (for historical sales)	208	216	200

(*) Total inventory – includes current and non-current inventory.

In every period, the Company evaluates the need for recording inventory impairment.

The total inventory as of December 31, 2013 decreased to USD 1,243.4 million (compared with USD 1,280.0 million in 2012).

The decrease in the inventory level derived mainly from streamlining processes and managerial steps taken in several fields.

22.5 Supplier Credit

Normally, the Company receives 30 to 180 day supplier credit. The Company acts continuously to raise the number of credit days it receives from various suppliers.

As of December 31, 2013, average supplier credit and accrued expenses totaled USD 645,731 thousand and the average of supplier credit days was 116 days.

The balance of the Company's trade payables and accrued expenses at December 31, 2013 totaled approximately USD 641.5 million.

Average trade payables and supplier credit days in the three years prior to report date:

	31.12.2013	31.12.2012	31.12.2011
Average trade payables and accrued expenses ($K's)	641,731	641,754	617,490
Supplier credit days	116	115	121

Average supplier credit days in the years 2012 and 2013 decreased compared to 2011 mainly due to the increase in procurement from China in which the average suppliers credit days is shorter.

23. FINANCING AND CREDIT

The Company finances its business activity with its equity as well as with outside financing, mainly long and medium term bonds issued by the Company (as detailed in Subsection 23.3 below), whose balance as of December 31, 2013 was USD 1,092.7 million. Under the bond terms, the Company has not undertaken to comply with any financial covenants.

The additional share of the Company's external funding comes from: (1) long-term bank credit, whose balance at the report date (including current maturities) was some USD 344.3 million, and under the terms of which the Company has undertaken to comply with certain financial covenants, as described in Note 20C to the financial statements; (2) short-term bank credit, the balance of which as of December 31, 2013 (excluding current maturities), was USD 126.3 million; (3) customer debt securitization, with a balance as of December 31, 2013 of USD 174.6 million, as described in section 22.3 of this Report; and (4) supplier credit.

On the other hand, as of December 31, 2013, the Company had liquid cash and cash-equivalent balances amounting to USD 379.4 million.

For details about credit limitations applicable to the Company by virtue of its financial funding agreements and the securitization agreement, see Note 20C and D to the Financial Statements.

Presented below are additional details on the Company's financing sources:

23.1 Long-term loans

Presented below are details on the average interest rate and long-term bank loan amounts, broken down according to the main financing currency, for 2013:

Long-term bank loans (including current maturities)			
	Weighted interest rate on 31.12.2013	**Effective interest rate (%)**	**December 31, 2013**
	%	**%**	**USD thousands**
USD	4.35%	4.43%	336,434
Brazilian Real	5.29%	5.39%	4,462
Euro	1.90%	1.91%	1,980
Other currencies	2.45%	2.47%	1,401
Total			**344,277**

Commencing January 1, 2014, until proximate to the publication date of the Report, the Company did not take out long-term bank loans.

Presented below are details on the projected amounts that the Company will have to pay in the future according to the terms of the aforementioned loans, in each of the six years subsequent to the balance sheet date:

Maturity	$ thousands
First year	96,090
Second year	77,982
Third year	72,839
Fourth year	36,755
Fifth year onwards	60,611

23.2 Short-term Loans and Variable Interest Credit

Presented below are details on the average interest rate, variable interest and amount of short-term bank loans broken down according to main financing currencies in 2013:

Short-term bank credit			
	Weighted interest rate 31.12.2013	**Effective interest rate**	**December 31, 2013**
	%	**%**	**USD thousands**
Overdraft:			

USD	2.34%	2.37%	13
Euro	2.29%	2.32%	2,489
Other currencies	8.00%	8.33%	3,972
Total	-	-	**6,474**
Short-term credit:			
USD	1.82%	1.83%	126,984
NIS	2.62%	2.65%	19,371
Euro	1.90%	1.92%	52,905
Other currencies	3.5%	3.61%	95,198
Total	-	-	**294,458**

During the period from January 1, 2014 until proximate to the publication date of the Report, the Company assumed new short-term bank loans in a total amount of USD approx. USD 150 million, which as of the publication date of the Report approx. USD 120 million have been paid.

23.3 Company Bonds

The Company main debt financing is intermediate and long-term bonds it issued.

For details about the bonds issued by the Company, see Note 15 to the financial statements and the appendix to the Directors' Report.

As noted above, the Company is not committed under the terms of the bonds to comply with financial covenants.

23.4 Credit Restrictions

(a) Restrictions by virtue of long-term bank credit documents

The bank financing documents for the long-term credit of the Company and its subsidiaries ("Finance Documents") include undertakings by the Company to maintain financial ratios "Financial Covenants"). For details about the Financial Covenants and restrictions stipulated in the financing documents related to the change in control, see Note 20C to the financial statements.

In addition, note that consolidated subsidiaries are subject to certain credit restrictions which are, to the best of the Company's knowledge, immaterial, and that at the report date, they comply with said restrictions.

The main Finance Documents of the Company and its subsidiaries with financing corporations contain Cross Default clauses, whereby the relevant bank will be allowed to call the debts owed to it for immediate payment, under circumstances in which an event has occurred that entitles another financing party to call the debts of the Company and/or its subsidiaries for immediate repayment, in full or part, all

provided that the amount of the debts and obligations of the Company and/or subsidiaries toward that financing party will exceed the minimum prescribed in the various financing documents.

(b) <u>Restrictions by virtue of Securitization Agreement</u>

The securitization agreement for the customers of the Company and its subsidiaries (including their updates) (as described in subsection 22.3 above and Note 4 to the financial statements) includes undertakings by the Company to comply with Financial Covenants, of which the key covenants are as detailed in Note 20D to the financial statements.

In addition to the above, the Company has undertaken, within the framework of the financing documents, to meet further terms that, according to the Company's estimate at the time of this Report, do not restrict its operations materially. See Section 3 above for details about the Company's dividend-related undertakings.

According to the financing documents and securitization agreement, the Company's compliance is assessed on a quarterly basis, as well as for all four quarters prior to the assessment, as the case may be.

As of December 31, 2013 and to the best of the Company's knowledge proximate to the report's publication date, the Company complies with all the covenants imposed on it by the financing documents and the securitization agreement (the Company also complied with all the covenants imposed on it by the financing documents and the securitization agreement during 2012). Notwithstanding the aforesaid, a worsening in the Company's results due to the occurrence of an unforeseen event beyond the Company or non-materialization of the Company's forecasts could cause the Company to be in non-compliance with the covenants prescribed in the financing documents or securitization agreements.

23.5 <u>Further Credit Restrictions on the Company as a Borrowing Group Member</u>

Since IDB Holdings holds the Company indirectly, the Company and each of the Group members are members of the "borrowing group" (as this term is defined in the Bank of Israel's Proper Banking Procedure) of IDB Holdings, Ltd. Israeli banks are limited in the credit they may extend to each member of the IDB group as a "single borrower" (as this term is defined in the Bank of Israel's Proper Banking Procedure), including the Company and the other members of the Makhteshim-Agan Group, affected by the total credit extended to the Group as a whole. These restrictions may affect the credit extended to the Group by certain Israeli Banks, its ability to invest in companies which have received significant credit from certain Israeli banks, as well as its ability to

complete certain business transactions with entities which have been extended such credit.

The Company assesses the effect of said restrictions on its ability to obtain bank credit or on the extent of such credit, as required.

23.6 The Company's and its debentures Credit Rating

On September 15, 2013, Standard & Poor's Maalot ("Maalot") confirmed a rating of ilA+/Stable for the Company and a rating of ilA+ for its debentures (Series B and D).

After the Report date, on February 3, 2014, Maalot confirmed a rating of ilA+ for its debentures (Series D) issued in a private placement by way of series expansion in an amount of up to NIS 550 million par value.

For additional information about the Company's credit rating, see the appendix to the Directors' Report.

23.7 Variable Interest Credit

Below are details of the range of stated interest rates for variable-interest loans as of December 31, 2013, as well as the rate proximate to the publication date of the Report:

Type of Credit	Currency	Credit amount proximate to date of statement of financial position (in USD thousands)	Variation Mechanism	Interest Rate proximate to report date	Interest Range in 2013
Short Term Loan	USD	8,334	1 M Libor	0.168	0.207-0.164
Short Term Loan	USD	211,764	3 M Libor	0.246	0.305-0.235
Short Term Loan	EUR	1,980	3 M Libor	0.266	0.277-0.143
Short Term Loan	USD	43,479	6 M Libor	0.348	0.506-0.342
Overdraft	USD	13	1 D USD	0.079	0.079-0.166
Overdraft	EUR	2,489	1 D EUR	0.320	0.014-0.320
Overdraft	OTHERS	3,972	PLN	2.510	2.450-3.900
Short Term Credit	USD	126,984	3 M Libor	0.168	0.207-0.164
Short Term Credit	EUR	52,905	3 M Libor	0.246	0.660-2.847
Short Term Credit	INR	25,448	INR	9.372	6.507-10.867
Short Term Credit	PLN	20,459	PLN	2.51	2.450-3.900
Short Term Credit	AUD	20,324	AUD	2.6552	2.569-3.152
Short Term Credit	GBP	21,963	GBP	0.52531	0.504-0.528
Short Term Credit	ILS	19,371	ILS	1.0109	0.9283-1.8839
Short Term Credit	OTHERS	6,940	Mexican	3.9008	3.8693-5.0224

24. <u>TAXATION</u>

24.1 Tax Laws Applicable to the Company

The Group develops, purchases, manufactures and markets its products through many companies worldwide. More than 96% of the Group's sales are affected in international markets outside of Israel. Therefore, the Group operates through approx. 50 subsidiaries operating in 120 countries, with each of the companies being independent and playing a different role and contributes differently to the Group's operations, and they are assessed according to the local tax laws, as described below.

It is noted that what follows is an extremely concise description based on tax laws as they exist at the time of this report, and that any future change therein would necessarily yield different results.

The Company is assessed according to the Israeli tax law in accordance with the Income Tax Ordinance (New Version), 1961 ("the Ordinance" or "the Income Tax Ordinance") and its regulations.

The Israeli tax base is territorial and personal, thus applicable to companies defined as Israel residents based on provisions of the Income Tax Ordinance.

According to Section 1 of the Tax Ordinance, the Company is deemed an Israel resident for income taxation purposes if it was incorporated in Israel or if it is controlled and governed from Israel. The term "control and governance" is not defined in the Ordinance. To the best of the Company's knowledge, the foreign subsidiaries held by the Company are controlled and governed from outside Israel, and therefore, to the best of the Company's knowledge, they are not deemed Israel residents for income taxation purposes. Note that the Israeli and/or foreign tax authorities may not accept the taxation results as described in general above and below.

For information on the corporate tax rates imposed on the Company in Israel and on the tax environment in which the Company operates in Israel, see Note 17 to the Financial Statements.

As aforesaid, most of the Company's sales (more than 96%) are in international markets outside Israel, hence its choice to operate through multiple subsidiaries which, to the best of the Company's knowledge, are incorporated, controlled and managed outside Israel, and accordingly, assessed subject to their countries' tax laws.

Some of these foreign subsidiaries have been founded by the Company, while others have been acquired during the long years during which it has become a multinational, the great majority of its commercial and marketing operations conducted overseas.

Taxation of Foreign Income in Israel

Income derived from dividends distributed by foreign companies abroad will be taxable in Israel, while receiving a credit in the amount of the tax withheld by the foreign companies including by means of an indirect credit, subject to provisions of the Ordinance, as detailed below.

When interest income from a foreign to an Israeli company is liable for corporate tax in Israel, a credit will be received in the amount of the tax withheld by the foreign companies. Generally, the level of the foreign tax credit is limited to the amount of tax for which the Israeli company is liable on its income from that source. The excess credit that may not be offset during the tax year may be offset in the next five years against the same source.

"Indirect credit" in Israel: According to the current legislation, the Israeli company will be entitled to choose to be liable for the current corporate tax rate (25% in 2013) on all income out of which dividends have been distributed and receive an "indirect credit" for the foreign corporate tax imposed on that income from which dividends were distributed, so long as the Israeli company holds 25% or more of the means of control in the foreign subsidiary which distributes the dividends. Israeli companies are entitled to such indirect credit for corporate tax imposed on foreign sub-subsidiaries, so long as they hold 25% or more of the means of control in the foreign subsidiary, while the latter directly holds more than 50% of the foreign sub-subsidiary which is the source of the income out of which the dividends have been distributed.

Foreign controlled company: Should most of the income of foreign companies held by the Company (whether directly or indirectly) be passive, those same foreign companies may be considered "foreign controlled". In such an eventuality, according to Section 75b of the Ordinance, the company which controls the foreign company which is considered a foreign controlled company will be taxable as though it has received its share of the latter's undistributed earnings in the tax year in which they've been accrued. This section's provisions refer to earnings derived from passive income by the foreign company (such as income derived from interest or dividend that may not be considered business income).

Transfer Prices

According to Section 85a of the Income Tax Ordinance and the Income Tax Regulations (Market Terms Determination), - 2006, ("Transfer Price Regulations"), transfer prices, a cross-border transaction (in which one of the parties involved is not an Israeli resident), in which the two parties have a "special relationship" (as defined therein), will report according to market terms and be taxed accordingly. The Transfer Price Regulations

apply to various cross-border transactions, including the initial stages of manufacturing a product up to selling it, concluded on and from the day the came into effect. Rules for ongoing reports have been formulated by virtue of these regulations, and the assessment authorities have also been authorized to demand market studies.

Section 85a and the Transfer Price Regulations adopt the market pricing principle by stating that price appropriateness and the terms of cross-border transactions between parties who have a special relationship will be evaluated by comparing them to similar transactions between parties with no such relationship. In other words, these cross-border transactions will be examined by comparing them to transactions with characteristic identical to those in the examined transaction.

According to Regulation 2(a), in order to determine whether a cross-border transaction is indeed a market terms transactions, a market study will be conducted to compare the transaction in question with similar transactions by the assessed party, as defined in the Transfer Pricing Regulations. The comparison will be made according to one of the methods detailed in this regulation. The study will be submitted to the assessment authorities within 60 days as per their request, unless the cross-border transaction has been approved as a one-time transaction, according to Regulation 4.

The cross-border transaction will be considered a market terms transactions if the said study's findings do not exceed the inter-quarterly range (the values between the 25th and 75th percentiles) compared to similar transactions. In the pricing comparison method, a transaction is considered a market terms transactions if it is completely within the range of similar transactions. For transactions which cannot be construed as such, the transaction price will be reported according to the value of the 50th percentile in the range of values obtained by comparison to similar transactions.

Company services or products (at their various production stages) are priced based on transfer pricing studies conducted to assess the relative contributions and risks of each relevant subsidiary and to reflect the market price that would be determined for these services or products had they been provided to non-group members.

As aforementioned, the Company develops, purchases, produces and markets its products through multiple subsidiaries worldwide. Each of these subsidiaries which are assessed for tax purposes in various regions worldwide plays a part in the overall network of the Company's international business operations (sometimes within the same product chain) – manufacturing, knowledge maintenance and development, procurement, logistics, marketing and sales. Accordingly, some of the Group members hold intangible assets, others act as manufacturing contractors, and procurement coordinators, logistics centers and as marketing companies.

Accordingly, the pre-tax income is divided among many countries with varying tax rates. At the Report date, the various double taxation treaties have no material effect on the Company. Different classification or categorization of the proceeds for the value elements of each Group member in the various countries, or of their characteristics, however, affect the amounts of income accrued and assessed for taxation purposes in each country, and this may indeed have a material effect on taxing the Group and its results. (See also Section 34 – Risk Factors – below).

According to the tax laws existing in countries in which deferred taxes were recognized, there is no time limit on the utilization of the tax losses and of the temporary differences that may be deducted. However, in Brazil, there is a limit on the level of loss carry forwards that may be offset each year (30% of annual taxable income).

24.2 Effective Tax Rate

According to the financial statements as of December 31, 2013 and Note 17 thereto, in 2013, the Company's pre-tax income amounted to USD 171.6 million, and tax expenses calculated based on the statutory tax rate should have been approximately USD 42.9 million. However, actual tax expenses to the consolidated company, according to said Note, amounted to USD 44.5 million.

To the best of the Company's knowledge, the statutory corporate tax rates in effect on December 31, 2013 were 45% in Italy, 30% in Spain, 33% in France and 38.4% in the US; in Latin American countries, the rates vary between 25% and 35%; in other countries where the Group operates, they range between 16% and 40%, while some Group companies are incorporated in foreign territories where the rates are less than 5%.

The losses for tax purposes transferred to the following year – whose adjusted total on balance day is some USD 509 million (mainly due to the operations in South America and in Israel) – can be realized over a period of several years. The Company has a deferred tax asset for accrued losses totaling some USD 37.3 million, based on the Company's estimate that these losses are highly likely to be realized over the next few years. The (consolidated) effective tax rate in 2013 was 26.0%.

Some of the Company's surpluses come from income of Approved Enterprises in Israel (see Note 17 to the financial statements) and of its foreign subsidiaries. Distributing these surpluses could, on certain conditions, create a tax liability. Since the Group's policy is to use most of the operational surpluses to expand Group operations, and as stated in Note 3 to the financial statement, when calculating the deferred taxes, the taxes that would have been levied had investments in the held companies would be realized were not taken into account since at the time of this Report, the Company intends to hold these investments rather than realize them. Moreover, the Group may be

liable to additional tax in case of dividend payout among Group members. This additional tax was also not taken into account when calculating the deferred taxes in the financial documents, due to the aforementioned policy of not allocating dividends if this entails a material increase in tax rates. At the time of this Report, the Company has no information about the extent of liability, if any, for the said dividend distributions, but based on its preliminary estimate, should the Company be required to distribute said surpluses under certain circumstances (contrary to its said policy and as a function of the amounts involved), this liability could prove material. See Note 17 to the financial statements for further details and explanations about the tax provisions applicable to the Company and the difference between its statutory and effective tax rates.

24.3 Tax Assessments

For details, see Note 17I to the financial statements.

25. ENVIRONMENTAL RISKS AND ENVIRONMENTAL REGULATION

25.1 The Company is exposed to various environmental risks, as a result of its activities, including all that relates to atmospheric emissions, storage and use of hazardous materials, soil and water pollution, creation of industrial sewage, etc.

Therefore, the activities are subject to extensive environmental regulation in the different countries in which the Company operates. In recent years, the requirements of the environmental law imposed (or in the legislative process) on the Company's activities have become more stringent, as has the oversight and enforcement of these requirements. In the Company's estimation, this trend is expected to continue in the coming years.

The Company also holds, as required by law, various permits and licenses, such as business licenses, poisons permits, and permits to flow sewage to the sea. To the best of the Company's knowledge, at the report date, the permits and licenses applicable to the Company related to environmental matters are in force.

For additional information on the risks related to environmental regulation imposed on the Company, see Section 33.2, "Environmental Legislation and Regulation".

Among the environmental laws imposed on the Company's activities are, inter alia, the Prevention of Nuisances Law, 1961; Business Licensing Law, 1968; Water Law, 1959, Prevention of Sea Pollution from Land-Based Sources Law, 1988; Hazardous Materials Law, 1993; Israel Clean Air Law. 2008 ("Clean Air Law"), and the regulations related to them, including the directives published on behalf of the Ministry of Environmental Protection. These and other laws, and the various permits and licenses issued thereunder, govern the environmental aspects of the Company's activities and impose various obligations upon it,

including aspects of prevention and mitigation of air emissions; prevention of noise and odor nuisances; prevention of the pollution of soil and water sources and the flow of sewage to the sea; storage, treatment and transport of hazardous materials and prevention of hazardous material incidents; determination of the distances separating hazardous materials and the public receptors; treatment of industrial waste; prevention of asbestos nuisance; treatment and vacation of solid waste and hazardous waste and the reporting of polluting materials that are emitted by the Company's plants into the environment.

The Company is studying the implications of the environmental laws, is taking action to prevent or mitigate the environmental risks and to reduce the environmental effects that could occur from its activities and invests extensive resources monies to fulfill the legal provisions that are and are expected to be imposed on it.

<u>Air quality</u>: The Company's plants are subject to atmospheric emissions regulation, whether by virtue of the terms provided in the business licenses or under the Clean Air Law. Agan plant and Makhteshim plant in Neot Hovav are required by the Clean Air Law to file applications for emission permits by March 2014, and are preparing to file these applications. One of the Company's new facilities, which commenced operations in early 2013 within the Makhteshim plant in Neot Hovav already operates in compliance with the emissions permit. It is possible that in this framework, a more stringent environmental requirements will be imposed on the plants than those now imposed on the plants, but at this stage, the Company is unable to assess the essence of the requirements and whether they will have a material effect on it.

Company management's estimates concerning the imposition of strict environmental requirements on its plants, within the framework of the emissions permit, constitutes forward-looking statements, as defined in the Securities Law, based on the assessments of Company management. These estimates may not materialize, or materialize in a different manner, due to factors that are beyond the Company's control, including changes to the regulatory requirements applicable to the Company, conditions that will be prescribed in the emissions permit and other events including those deriving from realization of the Company's risk factors.

The Clean Air Law empowers the Ministry of Environmental Protection to determine a levy for the emission of pollutants to be imposed on the holders of an emissions permit. As of the publication date of this report, this levy has not yet been determined by the Ministry of Environmental Protection.

In May 2012, the Company signed a preliminary unique agreement with the class of residents of Nir Galim. Pursuant to the agreement, which received the validity of a ruling, the Company is taking action according to the recommendations made by the authorized

experts to prevent potential future nuisances for residents of the settlement, including an undertaking to invest substantial sums. The Company is taking action to implement the agreement.

The Company invests extensive resources to mitigate and prevent the environmental effects of its plants on air quality. To this end, the Company will invest substantial sums in its plants, which will be spread out until 2015, within the framework of a comprehensive project to reduce and prevent potential atmospheric emissions.

Sewage and permits to flow sewage to the sea: The Prevention of Sea Pollution from Land-Based Sources Law requires obtaining a permit from the Ministry of Environmental Protection to flow waste or sewage to the sea from land-based sources. The Agan plant holds such a permit, valid through June 30, 2016. The terms of the permit have become more stringent during its term, as part of the generally more rigorous trend adopted by the Ministry of Environmental Protection in the issuance and terms of permits for flowing pollutants to the sea. Before the flow of sewage to the sea, the plant is required to treat it, and to this end, the Company has built a sewage treatment plant owned by it by which the Company has upgraded its sewage treatment facilities.

Soil and ground water: Stored and existing in the Company's plants are hazardous materials, infrastructures and facilities containing fuels and hazardous materials. The Company is working diligently to prevent and treat soil and water pollution from these materials.

The Makhteshim plant in Beer Sheba and the Agan plant were required by the Ministry of Environmental Protection to conduct various soil surveys, including historical surveys (both plants) and soil sampling (only Agan). Within this framework, the Ministry of Environmental Protection and the Water Authority could demand that the Company monitor and sample the soil and ground water. Restoration work may also be required. At this stage, the Company is unable to estimate whether such demands will be imposed on it, what their substance will be and if they will have a material effect on it. In the past, pollution of subterranean water was discovered in the Neot Hovav Council, and as a result, the Council took measures to halt the spreading of the pollution and to pump, treat and guard the subterranean water. Presently, the Company is not required to incur expenses to treat the pollution. It is possible that the Council will, in the future, demand that the Company participate in the costs of these actions, but at this stage, the Company is unable to assess whether such a demand will be raised, nor its scope.

In 2006, a mediation agreement was signed between the State of Israel, the Neot Hovav Local-Industrial Council and the Sustainable Development for the Negev NPO as one party and between a series of plants operating in the Council, including Makhteshim, and

the Israel Industrialists Association as the other party, whereby the plants were required to build and operate an independent discharge system for the plant's wastewater by flowing to evaporation pools and joint storage within the bounds of the Council. Accordingly, commencing June 2013, the plant flows its wastewater to the independent discharge system.

In August 2011, the bill to Prevent Soil Pollution and Soil Rehabilitation Law – 2011 was approved in a first reading in the Knesset. The bill prohibits, inter alia, the taking of actions that cause soil pollution, and imposes an obligation on the owners and holders of the land and the holders of hazardous materials to prevent pollution of the soil and to rehabilitate the treated soil. The bill was discussed during 2012 by Interior and Environmental Protection Committee of the Knesset for continued work in preparation for the second and third reading, which are expected to continue during 2014. To the extent the bill is passed, it is possible, as a result, that obligations will be imposed on the Company to perform soil surveys and based on their findings, additional obligations could be imposed to treat the pollution found and to rehabilitate the soil. The Company is studying the implications of the bill for the Company.

As part of the future assessments of the Company, in the next few years, the Company intends to relocate the formulation activities carried out in the Beer Sheba plant to the Neot Hovav plants.

25.2 Environmental Investments

	USD Millions		
	2011	**2012**	**2013**
Total investment in environmental facilities	32	26	29
Current costs (before depreciation)	37	46	52

The Company intends to continue investing in environmental protection, as much as required and beyond, to pursue its BAT policy. The Company estimates that, at the report date, according to the existing work plan, environmental costs in 2014 are expected to total USD 42 million, in 2015 USD 55 million and in 2016 USD 55 million (an estimated amount only, that assumes increased support for new facilities being built, maintenance and other costs).

The Company estimates that the amount of environmental costs that the Company incurred in the report period was invested mainly in the prevention and mitigation of future environmental damage.

Company management's estimates concerning the amount of environmental-related investments constitutes forward-looking statements, based on the Company's budget and work plan. The Company's estimates regarding the amount of projected environmental may not materialize, whether in whole or in part, due to factors that are beyond the Company's control, including changes to the regulatory requirements applicable to the Company and other events including those deriving from realization of the Company's risk factors.

25.3 Milenia's Plants in Brazil

Milenia – the Company's subsidiary in Brazil – operates two main plants in that country: the larger one, is near Taquari in south Brazil, and the other is in Londrina. To the best of the Company's knowledge, at the time of this report no environmental permits or licenses held by Milenia have been denied.

From 1996 up to and including 2010, Milenia invested in safety and ecological facilities in these two factories as part of its ecological process improvement policy. Milenia invested in subsurface tests and remedying irregularities, changes in production processes, constructing sewage purification facilities and byproduct storage.

Sewage treatment in Taquari plant

The sewage treatment system in Taquari conducts the sewage to a nearby river after treatment based on flocculation and filtering, as well as on a biological process subject to the requirements of binding regulations and rules enforced by the state environmental protection agencies. The Londrina plant, which focuses on formulation, produces a relatively small amount of liquid sewage. Some of it is treated locally and recycled for internal use, while others are treated in an external site. Solid wastes and non-recyclable solvents are led to an external site and burnt there.

Atmospheric emission treatment

Milenia's atmospheric emission monitoring plan, initiated in 2002, relies on advanced technology and machinery. Periodic testing of emission volumes show that Milenia meets the state environmental protection agency's requirements.

Water sources and industrial waste control

Milenia regularly tests the water sources surrounding its plants and, is also active in recycling industrial waste. Milenia is a member of an organization of a group of plants that take voluntary action to treat and remove empty crop protection product packages. Solid waste and non-recyclable products are treated in accordance with local regulation.

25.4 Environment-Related Legal Proceedings

For details on environmental related legal proceedings see Note 19 to the financial statements.

25.5 The Company's environmental risk management policy

The Company attributes great importance to protecting the environment, out of responsibility to society and the environment and strives to meet requirements and even beyond compliance, engaging in constant dialogue with stakeholders, including the authorities and the community. Makhteshim and Agan are certified under Environmental Management Regulations (ISO 14001) and Industrial Safety and Hygiene Management (OHSAS 18001). The Company appointed designated employees as responsible for safety and environmental matters in the different plants.

The Company is insured against sudden, unexpected events of environmental pollution, in Israel and overseas. In the Company's opinion, based on its insurance consultants, the scope of insurance coverage for such events is appropriate.

At the report date, the Company has only limited, and relatively low insurance coverage for ongoing environmental pollution, due to the difficulty in obtaining higher insurance coverage at a reasonable cost.

The information concerning expected investments, completion of facility construction projects and deadlines expected to be met as detailed in this Section 25 constitutes forward-looking statements as defined in the Securities Law - 1968, and by the nature of things, may not materialize, whether in whole or in part, or materialize in a manner different than expected by the Company, as it essentially relies on Company estimates and expectations, based on its past experience and subjective assessments. These assessments may change, in whole or in part, from time to time, among other things due to developments in the Company's area of operations. There is therefore no certainty that the Company's intentions will be realized or its strategy implemented.

26. REGULATION AND CONTROL OF COMPANY OPERATIONS

As an integral part of the Company's business activities, it is subject to certain legal and regulatory controls. These are detailed in the following summary of legal and regulatory restrictions and arrangements relevant to the Company's operations.

26.1 Registering active materials, products and dietary supplements - The Company's operations involve the production and marketing of active materials and crop protection chemicals. Producing and marketing these products and materials usually require undergoing a statutory registration process, from country to country, and apply to various stages in the process. The registration procedure is complex and prolonged, containing numerous different details and data. See section 15 above for details.

26.2 Environmental laws and related quality standards - The Company's operations involve chemical-industrial processes, and are therefore subject to certain environmental laws and related quality standards. See Section 25 above for details.

26.3 Crop protection laws - Company products manufactured or sold in Israel must be registered according to the Crop Protection Law – 1956,and its related regulations, the purpose of the registration requirement is to protect public health and the environment from potential ill effects of certain materials contained in crop protection products.

26.4 Business licenses - All Company plants require business licenses according to local laws.

26.5 Quality control- Makhteshim and Agan's plants in Israel and Milenia's in Brazil qualify for ISO 9002, which specified standard production process standards, as well as overseeing all ancillary processes. Moreover, Makhteshim and Agan qualify for the Occupational Health and Safety Standard (OHSAS 18001), which is similar to ISO 14001. In October 2001 Milenia qualified for International ISO 14001.

26.6 Encouragement of Industrial Research and Development Law, its provisions, related regulations and rules, and R&D grants given to the Company by the Chief Scientist see Section 15 for details.

26.7 Law for the Encouragement of Capital Investments, its provisions and related regulations, as well as approvals granted for the Company's various investments.

26.8 Israel Land Administration- approximately 90% of Israel's lands is owned by the government of the state of Israel (thorough the Israeli Land Administration) . Most of the lands on which Company plants are located are leased from the ILA on a long-term basis. Hence, the rights to these lands and related transactions are subject to contractual provisions and land use regulations. Accordingly, the Group may be required to pay certain fees to the ILA.

26.9 For the provisions of Amendment 17 to the Companies Law, applicable to the Company as a "debentures company".

27. SUBSTANTIAL AGREEMENTS

27.1 See sections 1.1 and 2.1 above and Note 19A(8) to the financial statements for details about the merger agreement.

27.2 See subsection 22.3 for details about securitization of customer receivables.

27.3 See subsection 1.5 for details about Company material acquisitions in the years 2009-2013.

27.4 See section 23.3 and 23.4 for details about capital raised and finance agreements by the Company.

27.5 See Note 19A(9) to the financial statements for details on the agreement with Histadrut regarding employees of the subsidiaries.

27.6 See Notes 19A(5) and 19A(6) to the financial statements, for details about agreements to build two electric and steam power plants in Ashdod and Neot Hovav.

27.7 See Section 17 for information regarding an agreement for exclusive development and manufacture of materials.

28. COLLABORATION AGREEMENTS

The Company has a large number of collaboration agreements with leading multinationals for developing product registration data and submitting them to regulatory authorities (see Section 15 above).

29. CORPORATE GOVERNANCE

The Company abides by the principles of corporate governance to ensure checks and balances in the conduct of its affairs.

29.1 Code of Ethics

The Company adopted a code of ethics applicable to all Company employees in Israel and abroad. The code of ethics is designed to provide simple and easily applicable guidelines for the Company's and its employees' required behavior. Among other things, the code includes rules concerning the Company's commitment to its employees, the employees' responsibility to the Company, business ethics, community relations and responsibility for appropriate behavior.

29.2 Internal enforcement plan

- In accordance with the provisions of the Effective Compliance Proceedings in the Securities Authority (Legislative Amendments) Law, 2011, and the organizational culture of compliance with and honoring companies and securities law and the principles of corporate governance, on May 10, 2012, the Company's board of directors approved an outline for adoption of an internal enforcement plan and its integration in the Company and in the regions it operates internationally and in its subsidiaries. On that date, the Company's board of directors also ratified the appointment of the Company's CFO, Mr. Aviram Lahav, as head of internal enforcement in the Group, and the appointment of the Company's audit committee as the designated board for coordinating the matters of compliance and enforcement in the Group. According to that outline, during the report period, the Company's audit committee approved several procedures that will outline the norms applicable to all the officials operating in the Group and will constitute a guiding tool for the Group's officers and employees during their day-to-day work. The Company is modifying additional work procedures to convert them to part of the Company's overall compliance plan, and as soon as it is completed it intends to assimilate the internal compliance plan.
- On August 9, 2012, the Company's board of directors ratified the adoption of a zero tolerance policy toward bribery and corruption by the Company and an update of the Company's code of ethics.
- On November 15, 2012, the Company's board of directors ratified the adoption of an anti-trust enforcement plan, in order to integrate these laws in Company's processes.

29.3 Negligible transactions and criteria for classification of negligible transactions

For details on the negligible transactions procedure, see Note 28 to the financial statements.

29.4 Criteria for classification of transactions with an interested party as extraordinary transactions and criteria for approval of transactions with a controlling shareholder

On March 6, 2014, the Company adjusted the criteria for the classification of transactions with interested parties and the criteria for the classification and approval of transactions with a controlling shareholder according to amendment 22 of the Companies law.

29.5 Corporate Responsibility Report

The Company issues a Corporate Responsibility Report, which includes information beyond the required under the law.

29.6 Inapplicability of the law for the advancement of competition and the reducing of concentration ("Concentration Law")

The company examined the implications of the Concentration Law with regard to it and based on legal counsel, the Company's view is that the law does not apply to it.

30. LEGAL PROCEEDINGS

For details about the pending material legal proceedings involving the Company at the time of this Report, see Note 19 to the financial statements.

31. BUSINESS OBJECTIVES AND STRATEGY

31.1 Company strategy - general

The Company is among the leading multinationals companies in the field of crop protection products. The Company also has other activities in other areas of expertise, which, at the time of this report, are immaterial to its results. At the time of this Report, the Company's chief objective is to continue to be a global leader in the field of crop protection products.

31.2 Business strategy

The Company is implementing a comprehensive strategy plan, intended to modify the Company's operational business plan for changes in the industry's competitive environment and to strengthen its core activities.

This plan expresses the Company's strategic emphasis in the coming years, by creating a unique business model for the agrochemicals industry, in order to offer high-quality, simple, efficient, set apart and accessible crop protection solutions to farmers worldwide, thereby achieving profitability growth. The Company assesses that the better it is able to adapt its operational structure and create a unique business model in the industry, then the higher the value it will generate from the basic trends in the agricultural industry in

general and in the agrochemicals industry in particular, including due to the accelerated rate of patent expiry and the frequent growth in the generic market's share of the global agrochemicals industry, in addition to maximizing the growth potential in the emerging markets of Asia, South America, Africa and Eastern Europe.

In order to improve the cost structure of its products, the Company is working to create the right combination of outsourcing and Company production of products and the optimal deployment of its global supply chain.

In this context, the Company is in the process of optimizing its manufacturing plants, purchasing and supply chain ("Optimization Process"), with the objective of improving the cost structure of the products sold by the Company, to improve operational flexibility and better maximize its extensive global dispersal. In the scope of the Optimization Process, a reorganization was implemented in Brazil (see section 33.2 below), two production facilities in Israel were closed during 2011, and agreements were signed with the employees organized under collective agreements in Israel (see section 21.3 above).

The Company completed managerial changes in its operational model in the Americas, including a comprehensive reorganization of operations in Brazil and acquired companies in Mexico, Colombia and Chile (including through an increase in existing stakes) and as detailed in section 1.5 of this report, and of rights, registrations and product inventories.

At the same time, the Company continues to strengthen and focus its development and licensing of new products, which support its global organic growth, in order to continue improving its product range and tailor it to the changing market conditions and key agricultural trends.

Within this framework, the Company built a global network of management teams for agricultural crops in a cross-section of different crops, who analyze the market and facilitate the development of unique products, formulations and compounds, while providing a solution for the needs of farmers, while entering into reciprocal undertakings and exchanging information.

Additionally, commencing in 2011, the Company operates a new division for novel technologies in agricultural, which will be integrated in the Company's core businesses. In the first stage, the Company intends to focus, in this division, in the development and advancement of operations in the biotechnology and seed trait sectors, and later, will evaluate entering into additional complementary agricultural sectors.

As part of its strategic goals, the Company continues to examine joint ventures or acquisitions of companies, operations and products in the fields of chemistry, agriculture

and seed traits, which are the Company's core businesses. See section 1.5 above for details on acquisitions made by the Company.

31.3 Company's plans following closing of the Merger Transaction

The Merger Transaction that closed in October 2011, is an integral part of the changes that the Company has begun to implement. The Company that this transaction with CC will provide the Company with more tools, infrastructures, abilities and resources, which will enable it to realize its business goals.

The Company is working intensively to exhaust the potential of the merger, and within this framework, and in accordance with the provisions of the Merger Agreement and the related agreements, continues to examine the acquisition of assets that are held under the direct and/or indirect control of CNAC. See section 1.4.2 of the report for additional information.

Likewise, and as noted in the shareholder agreement signed between CNAC and Koor, the Company intends to work to complete the process of a reissuance of the Company's shares in an IPO on an overseas stock exchange, within three years of completion of the merger.

Regarding the possibility of acquiring assets of CNAC and the Company's intention to work to complete an IPO, also see section 2.5.3 of the Transaction Report (as defined in section 2 above).

Company management estimates that completion of the actions deriving from the strategy plan and modification of its operational model, as well as the Company's actions to maximize the potential of the merger transaction, will enable the Company to maximize the potential inherent in its assets and holdings, while dealing with key issues and challenges in a manner that conforms to the future directions of the industry's development. Likewise, the modification of the operational model will facilitate the Company's continued growth, while improving its profitability and will enable the Company to utilize appropriate opportunities in the global market of crop protection products.

Within this framework, the Company adopted a multi-year plant, which is evaluated and updated annually, that expresses the Company's business development based on implementation of all the said decisions (excluding the merger's impact at this stage), on the basis of the following principles:

(1) Ongoing consistent growth in revenues, inter alia, in view of the growing demand for food, the real increase in agricultural commodity prices, the improvement in usage of advanced technologies in agriculture and the growth in the Company's global dispersal.

(2) Improvement and change in the Company's product mix, inter alia, through an increase in the contribution to revenues of innovative, set-apart products, continuation of the advancement of collaborations with companies in the industry, sophisticated access to chemical R&D and development of marketing capabilities and a marketing view at the crop level.

(3) Creation of a unique business model in the industry, inter alia, through ongoing streamlining of the global operational system (manufacturing and supply chain), an advanced global research and development platform (Israel, India and China), maximizing the growth potential in emerging markets and significantly solidifying the base in China.

Company management's estimates regarding the results of the strategy-change plan and the effect of the merger on its operations constitute forward-looking statements based on the information currently held by Company management and on the basis of which the board approved the plan. The Company's estimates may not materialize, including due to factors beyond its control, including actions by the Company's potential competitors and changes in the markets of its operations.

31.4 Company goals

At the report date, the Company periodically reviews the strategy guiding its operations and its goals in senior management forums and board meetings. This review is based on considerations such as its competitive positioning, growth, profitability and trends and developments in its business environment and additional considerations.

Accordingly, based on the information available to the Company and its estimations as to economic and technological developments in its area, the Company has set certain objectives (which may change from time to time) in order to obtain a relative edge in the competitive global crop protection products market. At the time of this Report, the Company's main business objectives are as follows:

✓ The Company's marketing and sales objectives include reinforcement and bolstering of its current position in the markets in which it operates, as well as expanding its shares in markets with high growth potential (such as Eastern Europe, Asia and Latin America). To this end, the Company is working to solidify its local marketing platforms in its main operational regions; and initiates and strives for collaborations with local and international entities to leverage mutual product development, registration and distribution capabilities.

✓ The Company's objectives regarding its products include growth based on its current products portfolio, involving the development of new registrations for these

products for additional crops and in additional regions. The Company also acts to expand its products portfolio by launching and registering patent-expired products as well as by updating advanced and environment-friendly formulation and improving its finished product mixtures. The Company is also working toward selective development of innovative products. All these activities are compliant with periodically changing regulatory requirements.

In recent years, the Company has been taking action to diversify its products portfolio (hybrid), in a manner based on generic products, mainly the complex ones, on unique formulations and mixtures, and on a selective basis, even on innovative products.

- ✓ The Company's goals with respect to expanding its areas of activity include entry into seed traits and novel agricultural technologies that will be integrated into the Company's core businesses.
- ✓ The Company continuously strives to enhance its production capacity and competitiveness by operational streamlining of all its supply chain elements. The Company see as primary object the constantly investment and improvement of its facilities, production processes and working environments, so as to meet high safety and environmental protection standards.
- ✓ The Company continuously assesses business opportunities in the crop protection products area, by acquiring products and/or obtaining product rights and acquiring companies in the industry so as to enable it to decentralize its distribution and marketing networks, access new customers and markets, as well as expand its products portfolio and production capacity.
- ✓ Creation of a significant platform in China, based on the merger transaction.
- ✓ Based on the Company's assessments that there is business potential in the proper utilization of the digital and social media for operational and commercial purposes, the Company is evaluating the possibilities of utilizing technological developments in telecommunications, in order to improve and advance its interfaces with farmers and leading agricultural opinion makers in the area especially in sharing relevant professional information by the use and creation of social networks.

Most of the Company's efforts are focused on maintaining the uniqueness and added value of its products, while ensuring innovativeness and a broad technological basis, establishing R&D capabilities and combining new technologies. Finally, the Company constantly seeks to provide high-level services and to offer a broad and diverse product portfolio to large- and medium-scale international customers.

The strategy and objectives detailed in this Section 31 are based on the Company's management assessment and rely on its accumulated experience with economic (global, local and industry-specific), technological, social and other developments, as well as on estimates of the effects of each development on the others. By necessity, these aforementioned developments may change or not materialize, in whole or in part, or materialize in a manner different than anticipated by the Company, from time to time, among other things, due to developments in the markets where the Company operates, in its area of operations and in the demand for its products. There is therefore no certainty that the Company's intentions will be realized or that its strategy implemented. In such eventualities, the Company's management will review the strategy detailed above and its main objectives, and assess its compatibility with future developments.

32. EVENT OR MATTER THAT DEVIATES FROM THE COMPANY'S ORDINARY COURSE OF BUSINESS

32.1 See Note 32 to the financial statements for details on the issuance of Series B debentures through an expansion of the series, subsequent to the balance sheet date.

32.2 As of February 7, 2014 Mr. Chen Lichtenstein serves as the Company's President and CEO after Mr. Erez Vigodman, who served as President and CEO from January 1, 2010, gave notice of his resignation, effective February 6, 2014.

33. RISK FACTORS

According to the Company's estimate, it is exposed to several major risk factors, related to its economic environment, the industry and the Company's unique characteristics, as detailed below (without prioritization):

33.1 Macroeconomic Risk Factors

- ☑ Exchange rate fluctuations

  See Section B(3) to the Directors' Report, "Currency Risks" for details.

- ☑ Exposure to Interest rate, CPI and NIS exchange rate fluctuations

  See Section B(3) of the Directors' Report, "Exposure to Linkage to Consumer Price Index" and "Interest Risks" for details.

- ☑ Business operations in emerging markets

  The Company conducts business – mainly product sales and raw material procurement – also in emerging markets such as Latin America, Eastern Europe, Asia and Africa, which exposes it to risks typical of those markets, including: the regimes' sensitivity to political upheavals leading to economic instability; volatile exchange rate of the local currency (in which customer debts are denominated) against the dollar; economic and fiscal instability and frequent revisions of economic

legislation; relatively high inflation and interest rates; terrorism or war; restrictions on imports and trade; differing business cultures; uncertainty as to the ability to enforce contractual and intellectual property rights; barter deals; and potential entry of international competitors and accelerated market consolidation by large-scale competitors. On the other hand, the Group's deployment in multiple regions contributes to diversifying such risks and to reducing its dependency on particular economies. In addition, changes in registration requirement or customers preference in developed countries which will limit the use of raw materials purchased in emerging economies will require redeployment of the Company's procurement organization, which might compromise its profitability for a certain period.

33.2 Industry Risk Factors

☑ Operating in a competitive market

At the time of this Report, there are six leading crop protection products multinational research-based companies with significant financial resources at their disposal. The Company's ability to effectively compete with them as a mainly generic producer involves continuous efforts and significant investments in timely new products development and registration, as well as in ongoing marketing and sales of existing products. The ethical companies have resources enabling them to compete aggressively in the short-medium term for market share. Loss of market share or inability to acquire additional market share from then ethical companies can affect the Company's position in the market and hard its financial results. Moreover, in most of its markets, the Company also competes with other generic companies and smaller-scale ethical companies, which are growing in number and most of which have yet to deploy global distribution networks at the time of this report, and are active only locally. These companies price their products aggressively and at times are even willing to make do with low profit margins, which could be harmful to the volume of the Company's sales and product prices. Any delay in developing or obtaining registrations for products and/or delayed penetration into markets and/or growth of generic competitors (whether by the expansion of their product range or by the globalization of their distribution networks) might affect the Company's total sales in its core activity area, affect its global position and cause erosion of crop protection products prices. For further details about the competition in the Company's areas of activity, see Section 13 of the Report.

☑ Changes in extreme weather and in various global agricultural markets

Many exogenous factors, such as extreme weather conditions, natural disasters, significant drops in agricultural commodity prices, changes for the worse in government policies and farmers' economic situation, necessarily lead to reduced farming intensity, and consequently to reduced demand for company products, lower product prices and collection difficulties and might cause significantly bad affect on Company results. Extreme weather conditions as well as damage caused by nature have an impact on the demand for the Company's products. In the Company's estimation, should an unbroken sequence of such bad seasons will occur, without consecutive favorable seasons dividing it, the Company's results may sustain significant negative impact.

☑ Legislation, standards, regulation and environmental, health and safety exposure

Many aspects of the Company's areas of operation are strictly regulated, including in connection with production and trading, and particularly in relation to the storage, treatment, manufacturing, transport, usage and disposal of its products, their ingredients and byproducts some of which are considered hazardous. The Company's activities include hazardous materials, as defined in the Hazardous Materials Law, 1993. An extreme instance of a significant malfunction in the production activity and the spreading of hazardous materials, as noted, could lead to harm to human life or the environment in which the Company operates. The regulatory requirements imposed on the Company vary from product to product and from market to market, and tend to become stricter with time. In recent years, both law enforcement authorities and environmental NPOs have been applying growing pressure, mainly through increasingly stricter legislative proposals and class actions related to companies and products which may potentially pollute the environment. Since the Company must meet such legislative and regulatory requirements in order to continue manufacturing and marketing its products, it is required to spend considerable financial resources (both in terms of ongoing costs and in terms of material one-time investments) as well as human resources in order to meet mandatory environmental standards. In some cases, this results in delaying the introduction of Company products into new markets, affecting its profitability. In addition, any changing or toughening of environmental license or permit terms, or their revocation, might significantly affect the Company's ability to operate its production plants which might have material adverse effect on the finances and business results of the Company. The Company could have to bear significant civil liability (including due to failing of class actions) or criminal liability (including high

penalties and/or high compensation payments and/or costs of environmental monitoring and rehabilitation), due to a violation of environmental, health and safety regulations, while some of the existing legislation could impose obligations on the Company for rigorous liability, whether or not negligence or malice is proven.

Although the Company invests material sums in adapting its facilities and in constructing special facilities as per environmental requirements, it is currently unable to assess with any certainty whether these investments (current and future) and their outcomes would satisfy or meet future requirements, should these be significantly updated or upgraded.

In addition the Company is a responds to bodily injuries claims and property damage claim caused by the exposure to hazardous materials, which are predominantly covered under Company's insurances.

For details on legal procedures regarding environmental, health and safety issues see Note 19 to the Financial Statements.

☑ Legislative, standard and regulatory changes in the product registration area

Most materials and products marketed by the Company require registrations in various stages of their production and marketing, and are also subject to strict regulatory oversight in each country. Compliance with registration requirements, which vary from country to country, some of which becoming stricter with time, involves significant investments of time and resources, and rigorous matching of licensing demands with each and every product. Noncompliance therewith might materially affect the Company's cost structure and profit margins, as well as penetration of its products in the relevant market, and could even lead to suspension of sales of the relevant product. Moreover, to the extent that new regulatory requirements are imposed on registered products (requiring additional investment or leading to the existing registration's revocation) and/or the Company is required to compensate another for its use of the latter's product registration data, these amounts might accrue to significant sums, considerably increasing the Company's costs and affecting its results. Nevertheless, in the company's estimation in countries where the Company has competitive edge, any toughening of registration requirements may increase this edge, since it will make it difficult for its competitors to penetrate the same market, whereas in countries in which the Company has a small market share, if any, such toughening could make penetration of the Company's products into that market difficult. See Section 15 above for further details on Company product registration.

☑ Product liability

Product and producer liability represent a risk factor. Regardless of their prospects or actual results, product liability lawsuits might involve considerable costs as well as tarnish the Company's reputation, potentially affecting its incomes. The Company has a third-party and defective product liability insurance cover of up to 350 million dollars in aggregate annual damages. Nevertheless, there is no certainty that any future product liability lawsuit or series of lawsuits would not materially affect Company operations and results, should the Company lose the lawsuit or should its insurance cover not suffice or apply in a particular case. In addition, and even though on the date of the report the Company is having no difficulty renewing that insurance policy, there is a possibility that it will face difficulties in renewing an insurance policy for third party liability and defective products on terms acceptable to the Company.

☑ Successful market penetration and product diversification

Following their development, the Company must market new products in its various markets. Should these fail to meet registration requirements or should it take too long to obtain registrations for them, the Company's ability to successfully introduce a new product to the market in question in the future would be affected, since entry into the market before competing entities is material for successful market penetration. Furthermore, successful market penetration involves, among other things, product diversification in order to respond to each market's changing needs. Therefore, to the extent that the Company fails to adapt its product mix accordingly, its future ability to penetrate that market would be similarly affected. Failure to introduce new products to given markets and meet Company objectives (given the considerable time and resources invested in their development and registration) might affect the sales of the product in question in those markets, as well as the Company's results and margins.

☑ Intellectual property rights of the Company and of third parties

The Company's ability to develop generic products depends, among other things, on its ability to deal with patents of an ethical company or other third parties in a way that could involve legal and other costs. Ethical companies might try to delay the manufacture of competing generic products by registering patents on slightly different versions of products for which the original patent protection is about to expire. Such actions could increase the Company's expenses and harm its ability to launch new products.

The Company is mainly active in the generic products area. As such, it owns no patent-protected intellectual property for most of its products. The Company depends on protecting its commercial secrets and exposed to the possibility that its competitors develop similar or competing technologies. The Company is also exposed to legal claims that its products or production processes infringe on third-party intellectual property rights (even though the source products similar to its own are no longer patent protected). Such claims could involve significant costs, harm the brand value of the Company and its sales and adversely affect its financial results. To the best of the Company's knowledge, up to the time of this writing, all such lawsuits have been settled for immaterial amounts.

☑ Fluctuations in raw material inputs and prices and in sales prices

See Section B(3) of the Directors' Report, "Risks of Raw Material Prices in Original Currency".

☑ Exposure due to recent developments in the genetically modified seeds market (GMO)

Any further significant development in the market of seeds genetically modified for agricultural crops and/or any significant increase in the sales of genetically modified seeds or Glyphosate and/or to the extent new crop protection products are developed for further crops and widely used (substituting for traditional products), this will affect demand for crop protection products, requiring the Company to respond by adapting its product range to the new demand structure. Consequently, to the extent that the Company fails to adapt its product range accordingly, this might reduce demand for its products, erode their sales price and necessarily affect Company results and market shares.

Nevertheless, the fact that the Company itself markets Glyphosate acts to mitigate this exposure (albeit only in terms of marketing margins). For further details about this technological innovation and its implications, see Subsection 6.4 above.

☑ Operational risks

Company operations, including its manufacturing activities, rely, among other things, on state-of-the-art computer systems. The company continually invests in upgrading and protecting these systems. Any unexpected malfunction in these systems which could not be repaired within a reasonable timeframe is liable to affect the Company's operations and results. At the report date, the Company has a property

and loss-of-profit insurance policy covering up to USD 1,361.5 million in aggregate annual damages.

33.3 Companies-Specific Risk Factors

☑ Disruptions in raw material supply and/or shipping and port services

Lack of raw materials or other inputs used for manufacturing Company products might prevent the Company from supplying its products or significantly increase their production costs. Moreover, the Company imports raw materials to its production facilities in Israel and/or abroad, whence it exports its products to its Subsidiaries abroad for formulation and/or marketing purposes, as the case may be – all through ports in Israel and other countries. Prolonged disruptions and/or strikes and/or infrastructural defects in any of the ports used by the Company might significantly affect its ability to obtain raw materials in general, or to obtain them at reasonable prices, as well as limit its ability to supply its products and/or meet supply deadlines. These might negatively affect the Company and its finances, customer relations and operating results. In order to reduce this risk, it is the Company's practice to occasionally adjust the volume of its product inventories and occasionally uses air freight.

☑ Failed M&A's

As already mentioned, the Company's strategy includes mergers and acquisitions designed to calculatedly expand its product range and deepen its presence in certain markets. This requires assimilation of acquired operations and their effective integration in the Group, including the ability to realize projections, maintain profitability and adapt to certain market and competitive conditions.

It is possible that problems will arise in the assimilation of the acquired operation, owing, perhaps, to difficulty in adaptation between organizations in different geographical locations; assimilation of joint systems and controls; integration of workers with different cultural and business backgrounds; development of new products and services and making best use of the assets of acquired operations; integration of manufacturing and production facilities; the technology and products of the acquired operation, and retaining key personnel.

Failure to achieve these could mean wasting away the added value projected, losing customers, exposure to unexpected liabilities, reduced value of the intangible assets included in the merger or acquisition as well as the loss of professional and skilled human resources.

☑ Production concentrated in a few plants

The lion's share of the Company's production operations is concentrated in a small number of locations. Natural disasters, hostilities, labor disputes, substantial operational malfunctions or any other material damage might materially affect Company operations, in view of the difficulty, the time and the investments required for relocating the production operation or any other activity.

☑ International taxation

Over 95% of Company sales are in markets outside Israel, through its consolidated subsidiaries worldwide. These play various roles in the Company's operational structure (sometimes in relation to the same product), including production, knowledge maintenance and development, as well as procurement, logistics, marketing and sales of the Company's various products. These firms are assessed according to the tax laws in their countries of residence. Due to the varying tax rates imposed on the Group's earnings in various countries, substantially different classification or allocation of the return on each subsidiary's value elements in the various countries or any change in their attributes (including changes related to the location of their control and managemtn) might affect the amount of earnings made and assessed in each country, with a possibly material effect on the Group's tax rates and financial results. (For further details, as well as regarding the tax laws applicable to the Company, see Section 24 above). The Company's financial statements do not include a material provision for exposure for international taxation, as aforesaid, based on an opinion it has received.

☑ Failure to comply with the Approved Enterprise approval

Some of the Company's plants have received benefits (in the form of tax relief and/or grants) under the Law for the Encouragement of Capital Investments. Failure to comply with the Approved Enterprise terms on which these benefits are conditioned might lead to withdrawal of said benefits and/or the imposition of added tax due for past earnings. According to the Company's estimate, it complies with these terms at the time of this Report.

☑ Failure to comply with the Chief Scientist's terms

State grants received under the Chief Scientist programs limit the Company's ability to produce and transfer technologies outside Israel, and oblige it to comply with certain terms. Failure to meet these terms might force the Company to repay those grants (together with interest and fines) as well as expose it to criminal proceedings.

☑ <u>Limitations on raising bank credit and non-compliance with financial covenants</u>

For the purposes of the Israeli banking system, the Company is part of an IDB Holdings Ltd. "borrower group" (see subsection 23.5 above). Consequently, it might be not be able to raise bank credit unrestrictedly. In addition, the Company's funding documents require it to meet certain financial covenants, as detailed in Subsection 1.1 above. Failure to meet these covenants due to an exogenous event or non-materialization of Company forecasts, as well as should it not obtain the agreement of its funders to extend or update these financial covenants according to its abilities, could lead the funders to oblige the Company to immediately pay off its liabilities (or part thereof).

☑ <u>Exposure to credit risks of customers</u>

The Company's sales to its customers in Israel and abroad usually involve customer credit as customary in each market. Some of these credit lines are insured, while the rest are exposed to risk, particularly during economic slowdowns. The Group's aggregate credit, however, is distributed among many customers in multiple countries, mitigating this risk. Nevertheless, in certain regions, particularly in South America, credit lines are particularly long (compared to those extended in Western Europe, for example), and sometimes, among other things due to bad crops or economic downturns in those countries, the Company might find it difficult to collect customer debts, with some debts finally collected only after several years.

This risk also exists in developing countries where the Company is less familiar with its customers, their collaterals are of doubtful value and there is no certainty as to such customers' insurance cover. For additional information, see the explanations of the board of directors and the Company's financial statements. This risk is mainly in emerging markets such as South America, Eastern Europe, Africa and Asia. Credit default by any of its customers might affect the Company's cash flow and financial results.

Below are the Company's assessment of risk factors according to their quality and degree of influence (assuming they are realized), on the Company's businesses:

Risk Factor	**Potential impact on the Company's overall operations**		
	High	Medium	Low
Macro risks			
Exchange rate fluctuations		+	
Interest rate, CPI and NIS exchange rate fluctuations		+	
Business operations in emerging markets	+		
Hostilities in Israel	+		
Industry risks			
Competition		+	
Extreme climatic and other changes affecting farmers	+		
Legislating and regulatory changes (environment, health and safety)	+		
Legislating and regulatory changes (product registration)		+	
Product liability	+		
Market penetration and product diversification		+	
Infringement of third-party proprietary rights			+
Fluctuations in raw material inputs and prices and in sales prices	+		
Developments in the genetically modified seeds market		+	
Operational risks		+	
Company-specific risks			
Disruptions in raw material supply shipping & port		+	
Failed M&A's		+	
Production concentrated in a few plants	+		
International taxation		+	
Failure to comply with the Approved Enterprise approval			+
Failure to comply with the Chief Scientist's terms			+
Bank credit restrictions	+		
Exposure to customer credit risks		+	

אדמה פתרונות לחקלאות בע"מ
ADAMA Agricultural Solutions Ltd.

Chapter B

Board of Directors' Report on the State of the Company's Affairs

ADAMA Agricultural Solutions Ltd.

Board of Directors Report for Year ended December 31, 2013

The Board of Directors is pleased to present the Directors' Report on the State of the Company's Affairs for the period ended December 31, 2013 ("the Reporting Period").

A. Board of Directors explanations on the state of the Company's affairs

1. Summary of the Company's business environment

ADAMA Agricultural Solutions Ltd. and its subsidiaries ("the Company") specialize in the chemical industry and as at the reporting date, focus primarily on the agriculture-related chemical industry (agrochemicals). As such, the Company develops, manufactures and markets crop protection products. Furthermore, the Company has other operations which are based on its core capacities (in the agricultural and chemical industries), the scope of which, as at the reporting date, is insignificant. At the reporting date the Company is the leading global generic manufacturer of crop protection products, and sells its products in more than 120 countries worldwide. The Company's key success factors are primarily wide global deployment, a broad portfolio of unique products adapted to the farmer's needs, its reputation, know-how, experience and high agronomical capacities, high technical-chemical capacities, high development capacities and product licensing expertise, adherence to stringent ecological standards, strict quality control, global marketing and distribution system, comprehensive production system from R&D through manufacture, cooperation with multinational companies for production and marketing of the products, financial robustness and available cash resources. Investment in steady and consistent development enables the launching of new generic products, compounds and formulations at opportune times.

For a description of the Company's businesses and material events during the reporting period see Chapter A of this periodic report.

For further information pertaining to the Company's business strategy and goals, including the Company's plan following the completion of the merger with a company of the China National Chemical Corporation Group ("CC"), see section 31 of Chapter A of this periodic report.

Brief review of the changes occurring in the industry and in the Company's operations

In 2013, the Company continued to present an increase in its annual sales turnover. The Company also presented improved gross profit, operating profit and net profit compared with 2012. These trends were due to an increase in the quantities sold against a general growth in the agrochemical industry and continued differentiation of the Company's product portfolio, which led to a better

product mix and selective increase in selling prices. This compensated for the weakening of the currencies in some of the regions in which the Company operates and the increase in raw material prices and production costs compared with 2012.

The crop protection products market and the Company operations were affected in 2013 by the following trends:

1. Notwithstanding a decline in agricultural commodity prices, most remained high compared with past prices, and therefore did not affect the total demand for and sales of crop protection products. With regard to this matter also see section 5 of Chapter A of this Periodic Report under the heading Prices of Agricultural Commodities.
2. The rise in prices for crop protection products contributed to the trend of selectively increasing prices by the Company, which compensated, inter alia, for the rise in raw material prices.
3. The increase in cultivated area of most key crops and comparatively fair climatic conditions during the latter half of 2013 (compared to the first half of 2013) contributed to the industry's increased sales, including to the Company's sales.
4. The devaluation of the primary currencies in which the Company operates in Australia and the emerging markets (primarily the Indian rupee and the Brazilian real) against the US dollar has had an adverse effect on the Company's sales turnover and its gross profit margin.
5. The Company substantially increased its sales in Brazil, primarily during the latter half of the year, as a result of the continuing improvement in all aspects of its operations in Brazil and due to the increase in the Brazilian agrochemical market which originates, inter alia, from the increase in cultivated area throughout the country and the relatively fair weather conditions.
6. The results of the strategic and overall operating changes that the Company has implemented over the past years can be seen in the Company's results and in its competitive position in the key markets in which it operates. With regard to this matter see section 31 of Chapter A of this Periodic Report.

2. Results of Operations – Condensed Statement of Income

Statement of Income for 2013 (in USD millions)

	%	2013	%	2012	Change	% of Change
Revenue		3,076.4		2,834.5	241.9	8.5%*
Gross profit	31.5%	968.1	31.7%	899.6	68.5	7.6%
Operating expenses	21.4%	659.1	21.8%	618.0	41.1	6.6%
Operating profit (EBIT)	10.0%	309.0	9.9	281.6	27.4	9.7%
Financing expenses, net	4.6%	140.6	3.9%	110.3	30.3	27.5%
Pre-tax income	5.6%	171.6	5.7%	161.7	9.9	6.1%
Net profit after non-controlling interest	4.1%	127.1	4.3%	122.6	4.5	3.7%
EBITDA	15.1%	466.0	15.2%	429.8	36.2	8.4%

* The Company's revenues in 2013, excluding currency effects, grew by 10.0% compared with 2012.

Statement of Income for Q4 2013 (in USD millions)

	%	10-12/2013	%	10-12/2012	Change	% of Change
Revenue		655.7		579.5	76.2	13.1%*
Gross profit	28.4%	186.0	27.4%	158.7	27.3	17.2%
Operating expenses	26.7%	174.9	26.9%	155.7	19.2	12.4%
Operating profit (EBIT)	1.7%	11.1	0.5%	3.0	8.1	265.5%
Financing expenses, net	5.8%	37.7	4.7%	27.2	10.5	38.5%
Pre-tax loss	(4.3%)	(28.2)	(4.6%)	(26.6)	(1.6)	6.1%
Net loss after non-controlling interest	(4.4%)	(29.1)	(3.8%)	(21.9)	(7.2)	32.5%
EBITDA	7.9%	51.5	7.1%	41.1	10.4	25.5%

* The Company's revenues in 2013, excluding currency effects, grew by 14.2% compared with the corresponding quarter last year.

3. Analysis of Business Results

Company sales in the fourth quarter of 2013 amounted to USD 655.7 million, compared with USD 579.5 million in the corresponding quarter of the previous year, an increase of USD 76.2 million. Excluding currency effects, the Company's sales increased in the fourth quarter of 2013 by 14.2% compared with the sales in the fourth quarter of 2012.

The Company's sales in 2013 amounted USD 3,076.4 million compared with USD 2,834.5 million in 2012, an increase of USD 241.9 million. Excluding currency effects, the Company's sales increased in 2013 by 10.0% compared with the sales in 2012.

The increase in sales in the fourth quarter and in 2013 compared with the corresponding periods was mainly due to an increase in the quantity of the Company's products sold and the increase in selling prices, which was partially offset by currency effects.

For specific information pertaining to the trends in the key areas of operation see below.

A. Breakdown of revenues by geographical region

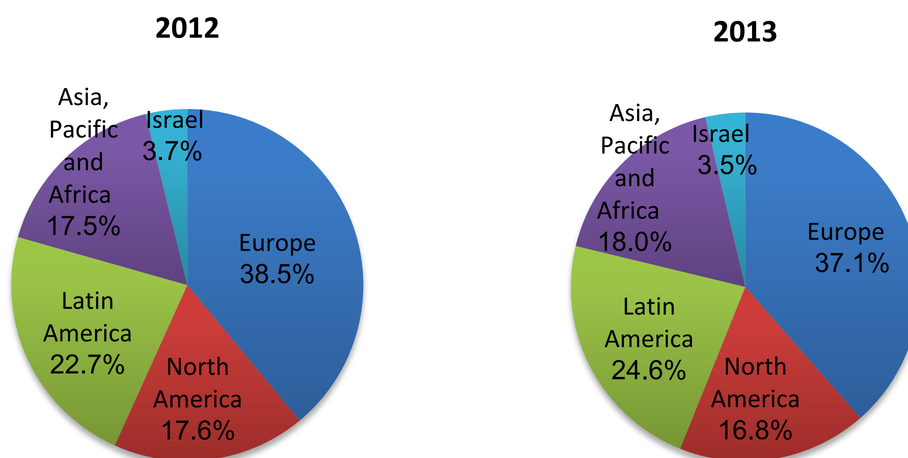
Breakdown of annual sales in USD millions:

	%	**2013**	%	**2012**	Change	% of Change
Europe	37.1%	1,140.3	38.5%	1,092.4	47.9	4.4%
Latin America	24.6%	757.5	22.7%	642.9	114.6	17.8%
North America	16.8%	516.2	17.6%	497.5	18.7	3.7%
Asia, Pacific and Africa	18.0%	553.2	17.5%	497.3	55.9	11.2%
Israel	3.5%	109.2	3.7%	104.4	4.8	4.6%
Total	**100.0%**	**3,076.4**	**100.0%**	**2,834.5**	**241.9**	**8.5%**

Breakdown of quarterly sales in USD millions:

	%	10-12/2013	%	10-12/2012	Change	% of Change
Europe	20.8%	136.2	23.6%	136.6	(0.3)	(0.2%)
Latin America	38.4%	251.8	36.3%	210.1	41.7	19.8%
North America	19.2%	126.0	18.6%	107.6	18.4	17.1%
Asia, Pacific and Africa	17.4%	114.2	17.0%	98.3	15.9	16.2%
Israel	4.2%	27.5	4.7%	27.0	0.5	2.1%
Total	**100.0%**	**655.7**	**100.0%**	**579.5**	**76.2**	**13.1%**

Breakdown of annual sales by percentage:



Below is a description of the specific trends that affected the Company's operations, in addition to the general trends described above, by operating regions:

Europe

The Company's sales in Europe in the fourth quarter of 2013 amounted to USD 136.2 million, similar to sales of USD 136.6 million in the corresponding quarter of the previous year.

The Company's sales in Europe in 2013 amounted USD 1,140.3 million compared with USD 1,092.4 million in 2012, an increase of USD 48.0 million. The increase in sales is primarily due to the rise in selling prices and increase in quantities sold, which was partially offset by the lower effective exchange rates of the currencies in which the Company operated in 2013 compared with 2012.

Latin America

The Company's sales in Latin America in the fourth quarter of 2013 amounted to USD 251.8 million, compared with USD 210.1 million in the corresponding quarter of the previous year, an increase of USD 41.7 million.

The increase in sales in the fourth quarter of 2013 was mainly due to the increase in quantities sold and the rise in selling prices, mainly in Brazil, and from the first time inclusion of the Company's new operations in Chile.

The Company's sales in Latin America in 2013 amounted USD 757.5 million compared with USD 642.9 million in 2012, an increase of USD 114.6 million.

The increase in sales in 2013 was mainly due to the increase in quantities sold and the rise in selling prices, mainly in Brazil.

North America

The Company's sales in the fourth quarter of 2013 in North America amounted to USD 126.0 million, compared with USD 107.6 million in the corresponding quarter of the previous year, an increase of USD 18.4 million.

The increase in sales in the fourth quarter of 2013 was mainly due to the increase in quantities sold, which was offset in part by a decline in selling prices.

The Company's sales in 2013 in North America amounted to USD 516.2 million compared with USD 497.5 million in 2012, an increase of USD 18.7 million.

The increase in sales in 2013 was mainly due to the increase in quantities sold and the rise in selling prices.

Asia, Pacific and Africa

The Company's sales in Asia, Pacific and Africa in the fourth quarter of 2013 amounted to USD 114.2 million, compared with USD 98.3 million in the corresponding quarter of the previous year, an increase of USD 15.9 million.

The Company's sales in 2013 in Asia, Pacific and Africa amounted to USD 553.2 million compared with USD 497.3 million in 2012, an increase of USD 55.9 million.

The increase in total sales in 2013 and in the fourth quarter was mainly due to an increase in quantities sold and the rise in selling prices, which was offset in part due to the adverse effect of the local currencies exchange rates.

Israel

The Company's sales in Israel in the fourth quarter of 2013 amounted to USD 27.5 million, compared with USD 27.0 million in the corresponding quarter of the previous year, an increase of USD 0.5 million.

The Company's sales in Israel in 2013 amounted USD 109.2 million compared with USD 104.4 million in 2012, an increase of USD 4.8 million.

B. Analysis by Operating Segment

Breakdown of sales in 2013 by segment of operation (in USD millions)

	%	2013	%	2012	Change	% of Change
Crop protection products	93.5%	2,876.2	93.4%	2,648.7	227.5	8.6%
Other operations	6.5%	200.2	6.6%	185.8	14.4	7.7%

Breakdown of sales for the fourth quarter of 2013 by segments of operation (in USD millions)

	%	10-12/2013	%	10-12/2012	Change	% of Change
Crop protection products	92.7%	607.7	92.1%	533.6	74.1	13.9%
Other operations	7.3%	48.0	7.9%	45.9	2.1	4.5%

In the fourth quarter of 2013 the Company's turnover from crop protection products amounted to USD 607.7 million, compared with USD 533.6 million in the corresponding quarter of the previous year.

In the fourth quarter of 2013 the Company's turnover from other operations amounted to USD 48.0 million, compared with USD 45.9 million in the corresponding quarter of the previous year.

The Company's sales in 2013 from crop protection products amounted to USD 2,876.2 million, compared with USD 2,648.7 million in 2012.

The Company's sales in 2013 from other operations amounted to USD 200.2 million, compared with USD 185.8 million in 2012.

C. Gross profit

Gross profit in the fourth quarter of 2013 amounted to USD 186.0 million (28.4% of sales), compared with USD 158.7 million (27.4% of sales) in the corresponding quarter last year.

Gross profit in 2013 amounted to USD 968.1 million (31.5% of sales) compared with USD 899.6 million (31.7% of sales) in 2012.

The increase in gross profit in 2013 and the fourth quarter was mainly due to increase in quantities sold, an improvement in the product mix and a rise in selling prices, which were offset in part due to the increase in raw material prices and production costs and the adverse effect of the exchange rates of the primary currencies in which the Company operates.

D. Operating profit

Operating profit in the fourth quarter of 2013 amounted to USD 11.1 million (1.7% of sales), compared with USD 3.0 million (0.5% of sales) in the corresponding quarter of the previous year.

Operating profit in 2013 amounted to USD 309.0 million (10.0% of sales) compared with USD 281.6 million (9.9% of sales) in 2012.

Operating expenses

In the fourth quarter of 2013, the operating expenses amounted to USD 174.9 million (26.7% of sales) compared with USD 155.7 million (26.9% of sales) in the corresponding quarter last year.

Operating expenses in 2013 amounted to USD 659.1 million (21.4% of sales) compared with USD 618.0 million (21.8% of sales) in 2012.

R&D expenses

R&D expenses in the fourth quarter of 2013 amounted to USD 8.8 million (1.3% of sales), compared with USD 7.7 million (1.3% of sales) in the corresponding quarter last year.

In 2013 R&D expenses amounted to USD 33.7 million (1.1% of sales) compared with USD 30.1 million (1.1% of sales) in 2012.

The increase in R&D expenses is mainly due to the Company's decision to increase the resources provided for research and development.

Selling Expenses

Selling expenses in the fourth quarter of 2013 amounted to USD 136.0 million (20.7% of sales), compared with USD 121.9 million (21.0% of sales) in the corresponding quarter last year.

Selling expenses in 2013 amounted to USD 522.1 million (17.0% of sales) compared with USD 487.1 million (17.2% of sales) in 2012.

The increase in selling expenses in 2013 and the fourth quarter was, inter alia, due to an increase in variable expenses resulting from the increase in the quantities sold and due to the increase in marketing expenses resulting, inter alia, from the process of launching a new and uniform global brand for the group.

General and Administrative Expenses

General and administrative expenses in the fourth quarter of 2013 amounted to USD 31.4 million (4.8% of sales) compared with general and administrative expenses of USD 24.6 million (4.2% of sales) in the corresponding quarter last year.

General and administrative expenses in 2013 amounted to USD 114.5 million (3.7% of sales) compared with general and administrative expenses of USD 101.5 million (3.6% of sales) in 2012.

The increase in general and administrative expenses was mainly due to an increase in salaries and professional services.

E. Financing expenses

The net financing expenses in the fourth quarter of 2013 amounted to USD 37.7 million, compared with USD 27.2 million in the corresponding quarter of the previous year.

The increase in financing expenses in the quarter was, inter alia, as a result of the increase in the CPI compared to the corresponding quarter last year and the updating of the value of PUT options to acquire investee companies.

Net financing expenses in 2013 amounted to USD 140.6 million, compared with USD 110.3 million in 2012.

The increase in financing expenses in 2013 was due, inter alia, to an increase in interests and CPI linkage differentials resulting from the issue of debentures (by way of expanding Series B) in 2013, the updating of the value of PUT options to acquire investee companies and the increase in hedging costs due to the sales increase in Brazil and other emerging markets.

F. Income Tax

Tax expenses in the amount of USD 0.9 million were recorded in the fourth quarter of 2013 compared with tax income of USD 4.6 million in the corresponding quarter of the previous year.

Tax expenses in 2013 amounted to USD 44.5 million compared with tax expenses of USD 39.2 million in 2012.

The increase in tax expenses in 2013 compared with 2012 was mainly due to an increase in the Company's operations in areas in which the tax rate is high.

For additional information, see Note 17 to the financial statements.

G. <u>Net profit (loss)</u>

The results of the Company's operations in the fourth quarter of 2013 amounted to a loss of USD 29.1 million (4.4% of sales), compared with a loss of USD 21.9 million (3.8% of sales) in the corresponding quarter of the previous year.

Net profit in 2013 amounted to USD 127.1 million (4.1% of sales) compared with net profit of USD 122.6 million (4.3% of sales) in 2012.

H. <u>EBITDA</u>

EBITDA during the fourth quarter of 2013 amounted to USD 51.5 million (7.9% of sales), compared with USD 41.1 million (7.1% of sales) in the corresponding quarter of the previous year.

In 2013 EBITDA amounted to USD 466.0 million (15.1% of sales) compared with EBITDA of USD 429.8 million (15.2% of sales) in 2012.

4. Financial Condition and Liquidity

Since January 1, 2013 the Company applies IFRS 10 - Consolidated Financial Statements ("IFRS 10"). The IFRS 10 was applied by way of increasing the Group's trade receivable balance for sales under the securitization transaction which proceeds were received in cash against recording a short-term loan in the same amount.

For further information with regard to the effect on the statement of financial position and the statement of cash flows, including the effect of retrospective application of IFRS10 on the comparable data at December 31, 2012, see Note 3R to the financial statements.

For further information concerning the securitization transaction see section 22.3 of Chapter A of the Periodic Report for 2013.

A. <u>Cash flow</u>

Current cash flow in the fourth quarter of 2013 amounted to a positive cash flow of USD 195.9 million compared with a positive cash flow of USD 105.0 million in the corresponding quarter of the previous year.

The improvement in cash flow from current operations in the quarter is mainly due to an improvement in the operating working capital.

Current cash flow in 2013 amounted to a positive cash flow of USD 362.5 million compared with a positive cash flow of USD 58.8 million in 2012.

The improvement in cash flow from current operations in 2013 is mainly due to an improvement in the operating working capital and execution of hedge transactions in respect of the long-term NIS debt of the Company.

The Company's investments in the fourth quarter of 2013 amounted to USD 93.3 million, compared with USD 41.6 million in the corresponding quarter of the previous year. Investment activities included investment in product registration, intangible assets, fixed assets, long- and short-term deposits and the acquisition of 10.6% of the issued share capital of Hubei Sanonda Co. Ltd. The investment in fixed assets (less grants), which included investments in equipment and facilities, including facilities for the maintenance and safeguarding of environmental standards, amounted to approx. USD 16.0 compared with approx. USD 21.7 million in the corresponding quarter last year.

The Company's investments in 2013 amounted to USD 321.5 million, compared with USD 207.5 million in 2012. These investment activities mainly included investment in product registration, intangible assets, fixed assets, long- and short-term deposits and the acquisition of 10.6% of the issued share capital of Hubei Sanonda Co. Ltd. The investment in fixed assets, which included investments in equipment and facilities, including facilities for the maintenance and safeguarding of environmental standards, amounted to USD 84.9 million, compared with USD 96.5 million last year.

B. Current assets

Total current assets at December 31, 2013 amounted to USD 2,740.6 million, compared with USD 2,569.6 million at December 31, 2012.

C. Investments in fixed assets

See the section on cash flow above.

D. Cash flow, current liabilities and long-term loans

The volume of the Company's credit (bank loans and debentures) as at December 31, 2013 amounted to USD 1,738.0 million (of which 26.6% is short term), compared with USD 1,625.8 million (of which 34.7% was short term) at December 31, 2012.

The Company's balance of cash and short term investments at December 31, 2013 amounted to USD 390.4 million, compared with USD 302.0 million at December 31, 2012.

The Company's net debt (bank loans, debentures and financing net of cash, short term investments, effect of hedging transactions relating to debt and long term deposits) at December 31, 2013 amounted to USD 1,271.7 million compared with USD 1,299.9 as at December 31, 2012.

For details regarding debentures (Series D) in the amount of NIS 487,795,000 par value issued by the Company on February 11, 2014 in a private placement by way of series expansion, see the appendix to this Board of Directors Report and to Note 32 to the financial statements.

The Company has committed to certain banks under the financing documents regulating the bank loans of the Company and its subsidiaries ("the Financing Documents") and under the

securitization transaction (as defined in Note 4 to the financial statements) to comply with financial covenants. Pursuant to an agreement the Company reached with the bank with which it engaged in the securitization transaction and with the banks to which the Company has undertaken to maintain financial covenants under the financing documents, the debt balance under the securitization transaction is not included as part of the financial undertakings for the purpose of examining the financial covenants, and this notwithstanding the fact that the Company changed its accounting treatment of the securitization transaction due to the application of IFRS 10 and it includes the debt balance of the securitization transaction in its statement of income. At December 31, 2013, during 2013 and at the date of publication of this report, to the best of the Company's knowledge, the Company was in compliance and is in compliance with all the financial covenants applicable to it under the financing documents and the securitization transaction. For information pertaining to the financial covenants and other restrictions applicable to the Company, see section 23.4 of Chapter A of this Periodic Report and to Note 20(C) and (D) to the financial statements.

E. Equity

The Company's equity (including non-controlling interests) at December 31, 2013 amounted to USD 1,404.2 million, compared with USD 1,328.8 million at December 31, 2012. The equity to balance sheet ratio at December 31, 2013 was 31.5%, compared with 32.0% at December 31, 2012.

The Company's issued and paid-up equity at December 31, 2013 was 430,531,550 ordinary shares of NIS 1 par value each.

F. Financial ratios

At December 31 of years:	**2012**	**2013**
Ratio of current assets to current liabilities (the current ratio)	1.59	1.69
Ratio of current assets, excluding inventory, to current liabilities (the quick ratio)	0.82	0.94
Ratio of financial liabilities to total gross balance sheet	39.1%	39.0%
Ratio of financial liabilities to total gross equity	122.4%	123.8%

G. Financing sources

The Company finances its business operations from equity and external credit, as specified below. The Company’s primary external financing source is the medium- and long-term debentures raised by the Company, the balance of which at December 31, 2013 amounts to approx. USD 1,092.7 million and close to the date of publication of this report approx. USD 1,231.6 million[1]. Under the debentures the Company did not undertake to comply with financial covenants.

[1] This amount includes approx. USD 146.6 million due to the expansion of the debentures (series D) executed in February 2014. For details see the appendix to this Board of Directors' report and Note 32 to the Company's consolidated financial statements.

The source of the other part of the Company's external financing is: (a) long term bank loans, the balance of which (including current maturities) at December 31, 2013 is approx. USD 344.3 million and under which the Company undertook to comply with financial covenants as set out in Chapter A of the periodic report; (b) short term bank loans, the balance of which (excluding current maturities) at December 31, 2013 is approx. USD 126.3 million; (c) seasonal securitization of trade receivables of USD 250 - 350 million[2], the balance of which at December 31, 2013 is approx. USD 174.6 million, under which the Company undertook to comply with financial covenants as set out in Chapter A of this report; and (d) supplier credit.

On the other hand, at December 31, 2013 the Company had a balance of liquid cash and cash equivalents of USD 379.4 million.

The suppliers' credit at December 31, 2013 amounted to USD 641.5 million.

Customer credit at December 31, 2013 amounted to USD 991.6 million.

For further information pertaining to the issue of Debentures (Series D) by way of expansion of the series carried out by the Company subsequent to the balance sheet date, see appendix to this Board of Directors' report and Note 32 to the financial statements.

H. <u>Warning Signs</u>

The Company's Board of Directors examined the existence of warning signs in the Company, as these are defined in Regulation 10B (14) of the Securities Regulations (Periodic and Immediate Reports), 1970. Because of the consolidated financial structure of the Company and its subsidiaries in Israel, and based on the financial information recorded in the Company's consolidated financial statements, as reviewed by the Company's management, the Company's Board of Directors found that although the Company's separate financial statements indicate consistent negative cash flow from operating activities, this does not indicate liquidity problems and therefore, at reporting date there are no warning signs in the Company.

The primary considerations on which the Board of Directors' decision is based are, inter alia, as follows:

1. The Company's consolidated financial statements reflect positive working capital. Furthermore, the Company's annual consolidated financial statements reflect a consistent positive cash flow from operating activities. This positive working capital, which as at reporting date includes a cash balance of approx. USD 379.4 million, is the main source for repaying the Company's liabilities.
2. Based on the structure of the Group's operations, the manufacturing subsidiaries in Israel, Makhteshim and Agan ("the Manufacturing Subsidiaries") are the principal manufacturers of the Group's products which are sold by the Group's marketing companies worldwide, such that an ongoing liability of the marketing companies towards the manufacturing subsidiaries exists.

[2] For further information concerning securitization of trade receivables, see Note 4 to the Company's consolidated financial statements at December 31, 2012.

3. The proceeds of the debentures issued by the Company were allocated as loans to the manufacturing subsidiaries at terms identical to the terms of the debentures, including maturity dates.

5. Sensitivity tests

The tables below summarize the sensitivity tests as shown in the appendix to this report (in USD thousands):

USD/NIS

	Profit (loss) from changes		**Base Asset**	Profit (loss) from changes	
	+10%	+5%		-5%	-10%
Price	3.818	3.645	3.471	3.297	3.124
Total	**15,633**	**7,634**	**(24,760)**	**955**	**3,690**

EUR/USD

	Profit (loss) from changes		**Base Asset**	Profit (loss) from changes	
	+10%	+5%		-5%	-10%
Price	1.240	1.309	1.378	1.447	1.515
Total	**(13,720)**	**(6,814)**	**138,954**	**5,567**	**10,988**

USD/BRL

	Profit (loss) from changes		**Base Asset**	Profit (loss) from changes	
	+10%	+5%		-5%	-10%
Price	2.577	2.460	2.343	2.225	2.108
Total	**(4,002)**	**(1,810)**	**4,814**	**1,890**	**4,387**

GBP/USD

	Profit (loss) from changes		**Base Asset**	Profit (loss) from changes	
	+10%	+5%		-5%	-10%
Price	1.489	1.572	1.654	1.737	1.820
Total	**43**	**22**	**(416)**	**(22)**	**(43)**

USD/PLN

	Profit (loss) from changes		**Base Asset**	Profit (loss) from changes	
	+10%	+5%		-5%	-10%
Price	3.313	3.163	3.012	2.861	2.711
Total	**2,481**	**1,302**	**(853)**	**(1,302)**	**(2,481)**

USD/ZAR

	Profit (loss) from changes		**Base Asset**	Profit (loss) from changes	
	+10%	+5%		-5%	-10%
Price	10.584	11.057	10.531	8.062	7.637
Total	**(564)**	**(331)**	**502**	**549**	**1,092**

6. Remuneration of senior officers

A. Adoption of a remuneration policy by the Company

On December 24, 2013 the Company shareholders approved (subsequent to approval by the Company's Board of Directors and Remuneration Committee on December 11, 2013 and

December 24, 2013, respectively) a policy with regard to the terms of office and employment of the Company's officers, pursuant to the provisions of Amendment 20 to the Companies Law (Terms of Office and Employment in Public Companies and Debenture Companies), 2012.

As set out in the remunerations policy, the remunerations paid to the Company's senior officers are based on all or part of the following components: basic wage (including provisions for social and ancillary benefits), variable compensation based on goals and results (including annual bonuses based on results and conditioned upon goals and special bonuses) and long term compensation (share-based compensation and/or other long term compensation).

For information pertaining to the Company's remuneration policy see Immediate Report dated December 25, 2013 (Ref. No. 2013-01-107488).

B. Discussion on the terms of employment and of remuneration of the Company's officers, as part of the approval process of the financial statements

As part of the 2013 financial statement approval process the Company's Board of Directors discussed in depth, the employment and remuneration terms of each of the Company's executive officers, including those as set out under Regulation 21 in the Securities Regulations (Periodic and Immediate Reports), 1970, all in accordance with the principles and criteria set in the Company's remuneration policy.

After examining the remuneration awarded to each of the senior officers as set forth in Regulation 21 in Chapter D of this periodic report, and after being presented with the contribution of each officer during the reporting period as well as comparable data, the Board of Directors came to the conclusion that such remuneration comply with the remuneration policy and are appropriate, fair and reasonable considering the size of the Company, the scope and complexity of its business activities, the duties and responsibilities of each of the senior officers who devote their best efforts and time in promoting the Company's businesses and their contribution to the development of the Company's businesses, the challenge in recruiting and retaining top rate human resources in the Company's global competitive environment and its essence as a private debenture company.

C. Long term Compensation Plan

On December 24, 2013, the Company's shareholders and its Board of Directors (after approval by the Company's Remunerations Committee on December 16, 2013) approved adopting a long-term incentive plan for the officers and other employees in the Company ("the LTI Plan"), which is composed of: (a) an options plan under which the Company may grant, gratis, to officers, management members who are not officers and senior employees in Israel and abroad, of the Company and companies under its control, non-tradable options that may be exercised for shares of the Company ("the Options Plan") and (b) a long term cash incentive plan supplementing the options plan (due to restrictions imposed by the authorities in China with regard to the annual value of share-based compensation), under which the Company may grant an additional cash payment to officers and management members who are not officers of the Company ("the Supplementary Plan"). For further information regarding the LTI Plan and

allotment of options and long term cash incentives, see the outline of proposed securities for employees and Immediate Reports issued by the Company on December 25, 2013 (Ref. No. 2013-01-107488 and 2013-01-107494) and Immediate Report dated January 30, 2014 (Ref. No. 2014-01-028075).

B. Exposure to Market Risks and Means for their Management

1. General

The Company conducts its business in a number of business environments operating in various currencies. Due to its activities, the Company is exposed to market risks, which mainly involve exchange rate volatility, partial adjustment of the prices of products to reflect changes in the cost of raw materials, changes in the rates of increase of the Consumer Price Index (CPI) and changes in the LIBOR interest rate. The Company's Board of Directors approved a policy to use accepted financial instruments (such as options, forward contracts and swap contracts) for the purpose of hedging against exposure to exchange rate volatility and increases in the CPI arising from the Company's operations. The Company only affects such transactions via banking corporations and stock exchanges, which are obligated to meet capital adequacy requirements or to maintain a scenario-based level of collateral.

For information pertaining to credit risk and liquidity risk see Note 29 to the financial statements of the Company.

The following are exchange rate data for the principal currencies used by the Company, in relation to the USD, as well as LIBOR interest data:

	December 31			Q4 average			Annual average		
	2013	2012	Change	2013	2012	Change	2013	2012	Change
EUR / USD	1.378	1.318	4.5%	1.361	1.297	4.9%	1.328	1.285	3.3%
USD / BRL	2.343	2.044	14.6%	2.277	2.059	10.6%	2.158	1.955	10.4%
USD / PLN	3.012	3.100	(2.8%)	3.073	3.172	(3.1%)	3.159	3.256	(3.0%)
USD / ZAR	10.531	8.486	24.1%	10.141	8.692	16.7%	9.631	8.196	17.5%
AUD / USD	0.894	1.037	(13.8%)	0.927	1.038	(10.7%)	0.965	1.036	(6.8%)
GBP / USD	1.654	1.617	2.3%	1.619	1.606	0.8%	1.564	1.585	(1.3%)
USD / NIS	3.471	3.733	(7.0%)	3.521	3.842	(8.4%)	3.607	3.849	(6.3%)
USD L 3M	0.25%	0.31%	(19.9%)	0.24%	0.32%	(24.3%)	0.27%	0.44%	(39.6%)

The exchange rate fluctuations of these currencies during the quarter and for 2013 are attributed to the various items in the Company's financial statements. The net impact of the changes in currency exchange rates during the period following the balance sheet date on the balance sheet exposure is immaterial due to the high rate of balance sheet hedging carried out by the Company, as aforesaid.

2. Risk Management Officer

The Company’s CFO, Mr. Aviram Lahav, is responsible for the Company's market risk management. For further information pertaining to his education, qualifications and business experience, see Chapter D of this report - Additional information about the Company.

3. Description of Market Risks

The Company’s market risk management policy

The Company's policy is to maintain as high as possible correlation between the currency in which it sells its products and the currency with which it purchases its raw materials. The Company continually examines its balance sheet and economic exposures 12 months in advance, based on forecasts of its income and expenses. As at the date of approval of the financial statements, the Company hedges most of its balance sheet exposure and part of its economic exposure with respect to the principal currencies in which the Company operates, while there is no contradiction between them.

Below are details of the policy with regard to each of the risks. It is noted that as at the date of the approval of the financial statements, no material changes have occurred in the Company's risk management policy.

Currency Risks

The Company drafts its consolidated financial statements in USD (the Company's functional currency), while its operations, sales and purchases of raw materials are carried out in various currencies. Therefore, fluctuations in the exchange rate of the purchasing currency against the sales currency, either positive or negative, as the case may be, impact the Company’s results. In the Company's assessment, the Group's substantial exposure is to the Euro, NIS and Brazilian Real. Furthermore, the Company has lesser exposures to other currencies such as the GBP, PLN, AUD, ZAR and INR. The strengthening of the USD against the other currencies in which the Company operates reduces the scope of the Company's dollar sales and vice versa.

From an annual perspective, approx. 40% of the Company's sales are to the European bloc and therefore the impact of long-term trends on the Euro may affect the Company's results and profitability.

Concentration of currency exposure from foreign currency exchange rate fluctuations against assets (including inventory of finished products in countries of sale), liabilities and cash flow denominated in foreign currencies are done constantly. High volatility of the exchange rates of these currencies could increase the costs of transactions to hedge against currency exposure, thereby increasing the Company's financing costs. The Company uses accepted financial instruments (such as options, forward contracts and swap contracts) to hedge most of its substantial net balance sheet exposure to any particular currency. Nonetheless, since as part of these operations, the Company hedges against most of its balance sheet exposure and only against part of its economic exposure, volatility of the currency exchange rate might impact the Company's results and profitability, positively or negatively as the case may be. As of the date of approval of the financial statements, the Company hedged most of its balance sheet exposure in 2014 to the EUR, BRL and NIS.

In addition, crop protection product sales depend directly on agricultural seasons and the cyclical nature of agriculture, therefore the Company’s income and its exposure to the various currencies is not evenly distributed over the year. Countries in the northern hemisphere have similar agricultural seasons and therefore, in these countries, the highest sales are usually during the first half of the

calendar year. During this period the Company is substantially exposed to the Euro, PLN and GBP. In the southern hemisphere, the seasons are opposite and most of the local sales (with the exception of Australia) are carried out during the second half of the year. During these months, most of the exposure generated pertains to the BRL. The Company has more sales in markets in the northern hemisphere and therefore, the Company's sales volume during the first half of the year is higher than the sales volume during the second half of the year.

For further information, see Note 29 to the Company's financial statements as at December 31, 2013.

Exposure to CPI Linkage

The main portion of the debentures issued by the Company is linked to the CPI and therefore an increase in the CPI is liable to lead to a significant increase in the Company's financing expenses. As at the date of approval of the financial statements, the Company hedged most of its exposure to this risk on an ongoing basis, in CPI hedging transactions.

Risk in Raw Material Prices (in Source Currency)

Approximately 75% of the cost of the Company's sales derive from raw material costs. Most of the company's raw materials are distant derivatives of oil prices and therefore, an increase or decrease in oil prices affects the prices of raw materials.

To reduce exposure to fluctuations in the prices of raw materials, the Company customarily engages in long-term purchase contracts for key raw materials, wherever possible. Similarly, the Company acts to adjust its sales prices, if possible, to reflect the changes in the prices of raw materials.

As at the date of approval of the financial statements, the Company has not engaged in any hedging transactions against oil (except two negligible transactions) and against raw material prices.

Interest risks

The Company is exposed to changes in the USD LIBOR interest rate as the Company has liabilities denominated in USD, which bear variable LIBOR interest. The Company prepares a quarterly summary of its exposure to changes in the LIBOR interest rate and periodically examines hedging the variable interest rate by converting it to a fixed rate. As of the date of approval of the financial statements, the Company did not carry out hedging for such exposure since USD interest rates have been stable in recent years.

4. Means of Supervision of Risk Management Policy and Method of Implementation

The Company maintains internal documentation regarding the designation of financial instruments for exposures, reflecting the link between the instruments and the exposure. At least once every quarter, the Company's Board of Directors and its financial statements review committee discuss the Company's exposure to market risks and the actions taken by the management in this regard. The Company's management examines the control procedures on an ongoing basis and updates them according to the scope of operations and the risk arising from these operations.

5. Sensitivity tests

For information about the effect on the fair value of hedging transactions, exchange rates, interest and financial instruments, see the Appendix to this report.

C. Corporate Governance

1. Directors with accounting and financial expertise

For details see Regulation 26 in Chapter D of this Periodic Report.

2. Independent directors

The Company's articles of association do not contain provisions concerning the number of independent directors.

As of the date of approval of the financial statements, the Company's Audit Committee confirmed that Mr. Zhang Gong, who was appointed on February 27, 2012, is an independent director, as this term is defined in the Companies Law, 1999.

3. The Internal Auditor

A. Particulars of the Internal Auditor

Mr. Yehoshua Hazenfratz, CPA, serves as internal auditor of the Company since November 6, 2007.

B. The internal auditor's compliance with regulatory requirements

To the best of the Company's knowledge, based on the declaration of the internal auditor, the internal auditor complies with the provisions of section 146(B) of the Companies Law and the provisions of section 8 of the Internal Audit Law.

C. Holdings of securities of the Company or of entities related to it

As at the reporting date, as the internal auditor informed the Company, the internal auditor does not hold any securities of the Company or of any entity related to it.

D. The internal auditor's relationships with the Company and with entities related to it

To the best of the Company's management's knowledge, as the Company was informed by the internal auditor, the internal auditor does not have any material business connections or other material connections with the Company or with an entity related to it and the internal auditor's other business connections do not cause conflict of interest with his position as internal auditor of the Company.

E. Additional functions of the internal auditor in the Company

The internal auditor is an external service provider of the Company on behalf of the accounting firm Shiff Hazenfratz & Co., Risk Control and Management Consultancy. Other than his position as the internal auditor of the Company, the internal auditor is not employed by the Company nor provides it with any other external services.

F. Additional functions of the internal auditor outside of the Company

Mr. Yehoshua Hazenfratz is a partner in the accounting firm, Shiff Hazenfratz & Co. Risk Control and Management Consultancy.

G. Appointment of the internal auditor:

Mr. Yehoshua Hazenfratz was appointed to serve as the Company's internal auditor at the recommendation of the Company's Audit Committee on November 1, 2007 and the Company's

Board of Directors resolution of November 6, 2007. In the Company's Audit Committee and Board of Directors meetings Mr. Yehoshua Hazenfratz was appointed as the internal auditor of the Company after his qualifications and years of experience were examined in depth. Mr. Hazenfratz was found suitable to serve as the Company's internal auditor, inter alia considering the scope and complexity of the Company's operations.

On February 27, 2012, pursuant to the provisions of Amendment No. 17 to the Companies Law, 1999 taking effect, the Company's Board of Directors approved the continuation of Mr. Hazenfratz's service as internal auditor of the Company

H. The identity of the internal auditor's superior

The person within the organization who is in charge of the internal auditor is the Company's CEO.

I. Audit plan

The internal auditor's audit plan is an annual plan that is derived from a multi-year work plan.

The internal auditor's annual work plan is prepared by the internal auditor of the Company, based on and with the approval of the Board of Directors, under the supervision of the CEO after receiving the recommendations of the Company's Audit Committee. The considerations guiding the preparation of the plan are based on the issues considered to be appropriate for in-depth examination according to their risk level, for the purpose of locating deficiencies, streamlining systems, guaranteeing protection of the Company's assets, and ensuring compliance with the Company's procedures and the laws of the countries in which the Company operates.

The internal audit annual work plan also includes auditing the follow-up of implementation of the recommendations of the internal auditor and the Audit Committee by the Company's management. The audit is carried out according to the plan, under the supervision of the internal auditor and is adjusted according to the developments and findings disclosed during the course of the audit.

J. Material transactions

The internal auditor receives an invitation, together with background material, to the Company's Audit Committee meetings and is present at the Committee meetings at which transactions are examined and approved, as set forth in section 270 of the Companies Law, 1999. In addition, the internal auditor receives, upon request, minutes of the meetings of the Company's Board of Directors at which such transactions are approved.

K. Auditing abroad and auditing of investees

The internal auditor also serves as the internal auditor of the subsidiaries Makhteshim and Agan. The auditing of subsidiaries abroad is carried out by the accounting firm Deloitte & Touche.

In the matter of the auditing of material investees, the Company's multi-year audit plan is designed to include a range of auditing topics, once every few years, for each subsidiary.

L. Scope of the internal auditor's service

The scope of the internal auditor's service is determined by the Audit Committee based on the audit plan that is approved by the Board of Directors. In 2013 the number of internal audit work hours at the Company and its subsidiaries totaled to approx. 3,995 hours, according to the distribution presented in the table below. The scope of the work is set according to the needs of the audit plan and is not limited by the audited body.

	Work hours
Internal audit in the Company and in subsidiaries	3,995
Internal audit in the Company's investees	2,015
Internal audit of operations in Israel	3,003
Internal audit of operations outside of Israel	992

Of the total internal audit working hours as aforesaid, approximately 3,003 auditing hours were spent by the internal auditor on audits in Israel and 992 auditing hours were spent by the internal auditor on audits abroad.

The scope of the auditing work hours in the Company and its subsidiaries is set based on the audit plan proposed by the internal auditor in conjunction with the management and approved by the Audit Committees of the various boards of directors.

M. Professional standards guiding the audit

The internal auditor and the team of employees under him are required to carry out the audit while strictly complying with the criteria prescribed for conducting a professional, reliable, independent audit that is not dependent on the audited body. The Board of Directors relied on the internal auditor's reports concerning his compliance with the professional standards according to which the audit is carried out.

N. Free access for the Internal auditor

The internal auditor of the Company has free coordinated access to relevant documents, information and information systems of the Company and of the subsidiaries, including financial and other information as well as an independent status. With regard to the subsidiaries abroad, the internal auditor of the Company examines whether audits have been conducted in each subsidiary and that there is a work plan for the following year, based on reports received from the auditors of each subsidiary abroad.

O. The internal auditor’s report

During 2013 the Audit Committee met eight times. Subsequent to the balance sheet date another two meetings were held. At these meetings, inter alia, the internal audit reports which were submitted in writing to the Chairman of the Audit Committee and to the Company's CEO were discussed, as follows:

On February 20, 2013 the Audit Committee discussed a report issued in December 2012;on February 26, 2013 the Audit Committee discussed a report issued in January 2013; on April 22, 2013 the Audit Committee discussed a report issued in March 2013; on October 7, 2013 the Audit Committee discussed a report issued in October 2013; on October 28, 2013 the Audit

Committee discussed two reports issued during October 2013 and on February 10, 2014 the Audit Committee discussed a report issued in February 2014.

P. The Company's Board of Director's assessment of the internal auditor's activities

In the opinion of the Company's Board of Directors, the scope, nature and continuity of the internal auditor's activities and his work plan are reasonable under the circumstances and they fulfill the Company's internal audit goals.

Q. Remuneration of the Internal Auditor

The remuneration paid to the internal auditor of the Company and its subsidiaries in Israel is based on working hours and according to the work plan that is approved by the Board of Directors. At the beginning of each year the auditor submits a proposal for the annual audit plan which includes the planned number of work hours. The Board of Directors determines the audit work plan and the number of work hours. The auditor cannot exceed the number of work hours without the consent of the Board of Directors. In the event that additional tasks are allocated to the auditor during the course of the audit year, the Board of Directors will determine the number of work hours for the additional tasks. In 2013 the internal auditor's remuneration for his work in Israel amounted to approx. USD 172,060. The total payment for audit activities abroad amounted to approx. USD 168,817.

The Company estimates that since the remuneration is based on working hours, such remuneration does not affect the professional considerations of the internal auditor.

4. Donations

The Company sees contribution and assistance to the community in Israel and in the countries in which it operates abroad, as a very important component that should be integrated into its activities. The Company, similar to companies of the IDB Group, an indirect shareholder in the Company, sees its contribution and assistance to the community in Israel, particularly in the south of the country and in the front-line communities close to the locations of the Company's production plants, and worldwide with regard to communities in the vicinity of its plants, as a key tier in its business vision. The Company believes that it has a responsibility towards the community everywhere that it operates and this since recognizing that business leadership goes together with social-value leadership.

The social responsibility, the involvement with and contribution to the community are strategic goals that are an inseparable part of the Company's working program, which allocates financial resources for this issue in the annual work program. The community activities are carried out with the involvement of the employees and the assimilation of social responsibility and ecological values.

The Company has decided to focus on activities for the benefit of the community in education and environmental protection together with activities connected to health, culture, art, sport, heritage, welfare, and in Israel also with regard to those serving in the IDF.

Implementation of the social investment policy

(1) Allocation of financial resources for the benefit of the community: donations for education and encouragement of excellence among children and teenagers; granting of scholarships in front-

line communities and for outstanding students; donations for the purchase of medical equipment for welfare institutions and in Israel, also for IDF soldiers as part of the "Adopt a Soldier" project of the Friends of the IDF Association.

(2) Establishment of partnerships for contributions to the community: promotion of educational projects in culture, the arts and environmental protection, together with municipal education departments, institutions and organizations at kindergartens, elementary and high schools.

The donation is given as part of an approved program that is built in collaboration with the supported organization and the Company. After approving the program, a jointly run partnership is established for joint and continuous control, supervision and monitoring regarding the Company's attainment of its contribution goals. Furthermore, the Company maintains regular contact and dialogue with dozens of social partners, inter alia, by way of indirect aid for promoting educational and cultural activities, allowing exposure to and expansion of potential audiences.

(3) Employee involvement in community volunteering: the Company initiates and encourages many of its employees to volunteer in areas such as: absorption of new immigrants, education and encouragement of children and teenagers to attain excellence and in welfare activities. The employees donate money and time for the benefit of the community. The Company believes in nurturing volunteering and aiding values also among the children of its employees by employing them during the summer vacation in community services, work that expresses educational values of volunteering for the benefit of the community.

In 2013 the Company donated an amount of approx. USD 1,938 thousand of which approx. USD 1,387 thousand in Israel.

5. Company's Auditor

A. Particulars of the Auditor

The primary auditors of the Company and its subsidiaries are the accounting firm, Somekh Chaikin of the KPMG group ("KPMG").

B. Auditors' fees

The fees paid to KPMG in 2013 for auditing services, services connected to the audit, including auditing the effectiveness of the internal control, tax consultancy services concerning the Company's financial statements in Israel amounted to USD 1,108 thousand (for 17.9 thousand work hours) compared to USD 1,013 thousand (for 16.6 thousand hours) in 2012. KPMG's fees for other services amounted to USD 8 thousand (for 0.1 thousand work hours) compared to USD 99 thousand (for 0.9 thousand hours) in 2012.

Fees paid to KPMG in 2013 outside of Israel amounted to USD 2,568 thousand (for 25.7 thousand working hours), compared to USD 2,654 thousand (for 26.1 thousand hours) in 2012..

The fees for auditing services are more than half of the total paid to the auditors by the Company in the reporting year. The fees are paid on the basis of working hours. The Company's Board of Directors, which is authorized by the general meeting, approves the auditors’ fees.

6. Approval of the financial statements

Since February 27, 2012, the Company has an active Financial Statements Review Committee, the members of which are the members of the Audit Committee, Messrs. Yehezkel Ofir (an independent external director with financial accounting expertise who serves as the Committee chair), Shoshan Haran (an independent external director able to read and understand financial statements) and Zhang Gong (an independent director with financial accounting expertise) ("the Committee Members"). All the Committee Members provided statements prior to their appointment, concerning their education and experience as set forth in regulation 26 of Chapter D of this Periodic Report, according to which the Company deems them to have accounting and financial expertise or to be skilled to read and understand financial statements, respectively.

As part of the approval process of the financial statements as of December 31, 2013 a detailed presentation was given to the Committee by the CFO concerning the financial results and it discussed these financial results as they are expressed in the financial statements (the "Statements"), the estimates and forecasts prepared with regard to the Statements, the internal control connected with the Statements, the completeness and integrity disclosure in the Statements, the accounting policies adopted and the accounting practices applied in the material issues of the Company, and other material issues. On March 3, 2014, the Committee held a meeting for examining the financial statements for the period ended December 31, 2013. Other than the Committee members, the following interested parties and senior officers participated at the meeting: Aviram Lahav – SVP and CFO, Michal Arlosoroff - SVP and Legal Counsel, and Keren Yonayov - Controller.

The members of the Committee and of the Board of Directors received a draft of the financial statements a few days before the meeting was convened.

Representatives of the Company's auditors were invited to the Committee's meeting, as well as to meetings of the Board of Directors at which the financial statements were discussed and approved, and they gave their opinion and responded to questions directed to them by members of the Committee and/or the Board of Directors, relating to the material issues arising from the data presented in the financial statements under discussion. The Company's internal auditor received notices of the convening of the Committee and Board of Directors meetings and was invited to participate at them. After discussing the Statements, the Committee formulated recommendations concerning the approval of the Statements and sent them in writing to the Company's Board of Directors prior to the discussion at the Board meeting.

On March 6, 2014, when presenting the financial statements to the Board of Directors, the Company's CEO Mr. Chen Lichtenstein presented the main results of the Company's operations during the period under review and referred to material events that occurred during the period. In addition, the CFO, Mr. Aviram Lahav presented a detailed presentation of the Company's financial results during the period under review, while comparing them with previous periods, emphasizing substantial issues arising from them. During the review, the Company's management responded to questions addressed to it by the members of the Board of Directors with respect to all the Company's areas of operations.

The Company's Board of Directors discussed the financial statements and resolved to approve the Company's financial statements as of December 31, 2013.

D. Disclosure relating to the financial reporting of the Company

1. Linkage balances

See Note 29 to the Company's financial statements as of December 31, 2013.

2. Critical accounting estimates

The preparation of the financial statements according to generally accepted accounting principles obligates the Company's management to make estimates and assessments that influence the reported values of the assets, liabilities, income and expenses, and disclosure relating to contingent assets and liabilities.

For further information concerning the critical accounting estimates used by the Company in its financial statements, see Note 2 to the financial statements.

3. Events Occurring Subsequent to the Date of the Financial Statements

- For further information regarding events subsequent to the balance sheet date see Note 32 to the financial statements as of December 31, 2013.
- For further information concerning legal proceedings see Note 19 to the financial statements as of December 31, 2013.

E. Buyback

The Company did not buy back Company securities during the reporting period.

F. Information pertaining to the Company's Debentures

For information concerning debentures held by the public at reporting date, see the table attached herewith as an appendix.

On December 1, 2013 debentures (Series C) issued by the Company were fully redeemed.

The Company's Board of Directors and management express their gratitude to the Company's officers, the managements of the various companies in the Group and their employees, and thank them for their respected contribution, willingness, dedication and for meeting the many challenges that the Group faced in 2013.

Yang Xingqiang	Chen Lichtenstein	Aviram Lahav
Chairman of the Board of Directors	President & CEO	CFO

March 6, 2014

Appendix of details of the Company's debentures

Series	Date of issue	Rating	Total par value at date of issue (in NIS millions)	Type of interest	Interest rate set	Effective interest at date of report	TASE value as at December 31, 2013 (NIS millions)	Dates of payment of interest	Dates of payment of principal	Linkage basis	Nominal par value as at December 31, 2013 (in NIS millions)	CPI linked nominal par value as at December 31, 2013 (in NIS millions)	Carrying amount of debenture balance at December 31, 2013 (in USD millions)	Carrying amount of interests to be paid at December 31, 2013 (in USD millions)	Fair value at December 31, 2013 (in USD millions)
Series B (1)(3)(5)(6)	Dec-06	ilA+ (8)	1,650	Annual interest Linked to the CPI	5.15%	4.8%	3,388.2 (9)	Twice annually on May 31 and on November 30 of each of the years 2006-2036	On November 30 of each of the years 2020 - 2036	CPI for October 2006	2,683.1 (9)	3,238.6 (9)	896.6 (9)	4.1 (9)	976.2 (9)
	Jan-12		514												
	Jan-13		600												
Series D (2)(3)(4)(6)(7)	Dec-06	ilA+ (8)	235	Annual interest	6.50%	2.2%	736.1	Twice annually on May 31 and on November 30 of each of the years 2006-2016	On November 30 of each of the years 2011-2016	Unlinked	677.8	677.8	196.1	1.1	212.1
	Mar-09		472												
	Jan-12		541												

(1) The trustee for Debentures (Series B) is Aurora Fidelity Trust Company Ltd., 12 Menachem Begin Road, Ramat Gan (Tel: 03-6005946; Fax: 03-6120675) Contact person: Adv. Iris Shlevin, CEO. Email: ishlevin@aurorafidelity.com. **Series B is considered to be a significant liability of the Company.**

(2) The trustee for Debentures (Series D) is Hermetic Trust (1975) Ltd., 113 Hayarkon Street, Tel Aviv, Israel; (Tel: 03-5274867, Fax: 03-5271736), contact person: Dan Avnon or Meirav Ofer. Email: hermetic@hermetic.co.il. **Series D is considered to be a significant liability of the Company.**

(3) As at the date of the report, the Company was in compliance with all of the conditions and undertakings under the Deed of Trust and no conditions existed giving rise to a cause of action for immediate repayment of the debentures.

(4) Subsequent to the balance sheet date, on February 11, 2014, the Company issued, in a private placement by way of series expansion, NIS 487,795,000 par value Debentures (Series D). For further information see the Company's Immediate Reports dated February 9 and February 10, 2014 (Ref. No. 2014-01-034657 and 2014-01-036274).

(5) On January 9, 2013 the Company issued, in a private placement by way of series expansion, NIS 600,000,000 par value Debentures (Series B). For further information see Immediate Reports issued by the Company on January 6 and January 8, 2013 (Ref. No. 2013-01-004971 and 2013-01-008559).

(6) On January 16, 2012 the Company issued, by way of series expansion under a shelf prospectus published by the Company in May 2010, NIS 513,527,000 par value Debentures (Series B) and NIS 540,570,000 par value (Series D). For further information, see the Company's Immediate Reports dated January 17, 2012 (Ref. no. 2012-01-017373) 17, and its amending report of January 17, 2012 (Ref. no. 2012-01-018225).

(7) On March 25, 2009 the Company issued, by way of series expansion under a shelf prospectus published by the Company in May 2008, NIS 472,000,000 par value (Series D).

For further information see the Company's Immediate Report dated March 26, 2009 (Ref. No. 2009-01-067944).

(8) On July 6, 2011 the Company announced that Standard & Poor's Maalot ("Maalot") had informed the Company that it was lowering the rating for Debentures (Series B and D) from ilAA to ilA+ with stable outlook (Ref. No. 2011-01-205167). On January 4, 2012, Maalot announced that it had awarded a rating of ilA+ for debentures (Series B and/or D) issued by way of series expansion under a shelf offering memorandum, in an amount of up to NIS 950 million (Ref. No. 2012-01-005190). On January 12, 2012 Maalot announced that the foregoing rating would be valid for additional expansions of these series in an amount of up to NIS 200 million, so that the total expansion will be up to NIS 1,150 million par value (Ref. No. 2012-01-013914). On August 20, 2012, Maalot affirmed its rating of ilA+ for the Company's debentures (Ref. No. 2012-01-214512). On December 31, 2012, Maalot affirmed its rating of +ilA for Debentures (Series B) issued under private placement by way of series expansion in an amount of up to NIS 600 million par value (Ref. No. 2012-01-325494). On September 15, 2013, Maalot affirmed a rating of ilA+ for the Company's debentures (Ref. No. 2013-01-146784). On February 3, 2014, Maalot affirmed a rating of ilA+ for Debentures (Series D) issued in a private placement by way of series expansion in the amount of up to NIS 550 million par value each of the Company (Ref No. 2014-01-030130).

(9) Less the debentures acquired by a wholly owned subsidiary, which as at reporting date holds 67,909,858 Debentures (Series B), constituting 2.47% of the total Debentures (Series B) issued.

Appendix - Sensitivity Analysis Tables

Effect of exchange rate changes on balance sheet hedging transactions (in USD thousands):

	Profit (loss) from changes		Fair value	Profit (loss) from changes	
	+10%	+5%		-5%	-10%
EUR/USD	3,707	1,900	5,212	(3,146)	(6,439)
GBP/USD	2,815	1,407	(703)	(1,407)	(2,815)
USD/ZAR	225	118	305	(118)	(225)
USD/PLN	2,572	1,347	(932)	(1,347)	(2,572)
USD/ILS	(116,605)	(58,485)	35,024	67,074	135,928
USD/BRL	10,011	5,197	2,495	(5,117)	(9,626)

Effect of volatility changes on balance sheet hedging transactions (in USD thousands):

	Profit (loss) from changes		Fair value	Profit (loss) from changes	
	+10%	+5%		-5%	-10%
EUR/USD	(24)	(12)	5,212	12	24
GBP/USD	0	0	(703)	0	0
USD/ZAR	0	0	305	0	0
USD/PLN	0	0	(932)	0	0
USD/ILS	19	9	35,024	(8)	(14)
USD/BRL	37	18	2,495	(18)	(37)

Effect of base currency interest rate changes on balance sheet hedging transactions on cash balances (in USD thousands):

	Profit (loss) from changes		Fair value	Profit (loss) from changes	
	+10%	+5%		-5%	-10%
EUR/USD	(14)	(7)	5,212	7	14
GBP/USD	(1)	(0)	(703)	0	1
USD/ZAR	2	1	305	(1)	(2)
USD/PLN	(1)	(0)	(932)	0	1
USD/ILS	(340)	(170)	35,024	170	340
USD/BRL	394	197	2,495	(197)	(394)

Effect of base currency interest rate changes on balance sheet hedging transactions on cash balances (in USD thousands):

	Profit (loss) from changes		Fair value	Profit (loss) from changes	
	+10%	+5%		-5%	-10%
EUR/USD	1	1	5,212	(1)	(1)
GBP/USD	24	12	(703)	(12)	(24)
USD/ZAR	(0)	(0)	305	0	0
USD/PLN	5	2	(932)	(2)	(5)
USD/ILS	98	49	35,024	(49)	(98)
USD/BRL	(23)	(11)	2,495	11	23

Effect of exchange rates on economic hedging transactions (in USD thousands):

	Profit (loss) from changes		**Fair value**	Profit (loss) from changes	
	+10%	+5%		-5%	-10%
EUR/USD	84,539	42,191	(30,851)	(42,635)	(85,240)
GBP/USD	5,289	2,656	(1,461)	(2,662)	(5,325)
USD/PLN	7,716	4,059	(4,880)	(4,108)	(7,899)
USD/ILS	(5,933)	(2,413)	432	4,255	9,999

Effect of fluctuations on economic hedging transactions (in USD thousands):

	Profit (loss) from changes		**Fair value**	Profit (loss) from changes	
	+10%	+5%		-5%	-10%
EUR/USD	(35)	(18)	(30,851)	18	35
GBP/USD	0	(0)	(1,461)	0	(0)
USD/PLN	(6)	(3)	(4,880)	3	6
USD/ILS	69	35	432	(35)	(69)

Effect of base currency interest changes on economic hedging transactions (in USD thousands):

	Profit (loss) from changes		**Fair value**	Profit (loss) from changes	
	+10%	+5%		-5%	-10%
EUR/USD	(443)	(221)	(30,851)	221	443
GBP/USD	(13)	(7)	(1,461)	7	13
USD/PLN	88	44	(4,880)	(44)	(88)
USD/ILS	(19)	(10)	432	10	19

Effect of base currency interest changes on economic hedging transactions (in USD thousands):

	Profit (loss) from changes		**Fair value**	Profit (loss) from changes	
	+10%	+5%		-5%	-10%
EUR/USD	303	152	(30,851)	(152)	(303)
GBP/USD	16	8	(1,461)	(8)	(16)
USD/PLN	(19)	(9)	(4,880)	9	19
USD/ILS	8	4	432	(4)	(8)

Sensitivity to USD/NIS exchange rate changes (in USD thousands):

	Profit (loss) from changes		Base Asset	Profit (loss) from changes	
	+10%	+5%		-5%	-10%
Price	3.818	3.645	3.471	3.297	3.124
Cash and cash equivalents	(3,153)	(1,577)	31,530	1,577	3,153
Short term investments	(48)	(24)	481	24	48
Customers	(3,946)	(1,973)	39,455	1,973	3,946
Financial assets	(2,412)	(1,206)	24,124	1,206	2,412
Current tax assets	(1)	(1)	10	1	1
Investments, long term loans and debit balances	(61)	(31)	611	31	61
Total assets	(9,621)	(4,811)	96,211	4,811	9,621
Bank and other credit	1,937	969	19,371	(969)	(1,937)
Trade payables	10,584	5,292	105,836	(5,292)	(10,584)
Other payables	11,279	5,639	112,785	(5,639)	(11,279)
Current tax liabilities	873	436	8,728	(436)	(873)
Debentures	109,272	54,636	1,092,718	(54,636)	(109,272)
Other long term liabilities	36	18	363	(18)	(36)
Employee benefits	7,879	3,940	78,790	(3,940)	(7,879)
Total liabilities	141,859	70,930	1,418,591	(70,930)	(141,859)
Difference	132,238	66,119	(1,322,380)	(66,119)	(132,238)
Instruments for hedging cash balances					
Options	(22,524)	(9,206)	294,600	15,686	33,346
Forward contracts	(55,826)	(29,240)	603,242	29,240	55,826
CCS	(38,255)	(20,038)	399,778	22,148	46,756
Total	(116,605)	(58,485)	1,297,620	67,074	135,928
Difference	15,633	7,634	(24,760)	955	3,690
Instruments for hedging projected transactions					
Options	(4,984)	(1,915)	91,000	3,758	9,050
Forward contracts	(949)	(497)	10,227	497	949
Total	(5,933)	(2,413)	101,227	4,255	9,999

Sensitivity to USD/Euro exchange rate changes (in USD thousands):

	Profit (loss) from changes		Base Asset	Profit (loss) from changes	
	+10%	+5%		-5%	-10%
Price	1.240	1.309	1.378	1.447	1.515
Cash and cash equivalents and short term investments	(8,152)	(4,076)	81,524	4,076	8,152
Customers	(16,314)	(8,157)	163,136	8,157	16,314
Financial assets	(2,808)	(1,404)	28,082	1,404	2,808
Current tax assets	(196)	(98)	1,957	98	196
Investments, long term loans and debit balances	(290)	(145)	2,899	145	290
Total assets	(27,760)	(13,880)	277,598	13,880	27,760
Bank and other credit	5,539	2,770	55,394	(2,770)	(5,539)
Trade payables	10,931	5,465	109,305	(5,465)	(10,931)
Other payables	8,404	4,202	84,039	(4,202)	(8,404)
Current tax liabilities	884	442	8,836	(442)	(884)
Bank loans (including current maturities)	198	99	1,980	(99)	(198)
Other long term liabilities	788	394	7,882	(394)	(788)
Put options for non-controlling interests	645	322	6,445	(322)	(645)
Employee benefits	316	158	3,160	(158)	(316)
Total liabilities	27,704	13,852	277,041	(13,852)	(27,704)
Difference	(56)	(28)	557	28	56
Instruments for hedging cash balances					
Options	2,701	1,397	(25,000)	(2,643)	(5,433)
Forward contracts	1,006	503	(10,311)	(503)	(1,006)
Total	3,707	1,900	(35,311)	(3,146)	(6,439)
Difference	3,651	1,872	(34,754)	(3,118)	(6,383)
*Inventories	(17,371)	(8,685)	173,708	8,685	17,371
Difference including inventory	(13,720)	(6,814)	138,954	5,567	10,988
Instruments for hedging projected transactions					
Options	2,775	1,309	(27,005)	(1,753)	(3,476)
Forward contracts	87,165	43,583	(745,644)	(43,583)	(87,165)
Total	84,539	42,191	(772,649)	(42,635)	(85,240)

* The accounting hedging for inventories was carried out against the inventory in the customer's country for selling in Euro to the end customer.

Sensitivity to USD/BRL exchange rate changes (in USD thousands):

	Profit (loss) from changes		Base Asset	Profit (loss) from changes	
	+10%	+5%		-5%	-10%
Price	2.577	2.460	2.343	2.225	2.108
Cash and cash equivalents	(3,917)	(1,959)	39,174	1,959	3,917
Trade receivables	(14,109)	(7,055)	141,092	7,055	14,109
Financial assets	(1,065)	(533)	10,653	533	1,065
Investments, long term loans and debit balances	(2,381)	(1,191)	23,813	1,191	2,381
Total assets	(21,473)	(10,737)	214,732	10,737	21,473
Trade payables	1,757	879	17,571	(879)	(1,757)
Other payables	3,426	1,713	34,260	(1,713)	(3,426)
Current tax liabilities	753	377	7,534	(377)	(753)
Bank credit (including current maturities)	446	223	4,462	(223)	(446)
Other long term liabilities	1,045	523	10,452	(523)	(1,045)
Employee benefits	56	28	563	(28)	(56)
Total liabilities	7,484	3,742	74,842	(3,742)	(7,484)
Difference	(13,989)	(6,995)	139,890	6,995	13,989
Instruments for hedging cash balances					
Options	609	279	(10,000)	(199)	(224)
Forward contracts	9,402	4,918	(125,316)	(4,918)	(9,402)
Total	10,011	5,197	(135,316)	(5,117)	(9,626)
Difference	(3,978)	(1,798)	4,574	1,878	4,363
Instruments for hedging projected transactions					
Forward contracts	1,468	767	(16,971)	(767)	(1,468)
Total	(3,933)	(1,933)	(16,971)	1,933	3,933

Sensitivity to USD/BPS exchange rate changes (in USD thousands):

	Profit (loss) from changes		Base Asset	Profit (loss) from changes	
	+10%	+5%		-5%	-10%
Price	1.489	1.572	1.654	1.737	1.820
Cash and cash equivalents	(3,164)	(1,582)	31,639	1,582	3,164
Trade receivables	(2,787)	(1,394)	27,870	1,394	2,787
Financial assets	31	16	(310)	(16)	(31)
Total assets	(5,920)	(2,960)	59,199	2,960	5,920
Current tax assets	21,963	21,963	21,963	21,963	21,963
Trade payables	81	41	810	(41)	(81)
Other payables	689	344	6,889	(344)	(689)
Current tax liabilities	16	8	156	(8)	(16)
Total liabilities	770	385	29,818	(385)	(770)
Difference	(5,150)	(2,575)	29,381	2,575	5,150
Instruments for hedging cash balances					
Forward contracts	2,815	1,407	(27,664)	(1,407)	(2,815)
Total	2,815	1,407	(27,664)	(1,407)	(2,815)
Difference	(2,335)	(1,168)	1,717	1,168	2,335
Instruments for hedging projected transactions					
Options	129	75	(1,490)	(82)	(165)
Forward contracts	5,160	2,580	(53,621)	(2,580)	(5,160)
Total	5,289	2,656	(55,111)	(2,662)	(5,325)

Sensitivity to USD/PLN exchange rate changes (in USD thousands):

	Profit (loss) from changes		Base Asset	Profit (loss) from changes	
	+10%	+5%		-5%	-10%
Price	3.313	3.163	3.012	2.861	2.711
Cash and cash equivalents	(2,298)	(1,149)	22,976	1,149	2,298
Trade receivables	(1,922)	(961)	19,222	961	1,922
Financial assets	(167)	(83)	1,666	83	167
Total assets	(4,386)	(2,193)	43,864	2,193	4,386
Bank and other credit	2,315	1,158	23,153	(1,158)	(2,315)
Trade payables	22	11	220	(11)	(22)
Other payables	516	258	5,162	(258)	(516)
Provision for taxes	187	93	1,868	(93)	(187)
Employee benefits	4	2	41	(2)	(4)
Total liabilities	3,044	1,522	30,444	(1,522)	(3,044)
Difference	(1,342)	(671)	13,420	671	1,342
Instruments for hedging cash balances					
Forward contracts	2,572	1,347	(26,779)	(1,347)	(2,572)
Total	2,572	1,347	(26,779)	(1,347)	(2,572)
Difference	1,230	676	(13,359)	(676)	(1,230)
*Inventories	1,251	625	12,506	(625)	(1,251)
Difference including inventory	2,481	1,302	(853)	(1,302)	(2,481)
Instruments for hedging projected transactions					
Options	214	130	(3,342)	(180)	(397)
Forward contracts	7,502	3,928	(48,606)	(3,928)	(7,502)
Total	7,716	4,059	(51,948)	(4,108)	(7,899)

* The accounting hedging for inventories was carried out against the inventory in the customer's country for selling in PLN to the end customer

Sensitivity to USD/ZAR exchange rate changes (in USD thousands):

-	Profit (loss) from changes		Base Asset	Profit (loss) from changes	
-	+10%	+5%		-5%	-10%
Price	11.584	11.057	10.531	10.004	9.478
Cash and cash equivalents	(225)	(112)	2,249	112	225
Trade receivables	(1,607)	(803)	16,068	803	1,607
Financial assets	(18)	(9)	176	9	18
Total assets	(1,849)	(925)	18,493	925	1,849
Trade payables	139	70	1,391	(70)	(139)
Other payables	178	89	1,778	(89)	(178)
Current tax liabilities	3	2	31	(2)	(3)
Total liabilities	320	160	3,200	(160)	(320)
Difference	(1,529)	(765)	15,293	765	1,529
Instruments for hedging cash balances					
Options	740	316	(10,000)	(97)	(212)
Forward contracts	225	118	(4,791)	(118)	(225)
Total	965	434	(14,791)	(215)	(437)
Difference	(564)	(331)	502	549	1,092

Sensitivity of financial instruments to interest rate changes (in USD thousands):

Changes in linked NIS interest rates

	Profit (loss) from changes		**Fair value**	Profit (loss) from changes	
	+10%	+5%		-5%	-10%
Debentures Series B	45,224	23,008	(976,157)	(23,835)	(48,533)
CPI/USD transaction	(137)	(69)	18,229	69	138
Total	45,086	22,939	(957,911)	(23,766)	(48,396)

Changes in unlinked NIS interest rates

	Profit (loss) from changes		**Fair value**	Profit (loss) from changes	
	+10%	+5%		-5%	-10%
Debentures Series D	827	414	(212,063)	(416)	(833)
Total	827	414	(212,063)	(416)	(833)

Changes in USD interest rates

	Profit (loss) from changes		**Fair value**	Profit (loss) from changes	
	+10%	+5%		-5%	-10%
CPI/USD transaction	34	17	18,229	(17)	(34)
USD loans	920	461	(76,534)	(464)	(931)
USD investments	(503)	(252)	52,560	254	509
Total	954	478	(58,304)	(481)	(965)

Changes in BRL interest rates

	Profit (loss) from changes		**Fair value**	Profit (loss) from changes	
	+10%	+5%		-5%	-10%
Investments in BRL	(751)	(381)	17,049	393	799
Loans in BRL	88	44	(3,822)	(46)	(92)
Total	(663)	(337)	13,226	348	707

אדמה פתרונות לחקלאות בע"מ

ADAMA Agricultural Solutions Ltd.

Chapter C

Financial Statements as at December 31, 2013

Adama Agricultural Solutions Ltd.

Consolidated Financial Statements
as at December 31, 2013
in USD

Financial Statements as at December 31, 2013

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Auditors' Report to the Shareholders of Adama Agricultural Solutions Ltd. Regarding the Audit of Internal Control Components over Financial Reporting in accordance with paragraph 9b(c) of the Israeli Securities Regulations (Periodic and Immediate Reports), 1970

We have audited internal control components over financial reporting of Adama Agricultural Solutions Ltd. (formerly, Makhteshim Agan Industries Ltd.) and its subsidiaries (hereinafter "the Company") as of December 31, 2013. These control components were determined as explained in the following paragraph. The Company's Board of Directors and Management are responsible for maintaining effective internal control over financial reporting and for their assessment of the effectiveness of the Company's internal control components over financial reporting accompanying the periodic report as of the above date. Our responsibility is to express an opinion on the Company's internal control components over financial reporting based on our audit.

Audited internal control components over financial reporting were determined in accordance with Auditing Standard 104 of the Institute of Certified Public Accountants in Israel "Audit of Internal Control Components over Financial Reporting" and its amendments (hereinafter "Auditing Standard 104"). These components are: (1) Entity level controls, including controls over the preparation and closure of the financial reporting process and information technology general controls; (2) controls over sales; (3) controls over purchase; (4) controls over inventory; (5) controls over financial derivatives (all these hereinafter are named together – "audited control components").

We conducted our audit in accordance with Auditing Standard 104. This standard requires us to plan and perform the audit to identify the audited control components and to obtain reasonable assurance about whether these control components were effective in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, identifying the audited control components, assessing the risk that a material weakness exists in the audited control components, and testing and evaluating the design and operating effectiveness of those control components based on the assessed risk. Our audit, regarding those control components, also included performing such other procedures as we considered necessary in the circumstances. Our audit referred only to the audited control components, as opposed to internal control over all significant processes related to financial reporting, therefore our opinion refers to the audited control components only. Our audit also did not refer to mutual effects between audited control components and non audited control components, therefore our opinion does not take into account these possible effects. We believe that our audit provides a reasonable basis for our opinion in the context described above.

Because of its inherent limitations, internal control over financial reporting as a whole, and internal control components in particular, may not prevent or detect misstatements. Also, projections of any current evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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

In our opinion, the Company maintained, in all material respects, effective audited control components as of December 31, 2013.

We have also audited, in accordance with generally accepted auditing standards in Israel, the Company's consolidated financial statements as of December 31, 2013, 2012 and 2011 and for each of the three years in the period ended December 31, 2013 and our report dated March 6, 2014 expressed an unqualified opinion on those financial statements, based on our audit and on the reports of other auditors.

Somekh Chaikin
Certified Public Accountants (Isr.)

March 6, 2014

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Auditors' Report to the Shareholders of Adama Agricultural Solutions Ltd.

We have audited the accompanying consolidated statements of financial position of Adama Agricultural Solutions Ltd. (formerly, Makhteshim Agan Industries Ltd.) (hereinafter – "the Company") as at December 31, 2013, 2012 and 2011, and the consolidated income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows, for each of the three years in the period ended December 31, 2013. These financial statements are the responsibility of the Company's Board of Directors and of its Management. Our responsibility is to express an opinion on these financial statements based on our audit.

We did not audit the financial statements of certain consolidated subsidiaries whose assets constitute 5.7%, 5.8% and 5.7% of the total consolidated assets as of December 31, 2013, 2012 and 2011, respectively, and whose revenues constitute 8.6%, 9% and 9.4% of the total consolidated revenues for the years ended December 31, 2013, 2012 and 2011, respectively. Furthermore, we did not audit the financial statements of equity accounted investees, the investment in which amounted to approximately $6,442 thousand as of December 31, 2013, and the Group's share of their profits amounted to approximately $405 thousand for the year then ended. The financial statements of those companies were audited by other auditors whose reports thereon were furnished to us, and our opinion, insofar as it relates to amounts emanating from the financial statements of such companies, is based solely on the reports of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards in Israel, including standards prescribed by the Auditors Regulations (Manner of Auditor's Performance) – 1973. Such standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors and by Management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and on the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its consolidated subsidiaries as of December 31, 2013, 2012 and 2011, and their results of operations, changes in equity and cash flows, for each of the three years in the period ended December 31, 2013, in accordance with International Financial Reporting Standards (IFRS) and in accordance with the Securities Regulations (Annual Financial Statements) – 2010.

We have also audited, in accordance with Auditing Standard 104 of the Institute of Certified Public Accountants in Israel "Audit of Internal Control Components over Financial Reporting" and its amendments, the components of the Company's internal control over financial reporting as of December 31, 2013, and our report dated March 6, 2014 expressed an unqualified opinion on the effectiveness of such components.

As explained in Note 3(B), since the Company's functional currency is U.S. dollars, the financial statements are prepared in U.S. dollars.

Somekh Chaikin
Certified Public Accountants (Isr.)

March 6, 2014

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

Consolidated Statements of Financial Position as at December 31

	Note	2013 $ thousands	2012 $ thousands	2011 $ thousands
Current assets				
Cash and cash equivalents		**379,386**	300,412	418,344
Short-term investments		**11,063**	1,607	2,174
Trade receivables	4	**979,497**	*875,047	*764,936
Prepaid expenses		**16,991**	16,313	15,196
Financial and other assets, including derivatives	5	**122,986**	119,712	122,909
Tax deposits less provision for taxes	17	**12,481**	17,329	11,323
Inventories	6	**1,218,200**	1,239,154	1,060,353
Total current assets		**2,740,604**	2,569,574	2,395,235
Long-term investments, loans and receivables				
Investments in equity-accounted investee companies		**73,307**	–	–
Other financial investments and receivables	7	**87,451**	47,970	85,491
Other non-financial investments and receivables, including non-current inventory	8	**26,546**	42,728	28,488
		187,304	90,698	113,979
Fixed assets				
Cost	9	**1,485,631**	1,419,563	1,326,411
Less – accumulated depreciation		**762,437**	712,024	665,864
		723,194	707,539	660,547
Deferred tax assets	17	**82,101**	78,792	78,135
Intangible assets				
Cost	10	**1,546,382**	1,440,047	1,332,182
Less – accumulated amortization		**822,684**	732,537	639,580
		723,698	707,510	692,602
Total non-current assets		**1,716,297**	1,584,539	1,545,263
Total assets		**4,456,901**	4,154,113	3,940,498

* Restated – see Note 3R, regarding first-time application of a set of standards regarding consolidation of financial statements.

	Note	2013 $ thousands	2012 $ thousands	2011 $ thousands
Current liabilities				
Credit from banks and other lenders	11	**397,143**	*414,000	*625,847
Current maturities of debentures	15	**65,378**	150,140	116,641
Trade payables	12	**641,525**	597,245	528,571
Other payables	13	**415,742**	372,382	398,278
Current tax liabilities	17	**39,458**	32,590	22,205
Put options to holders of non-controlling interests		**63,703**	48,292	19,114
Total current liabilities		**1,622,949**	1,614,649	1,710,656
Long-term liabilities				
Loans from banks	14	**248,187**	242,553	139,394
Debentures	15	**1,027,340**	819,102	687,110
Other long-term liabilities	16	**40,990**	37,128	28,063
Deferred tax liabilities	17	**19,450**	23,893	24,645
Employee benefits	18	**86,038**	88,012	83,549
Put options to holders of non-controlling interests		**7,795**	–	25,483
Total long-term liabilities		**1,429,800**	1,210,688	988,244
Total liabilities		**3,052,749**	2,825,337	2,698,900
Equity				
Share capital		**125,595**	125,595	125,595
Share premium		**623,829**	623,829	623,829
Capital reserves		**(307,096)**	(257,662)	(229,110)
Retained earnings		**960,823**	836,378	720,627
Total equity attributable to owners of the Company		**1,403,151**	1,328,140	1,240,941
Non-controlling interests		**1,001**	636	657
Total equity	21	**1,404,152**	1,328,776	1,241,598
Total liabilities and equity		**4,456,901**	4,154,113	3,940,498

* Restated – see Note 3R, regarding first-time application of a set of standards regarding consolidation of financial statements.

Yang Xingqiang	Chen Lichtenstein	Aviram Lahav
Chairman of the Board of Directors	President & Chief Executive Officer	Chief Financial Officer

Date of approval of the financial statements: March 6, 2014

The notes are an integral part of these financial statements.

Consolidated Income Statements for the year ended December 31

	Note	2013 $ thousands	2012 $ thousands	2011 $ thousands
Revenues	22	**3,076,355**	2,834,503	2,691,374
Cost of sales	23	**2,108,282**	1,934,916	1,849,843
Gross profit		**968,073**	899,587	841,531
Other income		**(12,815)**	(3,897)	(5,249)
Selling and marketing expenses	24	**522,050**	487,073	455,174
General and administrative expenses	25	**114,485**	101,520	109,102
Research and development expenses	26	**33,667**	30,128	26,203
Other expenses		**1,697**	3,172	13,199
		659,084	617,996	598,429
Operating income		**308,989**	281,591	243,102
Financing expenses		**273,176**	232,261	157,403
Financing income		**(132,611)**	(122,010)	(47,202)
Financing expenses, net	27	**140,565**	110,251	110,201
Share of income (losses) of equity-accounted investee companies		**3,197**	(9,603)	(6,063)
Profit before taxes on income		**171,621**	161,737	126,838
Taxes on income	17	**44,550**	39,164	6,155
Profit for the year		**127,071**	122,573	120,683
Attributable to:				
The owners of the Company		**127,248**	122,463	120,518
Holders of non-controlling interests		**(177)**	110	165
Profit for the year		**127,071**	122,573	120,683

The notes are an integral part of these financial statements.

Consolidated Statements of Comprehensive Income for the year ended December 31

	2013 $ thousands	2012 $ thousands	2011 $ thousands
Profit for the year	**127,071**	122,573	120,683
Components of other comprehensive income where after the initial recognition as part of the comprehensive income were transferred or will be transferred to the statement of income			
Foreign currency translation differences in respect of foreign operations	**(16,691)**	10,695	(13,502)
Effective portion of changes in fair value of cash flow hedges	**(19,145)**	(16,982)	4,484
Net change in fair value of cash flow hedges transferred to the statement of income	**(13,174)**	(26,692)	31,014
Taxes on the components of other comprehensive income that were transferred or will be transferred to the statement of income in succeeding periods	**118**	3,974	(2,887)
Total other comprehensive income (loss) for the year where after the initial recognition as part of the comprehensive income was transferred or will be transferred to the statement of income, net of tax	**(48,892)**	(29,005)	19,109
Components of other comprehensive income that will not be transferred to the statement of income			
Re-measurement of defined benefit plan	**170**	(4,946)	1,898
Taxes in respect of items of comprehensive income that will not be transferred to the statement of income	**(47)**	670	526
Total other comprehensive income (loss) for the year that will not be transferred to the statement of income	**123**	(4,276)	2,424
Total comprehensive income for the year	**78,302**	89,292	142,216
Total comprehensive income attributable to:			
The owners of the Company	**78,351**	89,149	142,145
Holders of non-controlling interests	**(49)**	143	71
Total comprehensive income for the year	**78,302**	89,292	142,216

The statements of comprehensive income for the comparative periods were restated in accordance with the initial application of the amendment to IAS 1. Accordingly, the presentation formation of the statement of comprehensive income was changed. See also – Note 3R(4), regarding changes in the accounting policies.

The notes are an integral part of these financial statements.

Consolidated Statements of Changes in Equity for the year ended December 31

	Share capital	Share premium	Capital reserves (1)	Retained earnings	Total equity attributable to the owners of the Company's shareholders	Non-controlling interests	Total equity
	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands
For the year ended December 31, 2013							
Balance as at January 1, 2013	125,595	623,829	(257,662)	836,378	1,328,140	636	1,328,776
Comprehensive income for the year							
Profit (loss) for the year	–	–	–	**127,248**	**127,248**	**(177)**	**127,071**
Components of other comprehensive income							
Foreign currency translation differences in respect of foreign operations	–	–	**(16,819)**	–	**(16,819)**	**128**	**(16,691)**
Effective portion of change in fair value of cash flow hedges	–	–	**(19,145)**	–	**(19,145)**	–	**(19,145)**
Net change in fair value of hedged cash flow transferred to the statement of income	–	–	**(13,174)**	–	**(13,174)**	–	**(13,174)**
Re-measurement of defined benefit plan	–	–	–	**170**	**170**	–	**170**
Taxes in respect of items of other comprehensive income	–	–	**118**	**(47)**	**71**	–	**71**
Other comprehensive income (loss) for the year, net of tax	–	–	**(49,020)**	**123**	**(48,897)**	**128**	**(48,769)**
Total comprehensive income (loss) for the year	–	–	**(49,020)**	**127,371**	**78,351**	**(49)**	**78,302**
Dividends to holders of non-controlling interests holding a put option	–	–	–	**(2,926)**	**(2,926)**	–	**(2,926)**
Transactions with holders of non-controlling interests	–	–	**(414)**	–	**(414)**	**414**	–
Balance as at December 31, 2013	**125,595**	**623,829**	**(307,096)**	**960,823**	**1,403,151**	**1,001**	**1,404,152**

(1) Including treasury shares that were cancelled in the amount of $245,548 thousand.

The notes are an integral part of these financial statements.

Consolidated Statements of Changes in Equity for the year ended December 31

	Share capital	Share premium	Capital reserves (1)	Retained earnings	Total equity attributable to the owners of the Company's shareholders	Non-controlling interests	Total equity
	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands
For the year ended December 31, 2012							
Balance as at January 1, 2012	125,595	623,829	(229,110)	720,627	1,240,941	657	1,241,598
Comprehensive income for the year							
Profit for the year	–	–	–	122,463	122,463	110	122,573
Components of other comprehensive income							
Foreign currency translation differences in respect of foreign operation	–	–	10,662	–	10,662	33	10,695
Effective portion of change in fair value of cash flow hedges	–	–	(16,982)	–	(16,982)	–	(16,982)
Net change in fair value of hedged cash flow transferred to the statement of income	–	–	(26,692)	–	(26,692)	–	(26,692)
Re-measurement of defined benefit plan	–	–	–	(4,946)	(4,946)	–	(4,946)
Taxes in respect of items of other comprehensive income	–	–	3,974	670	4,644	–	4,644
Other comprehensive income (loss) for the year, net of tax	–	–	(29,038)	(4,276)	(33,314)	33	(33,281)
Total comprehensive income for the year	–	–	(29,038)	118,187	89,149	143	89,292
Dividends to holders of non-controlling interests holding a put option	–	–	–	(2,436)	(2,436)	–	(2,436)
Holders of non-controlling interests in respect of acquisition of activities	–	–	–	–	–	643	643
Acquisition of non-controlling interests	–	–	410	–	410	(807)	(397)
Liability in respect of dividend to holders of non-controlling interests	–	–	76	–	76	–	76
Balance as at December 31, 2012	125,595	623,829	(257,662)	836,378	1,328,140	636	1,328,776

(1) Including treasury shares that were cancelled in the amount of $245,548 thousand.

The notes are an integral part of these financial statements.

Consolidated Statements of Changes in Equity for the year ended December 31

	Share capital	Share premium	Capital reserves (1)	Retained earnings	Company shares held by Company and subsidiary	Total equity attributable to the owners of the Company's shareholders	Non-controlling interests	Total equity
	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands
For the year ended December 31, 2011								
Balance as at January 1, 2011	125,578	623,846	15,846	610,987	(245,548)	1,130,709	17,061	1,147,770
Comprehensive income for the year								
Profit for the year	–	–	–	120,518	–	120,518	165	120,683
Components of other comprehensive income								
Foreign currency translation differences in respect of foreign operation	–	–	(13,408)	–	–	(13,408)	(94)	(13,502)
Effective portion of change in fair value of cash flow hedges	–	–	4,484	–	–	4,484	–	4,484
Net change in fair value of hedged cash flow transferred to statement of statement	–	–	31,014	–	–	31,014	–	31,014
Re-measurement of defined benefit plan	–	–	–	1,898	–	1,898	–	1,898
Taxes in respect of items of other comprehensive income	–	–	(2,887)	526	–	(2,361)	–	(2,361)
Other comprehensive income (loss) for the year, net of tax	–	–	19,203	2,424	–	21,627	(94)	21,533
Total comprehensive income for the year	–	–	19,203	122,942	–	142,145	71	142,216
Exercise of employee options	17	(17)	–	–	–	–	418	418
Expenses for employee options	–	–	–	6,243	–	6,243	–	6,243
Buy back of options granted to employees	–	–	–	(19,545)	–	(19,545)	–	(19,545)
Cancellation of treasury shares (see Note 21(e))	–	–	(245,548)	–	245,548	–	–	–
Acquisition of non-controlling interests	–	–	(9,355)	–	–	(9,355)	(7,223)	(16,578)
Issuing of put options to holders of non-controlling interests	–	–	(7,995)	–	–	(7,995)	(9,670)	(17,665)
Liability in respect of dividend to holders of non-controlling interests	–	–	(1,261)	–	–	(1,261)	–	(1,261)
Balance as at December 31, 2011	125,595	623,829	(229,110)	720,627	–	1,240,941	657	1,241,598

(1) Including treasury shares that were cancelled in the amount of $245,548 thousand.

The notes are an integral part of these financial statements.

Consolidated Statement of Cash Flows for the year ended December 31

	2013	2012	2011
	$ thousands	$ thousands	$ thousands
Cash flows from operating activities			
Profit for the year	**127,071**	122,573	120,683
Adjustments			
Depreciation and amortization	**157,001**	148,314	129,652
Impairment loss on assets	–	1,111	–
Capital gain on sale of investment	**(3,619)**	–	–
Capital loss (gain) on realization of fixed and other assets, net	**(442)**	64	761
Amortization of discount/premium and issuance expenses	**667**	(228)	21
Share of loss (income) of equity-accounted investee companies	**(3,197)**	9,603	6,063
Expenses in respect of employee options	–	–	6,243
Revaluation of put options to holders of non-controlling interests	**10,878**	1,327	2,878
Adjustment of long-term liabilities	**106,599**	37,182	(50,676)
SWAP transactions	**(7,882)**	(5,481)	11,902
Change in provision for tax and advance tax deposits, net	**11,461**	5,482	(6,942)
Decrease (increase) in deferred taxes, net	**(8,060)**	1,594	(12,911)
Changes in assets and liabilities			
Decrease (increase) in trade and other receivables	**(139,548)**	*(112,553)	*128,206
Decrease (increase) in inventories	**10,648**	(187,636)	(91,626)
Increase in trade and other payables	**98,787**	35,914	72,535
Change in employee benefits	**2,161**	1,583	(18,937)
Net cash provided by operating activities	**362,525**	58,849	297,852

* Restated – see Note 3R, regarding first-time application of a set of standards regarding consolidation of financial statements.

The notes are an integral part of these financial statements.

Consolidated Statement of Cash Flows for the year ended December 31 (cont'd)

	2013	2012	2011
	$ thousands	$ thousands	$ thousands
Cash flows from investing activities			
Acquisition of fixed assets	**(84,867)**	(99,592)	(93,309)
Additions to intangible assets	**(113,554)**	(103,373)	(100,624)
Short-term investments, net	**(9,456)**	1,619	231
Long-term investments, net	**(52,429)**	2,459	(6,259)
Proceeds from realization of fixed and intangible assets	**1,616**	2,337	661
Investment grant received	–	3,074	3,636
Investment in equity-accounted investee company	**(58,294)**	(4,907)	(4,524)
Dividend from equity-accounted investee company	**2,097**	–	–
Proceeds from sale of investment	**4,508**	–	–
Transition from proportionate consolidation to company accounted for using the equity method of accounting	**(1,603)**	–	–
Acquisition of operations	–	–	(25,000)
Acquisition of subsidiaries net of cash acquired	**(9,568)**	(9,164)	(14,299)
Net cash used in investing activities	**(321,550)**	(207,547)	(239,487)
Cash flows from financing activities			
Receipt of long-term loans from banks	**118,304**	235,998	134,089
Repayment of long-term loans and liabilities from banks and others, net	**(130,649)**	(164,750)	(102,537)
Repayment of short-term liabilities	–	–	(6,300)
Repayment of debentures	**(160,959)**	(147,230)	(117,803)
Increase (decrease) in short-term liabilities to banks	**15,191**	*(178,844)	*53,563
SWAP repayment	**21,309**	12,242	11,519
Dividend to holders of non-controlling interests	**(2,412)**	(2,436)	–
Issuance of debentures, net of issuance expenses	**177,215**	276,183	–
Acquisition of non-controlling interests	–	(397)	(16,160)
Acquisition of options from employees	–	–	(19,024)
Net cash provided by (used in) financing activities	**37,999**	30,766	(62,653)
Increase (decrease) in cash and cash equivalents	**78,974**	(117,932)	(4,288)
Cash and cash equivalents at the beginning of the year	**300,412**	418,344	422,632
Cash and cash equivalents at the end of the year	**379,386**	300,412	418,344

* Restated – see Note 3R, regarding first-time application of a set of standards regarding consolidation of financial statements.

The notes are an integral part of these financial statements.

Consolidated Statement of Cash Flows for the year ended December 31 (cont'd)

	2013	**2012**	**2011**
	$ thousands	**$ thousands**	**$ thousands**
Additional information:			
Interest paid in cash	**(95,215)**	(90,442)	(81,063)
Interest received in cash	**21,878**	22,166	21,297
Taxes paid in cash, net	**(29,257)**	(20,372)	(21,663)

	2013	**2012**	**2011**
	$ thousands	**$ thousands**	**$ thousands**
Investments in first-time consolidated companies			
Working capital (excluding cash and cash equivalents)	**(7,340)**	(344)	(132)
Fixed assets, net	**(1,019)**	(2,012)	(6,998)
Put options in respect of business combinations	**(3,068)**	–	–
Excess cost created on acquisition	**(10,403)**	(8,049)	(14,781)
Long-term liabilities	**825**	159	1,943
Liability in respect of acquisition of a company	**3,960**	822	5,669
Non-controlling interests	**–**	260	–
Put options to holders of non-controlling interests	**7,477**	–	–
	(9,568)	(9,164)	(14,299)

The notes are an integral part of these financial statements.

Note 1 - General

A. Description of the Company and its activities

1. The Company is an Israel-resident company that was incorporated in Israel, and its official address is the Arava Building in Airport City Park. The Group's consolidated financial statements as at December 31, 2013, include those of the Company and its subsidiaries (hereinafter together – "the Group") as well as the Company's right in associated companies and in jointly-controlled entities. The Group operates in and outside of Israel and is engaged in development, manufacture and marketing of agrochemicals, intermediate materials for other industries, food additives and synthetic aromatic products, mainly for export.

   As at December 31, 2013 and 2012, the Company was held at the rate of 60% by China National Agrochemical Corporation (hereinafter – "CNAC") and at the rate of 40% by Koor Industries Ltd. ("Koor"). The Company constitutes a reporting entity.

   As part of the process of establishing a new marketing strategy and a labeling process executed by the Group, on January 23, 2014, the Company's name was changed from Makhteshim Agan Industries Ltd. to Adama Agricultural Solutions Ltd.

2. Sales of agrochemical products are directly impacted by the timing of the agricultural seasons (in each of the various markets), the weather in every region and the cyclical pattern of the harvests. Therefore, the Company's income is not uniform or spread evenly throughout the quarters of the year. The agricultural seasons in countries located in the northern hemisphere (mainly the United States and Europe) take place in the first two quarters of the year and, accordingly, in these countries the sales are usually highest in the first half of the year. On the other hand, in the southern hemisphere, the seasonal trends are the opposite and most of the local sales are made in the second half of the year, except for Australia where most of the sales are made in April through July.

   In the Company's estimation, its worldwide operations and dispersion of the markets in which it operates moderate part of the seasonal impacts, even though the Company's sales are higher in the northern hemisphere.

B. Definitions

In these financial statements:

(1) The Company	–	Adama Agricultural Solutions Ltd. (formerly, Makhteshim Agan Industries Ltd.)
(2) The Group	–	Adama Agricultural Solutions Ltd. and its investee companies.
(3) Subsidiaries	–	Companies, including partnerships, of which the financial statements are fully consolidated, directly or indirectly, with the financial statements of the Company.
(4) Investee companies	–	Subsidiaries, including a partnership or joint venture, the Company's investment in which is stated, directly or indirectly, on the equity method of accounting.
(5) Related party	–	Within the meaning thereof in IAS 24 (2009) "Relating Party Disclosures".
(6) Interested parties	–	Within the meaning thereof in Paragraph (1) of the definition of an "Interested Party" in Section 1 of the Securities Law, 1968.
(7) CPI	–	The Consumer Price Index in Israel as published by the Central Bureau of Statistics.
(8) Dollar	–	The United States dollar.

Note 2 - Basis for Financial Statement Preparation

A. Declaration of compliance with International Financial Reporting Standards (IFRS)

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The Group adopted IFRS for the first time in 2008 with the date of transition to IFRS being January 1, 2007 (hereinafter – "the Transition Date"). The financial statements have also been prepared in accordance with the Securities Regulations (Preparation of Annual Financial Statements), 2010.

The consolidated financial statements were authorized for issuance by the Company's Board of Directors on March 6, 2014.

B. Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following assets and liabilities:

– Derivative and other financial instruments measured at fair value through profit and loss.

– Inventory measured at the lower of cost or net realizable value.

– Deferred tax assets and liabilities.

– Assets and liabilities in respect of employee benefits.

– Investments in associated companies and joint ventures.

For additional information regarding the manner of measurement of these assets and liabilities – see Note 3 "”Significant Accounting Policies.

C. Classification of expenses recognized in the statement of income

The classification of expenses recognized in the statement of income is based on the function of the expense. Additional information regarding the nature of the expense is included, to the extent relevant, in the notes to the financial statements.

D. Use of estimates and judgment

In the course of preparation of the financial statements in accordance with IFRS, Company management is required to make use of judgments, estimates, assessments and assumptions that affect application of the Company's accounting policies and the amounts of assets, liabilities, income and expenses. It is clarified that the actual results may differ from these estimates.

When formulating the accounting estimates used in the preparation of the Group's financial statements, Company management is required to make assumptions regarding circumstances and events that involve considerable uncertainty. When exercising its judgment in determination of the estimates, Company management basis itself on past experience, various facts, external circumstances, and reasonable assumptions according to the circumstances pertinent to each estimate.

Note 2 - Basis for Financial Statement Preparation (cont'd)

D. Use of estimates and judgment (Cont.)

The basic estimates and assumptions used in the financial statements are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information regarding assumptions made by the Group with respect to the future and other significant reasons for uncertainty with respect to the estimates, which have a significant risk that their result will be a material adjustment to the carrying amounts of assets and liabilities in the next financial year, are included in the following notes:

- Contingent liabilities – when assessing the possible outcomes of legal claims filed against the Company and its investee companies, the companies relied on the opinions of their legal advisors. These assessments by the legal advisors are based on the best of their professional judgment, considering the stage of the proceedings and the legal experience accumulated regarding the various matters. Since the results of the claims will be decided by the courts, the outcomes could be different from the assessments.

  In addition to the said claims, the Company is exposed to unasserted claims, inter alia, where there is doubt as to interpretation of the agreement and/or legal provision and/or the manner of their implementation. This exposure is brought to the Company's attention in several ways among others, by means of contacts made to Company personnel. In assessing the risk deriving from the unasserted claims, the Company relies on internal assessments by the parties dealing with these matters and by management, who weight assessment of the prospects of a claim being filed, and the chances of its success, if filed. The assessment is based on experience gained with respect to the filing of claims and the analysis of the details of each claim. By their nature, in view of the preliminary stage of the clarification of the legal claim, the actual outcome could be different from the assessment made before the claim was filed.

  For further information regarding the Company's exposure to claims – see Note 19 regarding contingent liabilities.

- Asset impairment – the Company evaluates the need for recording a provision for impairment of goodwill once a year, on a fixed date. In addition, on every reporting date, the Company evaluates whether events have occurred or there have been changes in circumstances that indicate that impairment has occurred in one or more of the other non-monetary assets. If there are signs of impairment, an examination is made as to whether the amount at which the investment in the asset is stated can be recovered from the discounted cash flows expected from that asset and, as necessary, an impairment provision is recorded up to the recoverable amount. The discounted cash flows are calculated using a pre-tax discount rate that represents the market's assessment of the time value of money and the specific risks attributed to the asset. Determination of the estimated cash flows is based on past experience of this asset or similar assets, and the Company's best assessment of the economic conditions that will prevail during the remaining estimated useful life of the asset. Changes in the Company's assessments, as noted, could lead to material changes in the book value of the assets and the operating results.

Note 2 - Basis for Financial Statement Preparation (cont'd)

D. Use of estimates and judgment (cont'd)

- Estimated useful life of intangible assets – intangible assets that have a defined useful life are amortized systematically, over their estimated useful life. The amortization period reflects the best estimate of the period in which future economic benefits are expected to derive to the Company. Use of other assumptions could lead to a different assessment of the estimated period in which future economic benefits are expected to be received.

- Allowance for doubtful debts – the Company's trade accounts receivable are stated net of an allowance for doubtful debts. The allowance for doubtful debts is examined regularly by Company management and is determined mostly according to familiarity with the customer, quality of the customer and the amount of the collaterals from the customer. Changes in the assumptions for calculation of the allowance could lead to material changes in the allowance required.

- Taxes – the Company and Group companies are assessed for tax purposes in a large number of jurisdictions and, therefore, Company management is required to use considerable judgment in determining the total provision for taxes and attribution of income. Deferred taxes are calculated at the tax rates expected to be in effect when they are realized. Some of the Group companies create deferred tax assets in respect of losses for tax purposes where utilization thereof may be spread over a number of years in those cases where there is a high level of probability of utilization of these losses in the foreseeable future. Changes in these assumptions could lead to material changes in the book values of the tax assets and tax liabilities and in the operating results.

  For additional information regarding deferred taxes and taxes on income – see Note 17.

- Employee benefits – the Group's liability for long-term post-employment and other benefits are calculated according to the estimated future amount of the benefit to which the employee will be entitled in consideration for his services during the current period and prior periods. The benefit is stated at present value net of the fair value of the plan's assets, based on actuarial assumptions. Changes in the actuarial assumptions could lead to material changes in the book value of the liabilities and in the operating results.

  For additional information regarding employee benefits – see Note 18.
- Derivative financial instruments – the Group enters into transactions in derivative financial instruments for the purpose of hedging foreign currency risks, inflationary risks and interest risks. The derivatives are recorded at their fair value. The fair value of derivative financial instruments is based on bank quotes. The reasonableness of the quotes are examined by discounting the future cash flows, based on the terms and length of the period to maturity of each contract, while using market interest rates of a similar instrument as at the measurement date. Changes in the economic assumptions and the calculation model could lead to material change in the fair value of the assets and liabilities and in the operating results.

- Inventories – inventories are measured in the financial statements at the lower of cost and net realizable value. Net realizable value is an estimate of the selling price in the ordinary course of business, after deducting the estimated cost to complete and the costs required to execute the sale. The selling price is estimated on the basis of the expected sales price at the time inventories are sold. A reduction in the expected selling price could lead to an impairment in the carrying value of the inventories and in the operating results, respectively.

Note 3 - Significant Accounting Policies

The accounting policies set out below have been applied consistently for all periods presented in these consolidated financial statements, and have been applied consistently by Group entities. In this Note, matters have been marked in bold with respect to which the Group has chosen accounting alternatives permitted in accounting standards.

A. Basis for Consolidation

(1) Business combinations

The Group implements the acquisition method with respect to all business combinations. The acquisition date is the date on which the acquirer obtains control over the acquiree. Control exists where the Group is exposed or has rights to variable returns from its involvement with the acquiree and it has the ability to affect those returns through its power over the acquiree. Substantive rights held by the Group and others are taking into account when assessing control.

The Group recognizes goodwill on acquisition according to the fair value of the consideration transferred including any amounts recognized in respect of non-controlling interests in the acquiree as well as the fair value on the acquisition date of any pre-existing equity right of the Group in the acquiree, less the net amount attributed in the acquisition to the identifiable assets acquired and the liabilities assumed.

On the acquisition date, the acquirer recognizes a contingent liability assumed in a business combination if there is a present obligation resulting from past events and its fair value can be reliably measured.

The consideration transferred includes the fair value of any contingent consideration. After the acquisition date, the Group recognizes changes in the fair value of contingent consideration classified as a financial liability in profit or loss.

Costs associated with the acquisition incurred by the acquirer in the business combination, such as: legal, valuation and other professional or consulting fees, are recognized as an expense in the period in which the services are received.

(2) Subsidiaries

Subsidiaries are entities that are controlled by the Company. The financial statements of the subsidiaries are included in the consolidated financial statements from the date control was acquired and up to the date control ceases to exist. The accounting policies of the subsidiaries have been changed where necessary to align them with the accounting policies adopted by the Group.

Note 3 - Significant Accounting Policies (cont'd)

A. Basis for Consolidation (cont'd)

(3) **Transactions eliminated in the consolidation**

Intercompany balances within the Group and unrealized income and expenses, deriving from intercompany transactions, are eliminated in preparation of the consolidated financial statements.

(4) **Structured entities**

The Group operates with a structured entity for purposes of securitization of financial assets. The Group does not have any direct or indirect holding in the shares of that entity. The structured entity, which was established for purposes of securitization of the financial assets, is included in the consolidated financial statements since the Group has control over the entity as it is defined in Paragraph (1) above.

(5) **Investment in associated companies and joint ventures**

Associated companies are entities with respect to which the Group has significant influence over the financial and operating policies, but where control or joint control over them has not been achieved. There is a presumption whereby a holding at the rate of 20% to 50% in the investee entity confers significant influence. When examining the existence of significant influence, account is taken of potential voting rights that may be exercised or converted immediately for shares of the investee company.

Investments in associated companies and joint ventures are accounted for using the equity method of accounting and are initially recognized at cost. The cost of the investment includes transaction costs. The consolidated financial statements include the Group's share in the revenues and expenses in the income or loss of investee companies accounted for using the equity method of accounting, from the date on which the significant influence or joint control exists and up to the date on which there is no longer significant influence or joint control.

(6) **Non-controlling interests**

Non-controlling interests constitute the equity of a subsidiary that cannot be attributed, directly or indirectly, to the parent company.

Measurement of non-controlling interests on the date of the business combination
Non-controlling interests which are instruments that confer a present ownership interest and entitle their holder to a share of net assets in the event of liquidation (for example: ordinary shares), are measured at the date of the business combination at either fair value, or at their proportionate interest in the identifiable assets and liabilities of the acquiree, on the basis of every transaction considered separately.

Allocation of comprehensive income to the shareholders
Profit or loss and any component of other comprehensive income are allocated to the owners of the Company and to the non-controlling interests. The total comprehensive income is allocated to the owners of the Company and to the non-controlling interests even if as a result the balance of the non-controlling interests will be negative.

Note 3 - Significant Accounting Policies (cont'd)

A. Basis for Consolidation (cont'd)

(6) **Non-controlling interests (cont'd)**

Transactions with non-controlling interests, while retaining control
Transactions with holders of non-controlling interests while retaining control are accounted for as equity transactions. **Any difference between the consideration paid or received and the change in the non-controlling interests is recognized in the owners' share in the equity of the Company directly in a capital reserve.**

The amount of the adjustment to the non-controlling interests is calculated for an increase in the holding rate, according to the proportionate share acquired from the balance of the non-controlling interests in the consolidated financial statements prior to the transaction.

Furthermore, when the holding rate in the subsidiary changes, while retaining control, the Company re-attributes the accumulated amounts that were recognized in other comprehensive income to the owners of the Company and the non-controlling interests.

Issuance of a put option to non-controlling interests
A put option issued by the Group to holders of non-controlling interests that is settled in cash or another financial instrument is recognized as a liability at the present value of the exercise price. In subsequent periods, changes in the value of the liability in respect of a put option issued commencing from January 1, 2010 are recognized in profit or loss according to the effective interest method. Changes in liabilities in respect of a put option issued by the Group to holders of non-controlling interests before January 1, 2010, continue to be recognized in goodwill and are not recognized in profit or loss. **The Group's share of a subsidiary's profits includes the share of the holders of the non-controlling interests to which the Group issued a put option, even where the non-controlling interests have access to the returns arising from the interests in the investee company.**

Dividends distributed to holders of non-controlling interests in a subsidiary that hold a put option are recognized in equity.

B. Functional currency and presentation currency

(1) General

The dollar is the currency that represents the main economic environment in which the Company operates and, accordingly, the dollar is the functional and presentation currency in these financial statements.

Note 3 - Significant Accounting Policies (cont'd)

B. Functional currency and presentation currency (cont'd)

(2) Foreign currency transactions

Transactions in foreign currency are translated into the Group's functional currency according to the exchange rate in effect on the transaction dates. Monetary assets and liabilities denominated in foreign currency on the reporting date are translated into the functional currency according to the exchange rate prevailing on that date. Exchange rate differences in respect of monetary items are the difference between the amortized cost in the functional currency at the beginning of the year, adjusted for the effective interest and for payments during the year, and the amortized cost in foreign currency translated according to the exchange rate at the end of the year. Exchange rate differences are recognized directly in "financing expenses" category in the statement of income.

Non-monetary items denominated in foreign currency and measured based on historical cost are translated using the exchange rate in effect on the date of the transaction.

(3) Foreign Operations

The assets and liabilities of foreign operations, including goodwill and adjustments to fair value created upon acquisition, were translated into dollars according to the exchange rates prevailing on the date of the report. Income and expenses of foreign operations were translated into dollars according to the exchange rates that were in effect on the dates of the transactions.

Foreign currency differences in respect of the translation are recognized in other comprehensive income since January 1, 2007, the transition date to IFRS, and are presented in equity as part of a capital reserve for translation of foreign activities (hereinafter – "Translation Reserve").

When a foreign operation is a subsidiary that is not wholly owned by the Group, the proportionate share of the exchange rate differences in respect of the foreign operations is allocated to the non-controlling interest.

When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the Translation Reserve related to that foreign operation is reclassified to profit or loss as a part of the gain or loss on the disposal.

Generally, exchange rate differences in respect of loans received from or provided to foreign operations, including foreign operations that are subsidiaries, are recognized in profit and loss in the consolidated financial statements. Where settlement of loans received from or provided to the foreign operations is not planned and is not expected in the foreseeable future, gains and losses from exchange rate differences deriving from these monetary items are included as part of a net investment in the foreign operations, are recognized in other comprehensive income, and are presented in equity as part of the Translation Reserve.

Note 3 - Significant Accounting Policies (cont'd)

C. Financial Instruments

(1) Non-derivative financial instruments

Initial recognition of financial assets
The Group initially recognizes loans and receivables and deposits on the date that they are created. All other financial assets acquired in a regular way purchase, including assets designated at fair value through profit or loss, are recognized initially on the trade date on which the Group becomes a party to the contractual provisions of the instrument, meaning on the date the Group undertook to purchase the asset. Non-derivative financial instruments include trade and other receivables and cash and cash equivalents.

Derecognition of financial assets
Financial assets are derecognized when the contractual rights of the Group to the cash flows deriving from the financial asset expire, or the Group transfers the rights to receive the contractual cash flows deriving from the financial asset in a transaction in which all the risks and rewards of ownership of the financial asset are effectively transferred.

Regular way sales of financial assets are recognized on the trade date, meaning on the date the Group undertook to sell the asset.

Classification of financial assets into categories and the accounting treatment of each category

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to the initial recognition, loans and other receivables are measured at amortized cost using the effective interest method, less any impairment losses. Loans and receivables include cash and cash equivalents and trade and other receivables.

Cash and cash equivalents include cash balances available for immediate use and call deposits. Cash equivalents include highly-liquid short-term investments having original maturities of up to three months, that are readily convertible into known amounts of cash, and which are exposed to insignificant risk of changes in value.

Offset of financial assets and liabilities
A financial asset and a financial liability are offset and the amounts are presented net in the statement of financial position when the Group has a currently enforceable legal right to offset the amounts and intends to settle the asset and the liability on a net basis or to realize the asset and settle the liability concurrently.

Note 3 - Significant Accounting Policies (cont'd)

C. Financial Instruments (cont'd)

(2) Non-derivative financial liabilities

Non-derivative financial liabilities include bank overdrafts, loans and borrowings from banks and others, marketable debt instruments, finance lease liabilities and trade and other payables.

Initial recognition of financial liabilities

The Group initially recognizes debt instruments issued on the date that they are created. All other financial liabilities are recognized initially on the trade date on which the Group becomes a party to the contractual provisions of the instrument.

Financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to the initial recognition, financial liabilities are measured at amortized cost using the effective interest method.

Derecognition of financial liabilities
Financial liabilities are derecognized when the obligation of the Group, as specified in the agreement, expires or when it is settled or cancelled.

(3) Derivative financial instruments, including hedge accounting

The Group holds derivative financial instruments to hedge its foreign currency risks, inflation risks and interest risks. The hedge is a cash flow hedge.

Hedge accounting
On the commencement date of the accounting hedge, the Group formally documents the relationship between the hedging instrument and hedged item, including the Group's risk management objectives and strategy in executing the hedge transaction, together with the methods that will be used by the Group to assess the effectiveness of the hedging relationship.

The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, whether the hedge is expected to be "highly effective" in offsetting the changes in the fair value or cash flows that can be attributed to the hedged risk during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80–125 percent.

With respect to a cash-flow hedge, a forecasted transaction that constitutes a hedged item is expected at a high level and gives rise to exposure to changes in cash flows that could ultimately affect profit or loss.

Note 3 - Significant Accounting Policies (cont'd)

C. Financial Instruments (cont'd)

(3) Derivative financial instruments, including hedge accounting (cont'd)

Measurement of derivative financial instruments

Derivative financial instruments are recognized initially at fair value; attributable transaction costs are recognized in profit or loss as incurred.

Subsequent to the initial recognition, changes in the fair value of derivatives used to hedge cash flows are recognized through other comprehensive income directly in a hedging reserve, with respect to the part of the hedge that is effective. Regarding the part of the hedge that is not effective, the changes in fair value are recognized in profit and loss. The amount accumulated in the hedging reserve is reclassified to profit and loss in the period in which the hedged cash flows impact profit or loss and is presented in the same line item in the statement of income as the hedged item.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, the hedge accounting is discontinued. The cumulative gain or loss previously recognized in a hedging reserve through other comprehensive income remains in the reserve until the forecasted transaction occurs or is no longer expected to occur. If the forecasted transaction is no longer expected to occur, the cumulative gain or loss in respect of the hedging instrument in the hedging reserve is reclassified to profit or loss.

Economic hedge
Hedge accounting is not applied with respect to derivative instruments used to economically hedge financial assets and liabilities denominated in foreign currency. Changes in the fair value of such derivatives are recognized in profit or loss as financing income or expenses.

(4) CPI-linked assets and liabilities not measured at fair value

The value of CPI-linked financial assets and liabilities that are not measured according to fair value are revalued in every period, according to the actual rate of increase/decrease in the CPI.

(5) Share capital

Ordinary shares
Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of ordinary shares and options for shares are recognized as a deduction from equity.

Treasure shares
When share capital recognized in equity is repurchased by the Group, the amount of the consideration paid, including direct costs, net of the tax effect, is deducted from equity and classified as treasury shares. **Upon cancellation of the treasury shares, the amount of the consideration paid for them is deducted from capital reserves.**

Note 3 - Significant Accounting Policies (cont'd)

D. Property, plant and equipment

(1) Recognition and measurement

Property, plant and equipment items are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that can be directly attributed to purchase of the asset. The cost of self-constructed assets includes the cost of the materials and direct labor costs, as well as additional costs that are directly attributable to bringing the asset to the position and condition necessary for it to function as management intended, as well as an estimate of the costs to dismantle and remove the item, to restore its location and capitalized borrowing costs. The cost of purchased software, which is an integral part of operating the related equipment, is recognized as part of the cost of said equipment.

Spare parts, servicing equipment and stand-by equipment are classified as fixed assets when they meet the definition of fixed assets in IAS 16, otherwise they are classified as inventory.

Changes in the obligation to dismantle and remove the items and to restore the site on which they are located, other than changes deriving from the passing of time, are added to or deducted from the cost of the asset in the period in which they occur. The amount deducted from the cost of the asset shall not exceed the balance of the carrying amount, and any balance is recognized immediately in profit or loss.

When significant components of property, plant and equipment have a different useful life, they are treated separate items (significant components) of the property, plant and equipment

The gain or loss from disposal of a fixed-asset item is determined by comparing the consideration from disposition of the asset to its book value, and is recognized net in the "other income" or "other expenses" items, as applicable, in the statement of income.

(2) Subsequent costs

The cost of replacing part of a fixed-asset item and other subsequent expenses are capitalized if it is probable that the future economic benefits associated with them will flow to the Group and their cost can be measured reliably. The carrying amount of the replaced part of a fixed asset item is derecognized. Current maintenance costs of fixed-asset items are recognized in profit or loss as incurred.

(3) Depreciation

Depreciation is a systematic allocation of the depreciable amount of an asset over its useful life. The depreciable amount is the cost of the asset, or other amount substituted for cost, less its residual value.

An asset is depreciated from the date it is ready for use, meaning the date it reaches the location and condition required for it to operate in the manner intended by management.

Note 3 - Significant Accounting Policies (cont'd)

D. Property, plant and equipment (cont'd)

(3) Depreciation (cont'd)

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of every fixed-asset item, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Freehold land is not depreciated.

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

Buildings	25–50 years	
Plant and equipment	22 years	
Furniture, equipment and accessories	7–17 years	– mainly 14 years
Motor vehicles	5–7 years	
Computers and auxiliary equipment	3–5 years	

The estimates regarding the depreciation method, useful lives and residual values are reviewed at least at the end of each reporting period and adjusted where necessary.

E. Intangible Assets

1. Goodwill

Goodwill that arises upon the acquisition of subsidiaries is presented as part of intangible assets. For information regarding measurement of goodwill upon initial recognition – see Paragraph A(1) of this Note.

In subsequent periods, goodwill is measured at cost less accrued impairment losses.

2. Research and development

Expenditures related to research activities undertaken for the purpose of acquiring know-how and new scientific or technical knowledge are recognized in profit and loss as incurred.

Development activities relate to a plan for the production of new products or processes or significant improvement of existing products or processes.

Expenditures for development activities are recognized as an intangible asset only if: it is possible to reliably measure the development costs; it is technically and commercially possible to implement the product or process; future economic benefit is expected from the product and the Group has intentions and sufficient resources to complete development of the asset and then use or sell it. The expenditures capitalized in respect of development activities include the cost of materials and overhead expenses that can be directly attributed to preparing the asset for its intended use. Other costs for development activities are recognized in profit and loss as incurred.

In subsequent periods, capitalized development costs are measured at cost less accumulated amortization and accrued impairment losses.

Note 3 - Significant Accounting Policies (cont'd)

E. Intangible Assets (cont'd)

3. Other intangible assets

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortization and accrued impairment losses.

4. Subsequent costs

Subsequent costs are recognized as an intangible asset only where they increase the future economic benefit embodied in the asset in respect of which they were expended. All other costs are recognized in profit or loss as incurred.

5. Amortization

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

Amortization is recognized in profit or loss on a straight-line basis, other than as stated hereunder, over the estimated useful lives of the intangible assets from the date they are available for use, since this method most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Goodwill that has an indefinite useful life is not systematically amortized but is tested at least once a year for impairment.

Intangible assets generated within the Group are not systematically amortized as long as they are not available for use, i.e. they are not yet in the condition required in order that they will be able to be used as intended by Management.

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

- Product licensing – mainly eight years.
- Intangible assets upon purchase of products – mainly twenty years.
- Marketing rights – five to ten years.
- Non-competition and confidentiality agreement – five years.
- Rights to use trademarks – mainly four years.

Licensing costs incurred for products that can be identified and separated, and which in the Company's estimation will produce future economic benefit, are recognized as an asset in the "intangible assets" category and are amortized over the period of economic benefit they are expected to provide.

The amortization methods, useful lives and residual values are reviewed at least at the end of each reporting year and are adjusted where necessary.

The Group examines the estimated useful life of an intangible asset that is not amortized (goodwill) in every reporting year, in order to determine if the events and circumstances continue to support the determination that the intangible asset has an indeterminate lifespan.

Note 3 - Significant Accounting Policies (cont'd)

F. Leased Assets

Leases, including leases of lands from Israel Lands Administration or from other third parties, wherein the Group assumes substantially all the risks and rewards of ownership of the asset are classified as financing leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the future minimum lease payments. Future payments for exercising an option to extend the lease from Israel Lands Administration are not recognized as part of the asset and the corresponding liability since they constitute contingent lease payments that are derived from the fair value of the land on the future renewal dates of the lease agreement. Subsequent to the initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

In a lease of land and buildings, the land and buildings components are examined separately for purposes of classifying the lease, where a significant consideration in classification of the land component is the fact that land normally has an indefinite useful life.

G. Inventory

Inventory is measured at the lower of cost or net realizable value. **The cost of the inventories of raw materials, packaging materials, spare parts, maintenance materials and purchased materials is determined according to the "moving average" method**, which includes the costs of acquiring the inventory and bringing it to its current location and condition. The cost of finished products and of products in process is determined on the basis of average production costs, including materials, labor and factory expenses. The cost includes the allocable part of the production overhead, based on normal capacity. Net realizable value is the estimated selling price during the ordinary course of business, after deduction of the estimated completion costs and the estimated costs required to execute the sale.

Long-term inventory is inventory the Company expects to realize in a period of more than the upcoming 12 months.

H. Capitalization of Credit Costs

The costs of specific and non-specific credit were capitalized to qualified assets, during the period required for completion and construction, until they are ready for their intended use. Non-specific credit costs were capitalized in the same manner to the investment in qualified assets or to the part thereof that was not financed by specific credit, using an interest rate that is the weighted-average of the cost rates for those credit sources, the cost of which was not capitalized specifically. Other credit costs are recorded in profit and loss as incurred.

Note 3 - Significant Accounting Policies (cont'd)

I. Impairment

1. Non-derivative financial assets

A financial asset not presented at fair value through profit or loss is tested for impairment when objective evidence exists indicating that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

For material financial assets, the need to reduce the value of the asset is examined for each asset individually. For other financial assets, the need for impairment is examined collectively, for groups having similar credit risks.

All impairment losses are recognized in profit or loss.

Reversal of impairment loss
An impairment loss is reversed if the reversal can be related objectively to an event that occurred after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in profit or loss.

2. Non-financial assets

Timing of impairment testing
The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there are signs indicating impairment. If signs exist, as stated, the asset's recoverable amount is calculated. Once a year and on the same date, or more frequently if there are indications of impairment, the Group estimates the recoverable amount of each cash-generating unit that contains goodwill, or intangible assets that have indefinite useful lives or are unavailable for use.

Determining cash-generating units
For purposes of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

Measurement of recoverable amount
The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the specific risks attributed to the asset or cash-generating unit, for which the estimated future cash flows expected to derive from the asset or cash-generating unit were not adjusted.

Note 3 - Significant Accounting Policies (cont'd)

I. Impairment (cont'd)

2. Non-financial assets (cont'd)

Allocation of goodwill to cash-generating units
Subject to an operating segment ceiling test (before the aggregation of similar segments), for purposes of goodwill impairment testing, cash-generating units to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. In cases where goodwill is not monitored for internal reporting purposes, it is allocated to operating segments (before the aggregation of similar segments) and not to a cash-generating unit (or group of cash-generating units) lower in level than an operating segment.

Goodwill acquired in a business combination is allocated to cash-generating units, including those existing in the Group before the business combination, that are expected to benefits from the synergy of the combination.

Recognition of impairment loss
Impairment losses are recognized if the carrying amount of an asset or the cash-generating unit to which the asset relates exceeds its estimated recoverable amount and are recognized in profit and loss. Regarding cash-generating units that include goodwill, an impairment loss is recognized when the carrying amount of the cash-generating unit, after gross-up of the goodwill, exceeds its recoverable amount. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to these units and then to reduce the carrying amounts of the other assets in the cash-generating unit, on a pro rata basis.

Reversal of impairment loss
An impairment loss in respect of goodwill is not reversed. In respect of other assets, for which impairment losses were recognized in prior periods, at every reporting date an examination is made as to whether there are indications that the losses have decreased or no longer exist. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount, but only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

J. Employee Benefits

1. Post-employment benefits

The Group has number post-employment benefit plans. The plans are generally funded by deposits with insurance companies or in funds managed by a trustee, and they are classified as defined contribution plans and as defined benefit plans.

a. Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions to a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognized as an expense in profit or loss in the periods during which related services are rendered by employees.

Note 3 - Significant Accounting Policies (cont'd)

J. Employee Benefits (cont'd)

b. Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation, in respect of defined benefit plans for post-employment benefits, is calculated separately for each plan by estimating the future amount of the benefit to which an employee will be entitled as compensation for his services during the current and past periods. This benefit is presented according to present value after deducting the fair value of the plan assets. The Group determines the net interest on the net defined benefit liability (asset) in respect of a defined benefit by multiplying the net liability (asset) in respect of a defined benefit by the discount rate used to measure the defined benefit obligation as they were determined at the beginning of the annual reporting period.

The discount rate is determined according to the yield on government bonds, whose currency and maturity date are similar to the conditions obligating the Group, as at the reporting date. The calculations are performed by a licensed actuary using the "predicted eligibility unit" method.

When on the basis of the calculations a net asset is created for the Group, the asset is not recognized as an asset of the Group, since the Group is not entitled to refunds or a reduction in future deposits.

Remeasurement of the net defined benefit liability includes actuarial gains and losses and the return on plan assets (excluding interest). The Group records immediately, directly in retained earnings through other comprehensive income, all actuarial gains and losses deriving a defined benefit plan.

Interest costs on a defined benefit obligation and interest income on plan assets that were recognized in profit or loss are presented under financing income and expenses, respectively.

2. Other long-term employee benefits

The Group's net obligation for long-term employee benefits, which are not attributable to post-employment benefit plans, is for the amount of the future benefit to which employees are entitled for services that were provided during the current and prior periods. The amount of these benefits is discounted to its present value and the fair value of the assets related to this obligation is deducted therefrom. The discount rate is determined based on the yield on the reporting date on Government debentures denominated in the same currency, that have maturity dates approximating the terms of the Group's obligations. The calculations use the "predicted eligibility unit" method. Actuarial gains and losses are recorded in income and loss in the period in which they arise.

3. Termination benefits

Termination benefits to employees are recognized as an expense when the Group has clearly undertaken, with no real chance of cancellation, to terminate employees before they reach the customary retirement age according to a formal, detailed plan. The benefits given to employees upon voluntary retirement are charged when the Group proposes a plan to the employees encouraging voluntary retirement, it is expected that the proposal will be accepted and the number of employees that will accept the proposal can be reliably estimated. If the benefits are payable more than 12 months after the end of the reporting period, they are discounted to their present value. The discount rate is the yield on the reporting date on Government debentures denominated in the same currency, that have maturity dates approximating the terms of the Group's obligations.

Note 3 - Significant Accounting Policies (cont'd)

J. Employee Benefits (cont'd)

4. Short-term benefits

Obligations for short-term employee benefits are measured on a non-discounted basis, and the expense is recorded when the related service is provided. A provision for short-term employee benefits in respect of cash bonuses is recognized in the amount expected to be paid where the Group has a current legal or constructive obligation to pay the said amount for services provided by the employee in the past and the amount can be estimated reliably.

Classification of employee benefits for measurement purposes as short-term benefits or as other long-term benefits is determined based on the Company's forecast with respect to full settlement of the liability.

5. Share-based payment transactions

The fair value on the date of grant of share-based payment awards granted to employees is recognized as a salary expense, with a corresponding increase in equity, over the period wherein unconditional entitlement to the awards is obtained. The amount recognized as an expense in respect of share-based payment awards that are conditional upon meeting service and non-market performance conditions, is adjusted to reflect the number of awards that are expected to vest.

K. Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

(1) Legal claims

A provision for claims is recognized if, as a result of a past event, the Company has a present legal or constructive obligation and it is more likely than not that the Group will be required to use its economic resources to settle the obligation and the amount of obligation can be reliably estimated. Where the impact of the time value is material, the provision is measured at its present value.

(2) Restructuring

A provision for a structural change is recognized when the Group has approved a detailed and formal restructuring plan, and the structural change either has commenced or has been announced to the employees. The provision includes the direct expenditures deriving from the structural change that are necessary for the restructuring, and which do not relate to the Group's continuing activities.

L. Revenues

(1) Sale of goods

Revenues from the sale of goods in the ordinary course of business is measured at the fair value of the consideration received or receivable, net of returns, discounts and commercial and quantity discounts. Where the credit period is short and constitutes the accepted credit in the industry, the future consideration is not discounted.

Note 3 - Significant Accounting Policies (cont'd)

L. Revenues (cont'd)

(1) Sale of goods (cont'd)

Where the credit period of a sale exceeds the accepted credit period given in the sector, the Group recognizes the future consideration at its present value while using the interest risk of the customer. The difference between the fair value and the stated value of the proceeds is recognized as interest income over the non-conforming credit period.

The Group recognizes revenue when the significant risks and rewards from ownership of the merchandise are transferred to the buyer, receipt of the proceeds is expected, it is possible to reliably estimate the chance that the goods will be returned and the costs that were incurred or will be incurred for the transaction can be reliably estimated, when management has no ongoing involvement in the merchandise and the revenue can be reliably estimated. If it is expected that a discount will be granted and its amount can be measured reliably, the discount is deducted from the revenue from sale of the goods.

Discounts to customers that are conditional upon the customers' compliance with certain targets, such as minimal annual purchases, are included in the financial statements as a deduction from revenue, in proportion to the rate of compliance with the targets, only when it is probable that the targets will be achieved and the amount of the discount can be reasonably determined.

The timing of transferring the risks and rewards changes according to the specific terms of the sale contract. Regarding sales of products in Israel, transfer of the risks and rewards generally exists when the products arrive at the customer's warehouse, although regarding certain international shipments the transfer occurs when the merchandise is loaded on the shipper's transport vehicles.

(2) Commissions

When the Group acts, within the scope of the transaction, as an agent and not as a major supplier, the revenue is recognized in the amount of the net commission.

M. Financing Income and Expenses

Financing income includes interest income on funds invested, dividend income, changes in the fair value of financial assets presented at fair value through profit or loss, exchange rate gains and gains on hedging instruments recognized in profit or loss. Interest income is recognized as accrued, using the effective interest method. Dividend income is recognized when the Group is given the right to receive the payment.

Financing expenses include interest on loans received, changes in the time value of provisions, changes in the fair value of contingent consideration from a business combination, changes in the fair value of financial assets presented at fair value through profit or loss, impairment losses of financial assets (other than losses on trade receivables that are presented as part of general and administrative expenses) and losses from hedging instruments recognized in profit or loss. Credit costs, which are not capitalized to qualifying assets are recognized in profit or loss using the effective interest method.

Foreign currency gains and losses in respect of financial assets and liabilities are reported on a net basis.

Note 3 - Significant Accounting Policies (cont'd)

N. Income Tax Expense

Taxes on income include current and deferred taxes. Current tax and deferred taxes are recognized in profit or loss except to the extent that they relate to a business combination, or are recognized directly in equity or in other comprehensive income to the extent they relate to items recognized directly in equity or in other comprehensive income.

Current taxes
Current tax is the amount of tax expected to be paid (or received) on the taxable income for the year, calculated using the applicable tax rates based on the laws enacted or substantively enacted as at the date of the report. Current taxes also include taxes in respect of prior years.

Uncertain tax positions
A provision for uncertain tax positions, including additional tax and interest expenses, is recognized when it is more probable than not that the Group will have to use its economic resources to settle the obligation.

Deferred taxes
Deferred taxes are recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. The Group does not recognize deferred taxes for the following temporary differences:

- The initial recognition of goodwill;
- The initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable income; and
- Differences deriving from investments in subsidiaries, joint arrangements and associated companies, to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future, either by way of selling the investment or by way of distributing dividends in respect of the investment.

Deferred taxes are measured at the tax rates expected to apply to the temporary differences when they are utilized, based on the laws that have been enacted or substantively enacted as at the reporting date.

A deferred tax asset is recognized in respect of carryforward tax losses available, tax benefits and deductible temporary differences, where it is expected that in the future there will be taxable income against which they can be utilized. Deferred tax assets are reviewed at every reporting date and to the extent it is not expected that the related tax benefits will be realized, they are reduced.

Offset of deferred tax assets and liabilities
The Group offsets deferred tax assets and liabilities if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to the same taxable income taxed by the same tax authority for the same taxable entity, or on different tax companies, where they intend to settle current tax assets and liabilities on a net basis or their tax assets and liabilities will be settled concurrently.

Additional tax on dividend distribution
The Group may be required to pay additional tax in a case of distribution of dividends by the Group companies. This additional tax was not included in the financial statements, since the policy of the Group companies is to not distribute a dividend which creates an additional tax liability for the recipient in the foreseeable future.

Note 3 - Significant Accounting Policies (cont'd)

N. Income Tax Expense (cont'd)

Inter-company transactions
Deferred tax in respect of inter-company transactions in the consolidated financial statements is recorded according to the tax rate applicable to the buying company.

When calculating the deferred taxes, account was not taken of taxes that would apply in the event that investments in the investee companies are realized, since it is the Company's intention to hold these investments and not realize them.

O. Government Grants

Grants received from the Chief Scientist in respect of research and development projects are treated as forgivable loans, according to IAS 20. Grants received from the Chief Scientist are recognized as liabilities according to their fair value on the date the grants were received unless it was reasonably certain on that date that the amount received will not be repaid. The amount of the liability is reexamined in each period and any changes in the present value of the cash flows, discounted at the original interest of the grant, are recognized in the profit or loss. The difference between the amount received and the fair value on the date the grant is received is recognized as a reduction of research and development expenses.

P. Segment Reporting

An operating segment is a component of the Group that meets the following three conditions:

1. It engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions between the Group companies;
2. Its operating results are reviewed regularly by the Group's chief operating decision maker in order to make decisions regarding resources to be allocated to the segment and to assess its performance; and
3. Separate financial information is available in respect thereof.

Q. Environmental costs

The current costs for operation and maintenance of facilities for the prevention of environmental pollution and projected provisions, for environmental rehabilitation costs stemming from current or past activities, are recorded in the statement of income. The costs of constructing facilities to prevent environmental pollution, which increase the life expectancy of a facility or its efficiency, or decrease or prevent the environmental pollution, are added to the cost of the fixed assets and are depreciated according to the Group's regular depreciation policies.

Note 3 - Significant Accounting Policies (cont'd)

R. New standards and interpretations not yet adopted

(1) A new suite of accounting standards regarding consolidation of financial statements, joint arrangements and disclosure of rights in other entities

(a) IFRS 10, *Consolidated Financial Statements*

The Standard presents a new control model for determining whether investee entities should be consolidated, which is to be implemented with respect to all the investees entities. According to the Standard, existence of effect control over the investee requires consolidation in the financial statements. In addition, when assessing the existence of control, all significant potential voting rights will be taken into account, and not only potential voting rights that are currently exercisable.

The Standard was applied retroactively.

The Company examined the control conclusion in a foreign company set up for purposes of a securitization agreement for sale of receivables of some of the Group's companies (hereinafter – "the Foreign Company"). As a result, the control conclusion was changed with respect to the Foreign Company and it was determined that the Company has control over the Foreign Company pursuant to the provisions of IFRS 10.

Accordingly, the Company's financial statements were adjusted retroactively in order to reflect consolidation of the Foreign Company in the Company's financial statements. The adjustment was made by means of increasing the balance of the Group's customer receivables sold in the framework of securitization transaction, where the proceeds in respect thereof was received in cash, against recording of a short-term loan in the same amount. This retroactive adjustment had no impact on the Group's shareholders' equity, statements of income and statements of comprehensive income.

Pursuant to IAS 1 "Presentation of Financial Statements", presentation of a statement of financial position is required at the beginning of the period presented in the comparative data.

See Note 3S below regarding the quantitative impacts on the Group's financial statements.

(b) IFRS 11, *Joint Arrangements*

The Standard classifies joint arrangements as joint operations or as joint ventures on the basis of the rights and obligations of the parties to the arrangement. Joint ventures, which are all the joint arrangements structured in a separate vehicle in which the parties with joint control have rights to the net assets of the joint arrangement, are to be accounted for using the equity method of accounting (the possibility of applying the proportionate consolidation method has been eliminated).

Application of the Standard did not have a significant impact on the financial statements.

Note 3 - Significant Accounting Policies (cont'd)

R. New standards and interpretations not yet adopted (cont'd)

(2) IFRS 13 *Fair Value Measurement*

The Standard replaces the guidelines with respect to fair value measurement that currently appear in the various IFRS standards. For this purpose, the Standard defines fair value and provides measurement and disclosure guidelines. Nevertheless, the Standard does not require new fair value measurement requirements but, rather, explains how to measure fair value when such measurement is required by other standards. The Standard applies where fair value measurements or disclosures are required or permitted by other IFRS standards.

The Standard is to be applied prospectively, where the Standard's disclosure requirements will not apply to comparative information for periods prior to the initial application.

Application of the Standard did not have a significant impact on the financial statements.

(3) Amendment to IAS 19, *Employee Benefits*

The Amendment includes a number of changes to the accounting treatment of employee benefits, including the recording of all actuarial gains and losses immediately through other comprehensive income. Furthermore, the interest that is recognized in profit or loss will be calculated on the balance of the net defined benefit liability, according to the discount rate used to measure the liability. In addition, classification of employee benefits as short-term or long-term will depend on when the entity expects that the benefits will be fully utilized.

Application of the Standard did not have a significant impact on the financial statements.

(4) Amendment to IAS 1, *Presentation of Financial Statements, regarding presentation of items of other comprehensive income*

The Amendment changed the manner of presentation of items of other comprehensive income in the financial statements, such that items of other comprehensive income that subsequent to the initial recognition in the statement of comprehensive income will be transferred to the statement of income, are presented separately from items of other comprehensive income that will never be transferred to the statement of income.

The statement of comprehensive income for the comparative periods was restated in accordance with the Amendment.

Note 3 - Significant Accounting Policies (cont'd)

S. Impact on the financial statements

(1) Impact on the statement of financial position

	As at December 31, 2012		
	As previously reported	Impact of retroactive application of IFRS 10	As reported in these financial statements
	$ thousands	$ thousands	$ thousands
Assets			
Trade receivables	614,005	261,042	875,047
Trade receivables in the securitization transaction not yet eliminated	81,952	(81,952)	–
Total current assets	2,390,484	179,090	2,569,574
Total assets	3,975,023	179,090	4,154,113
Liabilities			
Credit from banks and others	234,910	179,090	414,000
Total current liabilities	1,435,559	179,090	1,614,649
Total liabilities	2,646,247	179,090	2,825,337
Total liabilities and equity	3,975,023	179,090	4,154,113

	As at December 31, 2011		
	As previously reported	Impact of retroactive application of IFRS 10	As reported in these financial statements
	$ thousands	$ thousands	$ thousands
Assets			
Trade receivables	523,687	241,249	764,936
Trade receivables in the securitization transaction not yet eliminated	66,587	(66,587)	–
Total current assets	2,220,573	174,662	2,395,235
Total assets	3,765,836	174,662	3,940,498
Liabilities			
Credit from banks and others	451,185	174,662	625,847
Total current liabilities	1,535,994	174,662	1,710,656
Total liabilities	2,524,238	174,662	2,698,900
Total liabilities and equity	3,765,836	174,662	3,940,498

Note 3 - Significant Accounting Policies (cont'd)

S. Impact on the financial statements (cont'd)

(2) Impact on the statement of cash flows

	For the year ended December 31, 2012		
	As previously reported	Impact of retroactive application of IFRS 10	As reported in these financial statements
	$ thousands	$ thousands	$ thousands
Net cash provided by operating activities	63,277	(4,428)	58,849
Net cash provided by financing activities	26,338	4,428	30,766

	For the year ended December 31, 2011		
	As previously reported	Impact of retroactive application of IFRS 10	As reported in these financial statements
	$ thousands	$ thousands	$ thousands
Net cash provided by operating activities	306,187	(8,335)	297,852
Net cash used in financing activities	(70,988)	8,335	(62,653)

T. New standards and interpretations not yet adopted

IFRS 9 (2010), ***Financial Instruments***

The Standard replaces the requirements included in IAS 39 regarding classification and measurement of financial assets and financial liabilities. In accordance with the Standard, there are two principal categories for measuring financial assets: amortized cost and fair value, with the basis of classification for debt instruments being the entity's business model for managing financial assets and the contractual cash flow characteristics of the financial asset. In addition, investments in equity instruments are measured at fair value with changes in the fair value being recognized in profit or loss. Nevertheless, the Standard allows an entity upon the initial recognition of an equity instrument not held for trading to elect irrevocably to present fair value changes in the equity instrument in other comprehensive income where no amount so recognized will ever be classified to profit or loss at a later date. The Standard generally preserves the instructions regarding classification and measurement of financial liabilities that are provided in IAS 39. Nevertheless, unlike IAS 39, IFRS 9 (2010) requires as a rule that the amount of change in the fair value of financial liabilities designated at fair value through profit or loss, other than loan grant commitments and financial guarantee contracts, attributable to changes in the credit risk of the liability, be presented in other comprehensive income, with the remaining amount being included in profit or loss.

The mandatory effective date of the Standard has not yet been determined. Early application is permissible subject to providing disclosure and at the same time adopting other amendments to IFRSs as specified in the appendix to the Standard. Application of the Standard is to be made retrospectively other than in a number of exceptions as indicated in the transitional provisions detailed in the Standard.

The Group is examining the consequences of the Standard on the financial statements with no intention of making early adoption.

Note 4 - Trade Receivables

	December 31	
	2013	2012
	$ thousands	$ thousands
Open accounts*		
Foreign	**987,027**	**902,203
Domestic (Israel)	**39,341**	**37,117
	1,026,368	939,320
Less – allowance for doubtful accounts	**(46,871)**	(64,273)
	979,497	875,047

	December 31	
	2013	2012
	$ thousands	$ thousands
Non-current trade receivables	**12,088**	15,902
Trade receivables – open accounts	**1,026,368**	939,320
Net of allowance for doubtful accounts	**(46,871)**	(64,273)
	991,585	890,949

* Including post-dated checks (on December 31, 2013 – $2,374 thousand and on December 31, 2012 – $2,062 thousand).

** Restated – see Note 3R, regarding first-time application of a set of standards regarding consolidation of financial statements.

In September 2004, the Company and certain Company subsidiaries (hereinafter – "the Companies") signed a securitization agreement with Rabobank International for sale of customer receivables (hereinafter – "the Securitization Agreement" or "the Securitization Transaction").

Pursuant to the Securitization Agreement, the Companies will sell their trade receivables in various currencies to a foreign company that was established for this purpose, which is not owned the Adama Agricultural Solutions Group (hereinafter – "the Acquiring Company"). The purchase of these trade receivables by the Acquiring Company is financed by an American company, Nieuw Amsterdam Receivables Corporation, of the Rabobank International Group.

The trade receivables included in the securitization transaction are receivables that comply with a number of criteria, as stated in the agreement.

On November 22, 2011, the Securitization Agreement was updated and extended for an additional framework period of 3 years without significant changes in the structure of the Securitization Transaction, while during the framework period the credit framework will be re-approved annually, pursuant to the Securitization Agreement. As at the date of the report, the credit framework was approved up to July 31, 2014.

Note 4 - Trade Receivables (cont'd)

On August 1, 2012, the Securitization Agreement was updated such that the maximum securitization amount in every calendar year was adjusted for the seasonal changes in the scope of the Company's activities: in the months April–June (inclusive) the maximum securitization amount will be $350 million, in the months July–September (inclusive) the maximum securitization amount will be $300 million, and in the months October–March (inclusive) the maximum securitization amount will be $250 million. The amounts collected from customers whose debts were sold are used to purchase new trade receivables.

The price at which the trade receivables will be sold is the amount of the debt being sold less a discount calculated on the basis of the period anticipated to pass between the date the debt was sold and the expected repayment date.

In the month following the acquisition date of the debt, the Acquiring Company pays most of the debt in cash and the balance in a subordinated liability that is paid after the debt is collected. If the customer does not pay his debt on the expected repayment date, the Company bears interest up to the earlier of the actual payment of the debt or the date on which the Acquiring Company is indemnified by the insurance company (the actual costs are not significant and are not expected to be significant).

The Group companies bear in the full losses that will be sustained by the Acquiring Company due to non-payment of the trade receivables included in the securitization transaction, up to the amount of the total outstanding balance of the debt, which is the amount of the trade receivables included in the securitization transaction and not yet eliminated, subject to the insurance policy.

The Acquiring Company will not have a right of recourse to the Companies with respect to the amounts paid in cash, except debts for which a commercial dispute arises between the Companies and their customers, namely, a dispute arising from an alleged failure by the seller to fulfil an obligation in the supply agreement for the product, such as: failure to supply the correct product, defect in the product, non-compliance with the supply date, etc.

The Companies handle collection of the trade receivables included as part of the securitization transaction, on behalf of the Acquiring Company.

Under the terms of the agreement, the Company committed to maintain certain financial covenants, mainly, financial liabilities to equity and profitability ratios – see Note 20D.

Note 5 - Financial and Other Assets, Including Derivatives*

	December 31	
	2013	2012
	$ thousands	$ thousands
Claims from the government in respect of participations and tax refunds	**61,895**	57,753
Receivables in respect of transactions in derivatives	**41,583**	23,631
Current maturities in respect of derivatives	**–**	19,802
Accrued income	**1,185**	1,070
Advances to suppliers	**3,173**	4,895
Other	**15,150**	12,561
	122,986	119,712

* Except for derivative transactions presented at fair value and non-financial assets, the remaining items are classified in the "loans and receivables" category.

Note 6 - Inventories

	December 31	
	2013	2012
	$ thousands	$ thousands
Finished goods	**693,379**	672,782
Work in progress	**126,743**	103,397
Raw materials	**287,569**	329,212
Packaging materials	**10,281**	10,113
Spare parts and maintenance materials	**22,934**	20,740
	1,140,906	1,136,244
Purchased products for sale	**77,294**	102,910
	1,218,200	1,239,154
Additional information:		
Merchandise in transit (included in the inventories balance)	**54,745**	58,615

	December 31	
	2013	2012
	$ thousands	$ thousands
Non-current inventory	**25,184**	40,893
Current inventory	**1,218,200**	1,239,154
	1,243,384	1,280,047

The Group wrote-down inventory mainly due to slow moving and defective inventory and inventory the net realizable value of which is less than its cost. The balance of the write-down as at December 31, 2013 is in the amount of $23.4 million and as at December 31, 2012 is in the amount of $31.1 million.

Note 7 - Other Financial Investments and Receivables

A. Composition

	December 31	
	2013	2012
	$ thousands	$ thousands
Long-term investments, loans and receivables	**21,243**	23,522
Bank deposits	**52,500**	–
Claims from the government in respect of tax refunds	**147**	7,648
Non-current trade receivables	**12,088**	15,902
Derivatives	**929**	19,811
Purchase options in respect of business combination transaction	**3,068**	–
Other investments	**183**	889
	90,158	67,772
Less – current maturities	**2,707**	19,802
	87,451	47,970

B. Maturities

The other financial investments and receivables mature as follows:

	$ thousands
First year (current maturities)	**2,707**
Second year	**2,052**
Third year	**721**
Fourth year	**5,359**
Fifth year and thereafter	**62,551**
Without fixed maturity date	**16,768**
	90,158

Note 8 - Non-Financial Investments and Other Receivables, including Non-Current Inventory

	December 31	
	2013	2012
	$ thousands	$ thousands
Non-current inventory	**25,184**	40,893
Non-financial assets	**1,362**	1,835
	26,546	42,728

Note 9 - Fixed Assets

A. Movement:

	Land and buildings	Plant and equipment	Motor vehicles	Furniture computers and office equipment	Total
			$ thousands		
Cost					
Balance as at January 1, 2013	**230,243**	**1,146,734**	**12,094**	**30,492**	**1,419,563**
Additions**	**8,740**	**74,013**	**2,925**	**6,428**	**92,106**
Business combinations	**–**	**706**	**377**	**27**	**1,110**
Transition from proportionate consolidation to equity accounted company	**(1,825)**	**(18,879)**	**(245)**	**(319)**	**(21,268)**
Disposals	**(98)**	**(978)**	**(2,147)**	**(2,657)**	**(5,880)**
Balance as at December 31, 2013	**237,060**	**1,201,596**	**13,004**	**33,971**	**1,485,631**
Accumulated depreciation					
Balance as at January 1, 2013	**97,203**	**588,501**	**5,784**	**20,536**	***712,024**
Additions**	**7,255**	**43,876**	**2,039**	**4,294**	**57,464**
Business combinations	**–**	**10**	**67**	**14**	**91**
Transition from proportionate consolidation to equity accounted company	**(724)**	**(866)**	**(204)**	**(302)**	**(2,096)**
Disposals	**(97)**	**(591)**	**(1,859)**	**(2,499)**	**(5,046)**
Balance as at December 31, 2013	**103,637**	**630,930**	**5,827**	**22,043**	**762,437**
Depreciated balance at December 31, 2013	**133,423**	**570,666**	**7,177**	**11,928**	**723,194**

	Land and buildings	Plant and equipment	Motor vehicles	Furniture computers and office equipment	Total
			$ thousands		
Cost					
Balance as at January 1, 2012	211,473	1,077,693	9,752	27,493	1,326,411
Additions**	22,225	69,961	3,851	4,745	100,782
Business combinations	1,356	601	16	39	2,012
Disposals	(4,811)	(1,521)	(1,525)	(1,785)	(9,642)
Balance as at December 31, 2012	230,243	1,146,734	12,094	30,492	1,419,563
Accumulated depreciation					
Balance as at January 1, 2012	94,815	547,385	5,047	18,617	*665,864
Additions**	6,507	42,504	1,898	3,695	54,604
Disposals	(4,119)	(1,388)	(1,161)	(1,776)	(8,444)
Balance as at December 31, 2012	97,203	588,501	5,784	20,536	712,024
Depreciated balance at December 31, 2012	133,040	558,233	6,310	9,956	707,539

* Including an impairment provision from 2010 of $15.8 million, of which $14.9 million is for facilities and equipment.

** Includes effect of foreign currency translation differences in respect of foreign operations.

Note 9 - Fixed Assets (cont'd)

B. Additional information

1. Makhteshim's facilities are located on land measuring about 1,086 dunams in Naot Hovav (including buildings, offices facilities and warehouses) under lease agreements for various periods ending between the years 2023–2029 with a right to extend, and on land measuring about 407 dunams in Be'er Sheva leased from Israel Lands Administration, on which there is a built-up area, including buildings, offices facilities and warehouses. In addition, on the land located in Be'er Sheva, there is a facility of Lycord, a subsidiary of the Company.

   Agan's facilities are located in Ashdod on a freehold area measuring about 242 dunams, of which an area of about 90 dunams is registered in the name of the Company and about 112 dunams that will be registered in the name of the Company subject to execution of consolidation and subdivision proceedings, which as at the date of the report had not yet been completed, of which approximately 40 dunams are leased from Israel Lands Administration for lease periods ending between the years 2050 and 2054. On the land there is a built-up area, including, among other things, manufacturing facilities, warehouse, storage areas for empty packagings, engineering services, technical equipment, offices, laboratories, platforms, rest areas for the employees and various auxiliary buildings. Furthermore, Agan leases from other lessors, who are third parties unrelated to the Company, areas measuring about 7 dunams, located adjacent to the plant area, for purposes of parking and storage, in consideration of amounts that are not significant to the Company.

   The facilities of investee companies outside Israel are located on freehold land.

2. Regarding liens – see Note 20.

C. Collateral

As at December 31, 2013, fixed asset items totalling $12,796 thousand (2012 – $14,022 thousand) are pledged to secure bank loans (see Note 14 regarding long-term bank loans, terms and maturity dates).

D. Purchase of fixed assets for credit

As of December 31, 2013, the Company credit due to purchases of fixed assets is $15,033 thousand.

Note 9 - Fixed Assets (cont'd)

E. Investment grants

Investment grants received for the purchase of fixed assets

	Balance as at December 31	
	2013	2012
	$ thousands	$ thousands
Buildings and equipment in the Group's plants	**113,032**	114,331

The investment grants deducted from the cost of the buildings and equipment in the Group's plants were received for investments in an "approved enterprise" over the course of many years. To secure compliance with the conditions for receipt of the grant, a floating lien was registered on all of the assets of the subsidiaries in Israel in favor of the State of Israel. For part of the investments, if the Group does not comply with the conditions for receipt of the grant, it will be required return the grant amount, in whole or in part, plus interest and linkage difference as per law. During 2013, no additional grants were received (in 2012 – grants were received in the amount of $3,074 thousand).

F. Capitalized costs

	Balance as at December 31	
	2013	2012
	$ thousands	$ thousands
Credit costs	**22,606**	22,606

G. Additional Information

The Group has fully-depreciated assets that are still in operation. The original cost of these assets as at December 31, 2013 is $294,465 thousand (December 31, 2012 – $264,039 thousand).

Part of the freehold land in Israel has not yet been registered in the name of the Group companies in the Land Registry Office, mostly due to registration arrangements or technical problems.

Note 10 - Intangible Assets

Movement:

	Product registration	Goodwill	Intangible assets on purchase of products(1)	Software	Marketing rights and trademarks	Other(2)	Total
	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands
Cost							
Balance as at January 1, 2013	714,585	235,229	329,583	50,400	65,702	44,548	1,440,047
Additions (3)	86,009	2,544	–	7,740	5,491	209	101,993
Eliminations	(1,559)	–	–	(5,560)	–	–	(7,119)
Business combinations	1,486	7,595	–	–	–	4,390	13,471
Transition from proportionate consolidation to equity accounted company	(1,674)	–	–	(232)	–	(104)	(2,010)
Balance as at December 31, 2013	798,847	245,368	329,583	52,348	71,193	49,043	1,546,382
Accumulated amortization							
Balance as at January 1, 2013	393,742	49,347	195,352	35,110	37,684	21,302	*732,537
Additions (3)	63,472	(625)	15,173	4,480	11,727	4,448	98,675
Eliminations	(1,219)	–	–	(5,560)	–	–	(6,779)
Transition from proportionate consolidation to equity accounted company	(1,459)	–	–	(204)	–	(86)	(1,749)
Balance as at December 31, 2013	454,536	48,722	210,525	33,826	49,411	25,664	822,684
Amortized balance as at December 31, 2013	344,311	196,646	119,058	18,522	21,782	23,379	723,698

(1) Intangible assets on purchase of products includes mainly consideration paid pursuant to agreements from 2001 and 2002 attributed to rights in intellectual property, trademarks, trade name, technological know-how, and information with respect to customers and suppliers of raw materials.
(2) Including primarily lists of customers.
(3) Including effect of foreign currency translation differences in respect of foreign operations.
* Including impairment provision for the decline in value of assets, in the purchase of products, totaling $7.5 million and licensing assets totaling $21 million. The provisions were recorded in 2006, 2007 and 2010.

Note 10 - Intangible Assets (cont'd)

Movement in the books (cont'd)

	Product registration	Goodwill	Intangible assets on purchase of products(1)	Software	Marketing rights and trademarks	Other(2)	Total
	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands
Cost							
Balance as at January 1, 2012	626,424	226,633	329,583	46,680	65,588	37,274	1,332,182
Additions (3)	88,161	5,766	–	3,720	114	1,158	98,919
Business combinations	–	2,830	–	–	–	6,116	8,946
Balance as at December 31, 2012	714,585	235,229	329,583	50,400	65,702	44,548	1,440,047
Accumulated amortization							
Balance as at January 1, 2012	333,311	48,646	180,134	32,577	27,524	17,388	*639,580
Additions (3)	60,431	701	15,218	2,533	10,160	3,914	92,957
Balance as at December 31, 2012	393,742	49,347	195,352	35,110	37,684	21,302	732,537
Amortized balance as at December 31, 2012	320,843	185,882	134,231	15,290	28,018	23,246	707,510

(1) Intangible assets on purchase of products includes mainly consideration paid pursuant to agreements from 2001 and 2002 attributed to rights in intellectual property, trademarks, trade name, technological know-how, and information with respect to customers and suppliers of raw materials.
(2) Including primarily lists of customers.
(3) Including effect of foreign currency translation differences in respect of foreign operations.
* Including impairment provision for the decline in value of assets, in the purchase of products, totaling $7.5 million and licensing assets totaling $21 million. The provisions were recorded in 2006, 2007 and 2010.

Note 11 - Loans and Credit from Banks and Other Lenders

A. Composition

	December 31 2013	December 31 2012
	$ thousands	$ thousands
Credit from banks		
Overdrafts	**6,474**	8,000
Short-term credit	**294,458**	*290,190
	300,932	298,190
Current maturities – other	**121**	171
Current maturities of long-term loans from banks	**96,090**	115,639
	397,143	414,000

B. Linkage terms and interest rates (excluding current maturities)

	Weighted interest rate as at the balance sheet date	December 31 2013	December 31 2012
	%	$ thousands	$ thousands
Credit from banks			
Overdrafts:			
In euros	2.3	**2,489**	4,850
In zlotys	6.1	**2,694**	3,137
In other currencies	11.9	**1,291**	13
		6,474	8,000
Short-term credit:			
In US dollars	2.4	**126,984**	*122,774
In euros	1.9	**52,905**	*38,945
In Australian dollars	4.3	**20,324**	*21,322
In British pounds	2.2	**21,963**	*17,775
In zlotys	4.3	**20,459**	*19,028
In Israeli currency	2.6	**19,371**	*25,514
In other currencies	10.5	**32,452**	44,832
		294,458	290,190
		300,932	298,190

C. Regarding financial covenants – see Note 20C.

* Restated – see Note 3R, regarding first-time application of a set of standards regarding consolidation of financial statements.

Note 12 - Trade Payables

	December 31 2013	December 31 2012
	$ thousands	$ thousands
Open accounts	**638,905**	592,107
Post-dated checks	**2,620**	5,138
	641,525	597,245

Note 13 - Payables and Credit Balances

	December 31 2013	December 31 2012
	$ thousands	$ thousands
Liabilities to employees and other liabilities in respect of salaries and wages	**122,276**	111,044
Government institutions	**14,395**	11,035
Payables in respect of transactions in derivatives	**23,376**	14,405
Accrued expenses	**68,326**	69,164
Payables in respect of intangibles assets	**13,966**	33,552
Payables in respect of business combination	**5,600**	–
Liabilities for discounts	**96,139**	92,859
Provisions for legal claims	**18,651**	*4,866
Other	**53,013**	*35,457
	415,742	372,382

* Reclassified.

Note 14 - Long-Term Loans from Banks

A. Composition

	December 31 2013	December 31 2012
	$ thousands	$ thousands
Loans from banks	**344,277**	358,192
Less – current maturities	**96,090**	115,639
	248,187	242,553

Note 14 - Long-Term Loans from Banks (cont'd)

B. Linkage terms and interest rates

	Weighted interest rate as at the balance sheet date	December 31	
		2013	2012
	%	$ thousands	$ thousands
In US dollars	4.4	**336,434**	343,522
In Brazilian reals	5.3	**4,462**	6,550
In Euro	1.9	**1,980**	4,655
In other foreign currency	2.4	**1,401**	3,465
		344,277	358,192

C. Maturities

	$ thousands
First year (current maturities)	**96,090**
Second year	**77,982**
Third year	**72,839**
Fourth year	**36,755**
Fifth year and thereafter	**60,611**
	344,277

D. Regarding the commitment of the Company and certain subsidiaries to banks to maintain certain financial covenants, mainly debt-equity and profitability ratios – see Note 20C.

Note 15 - Debentures

On December 4, 2006, the Company issued to institutional investors three series of debentures, Series B, C and D, in the aggregate amount of NIS 2,350 million par value, in exchange for their par value.

During 2008, the Company purchased by itself and through a wholly-owned subsidiary, a cumulative total of NIS 80.4 million par value debentures (Series B), at a total cost of $16,425 thousand. Due to the Company's purchase, debentures having par value of NIS 12.5 million were de-listed from trading.

On March 25, 2009, the Company issued debentures by the way of expanding Series C and D, in the total amount of NIS 1,133 million par value debentures for a consideration of 101.56% and 98.95% of its par value, respectively.

On January 16, 2012, the Company issued debentures by the way of expanding Series B and D, in the total amount of NIS 1,054 million par value debentures for a consideration of 85.84% and 103.36% of their par values, respectively.

On January 6, 2013, the Company issued debentures by the way of expanding Series B, in the total amount of NIS 600 million par value debentures for a consideration of 94.88% of their par value.

Note 15 - Debentures (cont'd)

The debentures issued break down into three series, as follows:

1. Debentures (Series B), in the amount of NIS 2,763.5 million par value, linked to the CPI and bearing interest at the base annual rate of 5.15%. The debenture principal is to be repaid in 17 equal payments in the years 2020 through 2036. The issuance expenses for this series amounted to $3,283 thousand.

2. Debentures (Series C), in the amount of NIS 1,126 million par value, linked to the CPI and bearing interest at the base annual rate of 4.45%. The debenture principal is to be repaid in 4 equal payments in the years 2011 through 2013. The issuance expenses for this series amounted to $1,591 thousand.

3. Debentures (Series D), in the amount of NIS 1,247.5 million par value, unlinked and bearing interest at the base annual rate of 6.5%. The debenture principal of the series issued in 2006 and 2009 is to be repaid in 6 equal payments in the years 2012 through 2016. The debenture principal of the series issued in 2013 is to be repaid in 4 equal payments in the years 2013 through 2016. The issuance expenses for this series amounted to $2,215 thousand.

On May 27, 2008 the Company published a shelf prospectus and a prospectus for registration for trading, whereby the Company's debentures (Series B, C and D) were registered for trading. Up to the date of registration for trading, the Company paid additional interest at the rate of 0.25% in respect of the said debentures.

On November 30, 2010 through 2013, the Company repaid a total of NIS 1,126 million par value debentures (Series C), which amounted to about $358.3 million, as payment of the debenture principal of Series C. The principal payment made on November 30, 2013, was the final payment where as a result thereof the principal was repaid in full.

On November 30, 2012 through 2013, the Company repaid a total of NIS 569.7 million par value debentures (Series D), which amounted to about $154.5 million, as payment of the debenture principal of Series D.

Subsequent to the balance sheet date, the Company issued debentures, through an expansion of Series D, in the total amount of NIS 487.8 million par value. For additional details – see Note 32.

Note 15 - Debentures (cont'd)

A. Linkage terms and interest rates:

	Linkage terms	Interest rate as of balance sheet date %	Per value NIS thousands	Total $ thousands
Debentures – Series B	CPI	5.15	2,683,117	896,585
Debentures – Series D	Unlinked	6.50	677,842	196,133
Total			3,360,959	1,092,718

B. Maturities

	$ thousands
First year (current maturities)	65,378
Second year	65,378
Third year	65,378
Fourth year	–
Fifth year and thereafter	896,584
	1,092,718

Note 16 - Other Long-Term Liabilities

	December 31 2013 $ thousands	December 31 2012 $ thousands
Liabilities linked primarily to the Brazilian real	**11,560**	11,465
Long-term transactions in derivatives	**10,265**	303
Long-term loans from others	**6,403**	6,693
Liability in respect of business combinations	**7,206**	12,422
Liability in respect of payments to the Chief Scientist	**2,005**	2,537
Other provisions and liabilities	**3,551**	3,708
	40,990	37,128

Note 17 - Taxes on Income

Information on the tax environment in which the Group operates

A. Companies Tax rate

(1) On August 5, 2013, the Knesset approved the Law for Change of the Order of National Priorities (Legislative Amendments to Achieve the Budget Targets for 2013 and 2014) – 2013, which provided, among other things, that the increase in the rate of the Companies Tax, commencing from 2014 and thereafter will be 1.5%, such that the rate will be 26.5%.

The balances of the deferred taxes as at December 31, 2013 in respect of the companies assessed in Israel were calculated in accordance with the new tax rates as provided in the Law for Change of the Order of National Priorities, at the tax rate expected to apply at the time of the reversal. The impact of the change on the financial statements as at December 31, 2013 is not significant.

(2) On February 4, 2010 Amendment 174 to the Income Tax Ordinance (New Version) – 1961 (hereinafter – "the Ordinance") was published in the Official Gazette. The amendment added Section 87A to the Ordinance, which provides a temporary order whereby Accounting Standard No.29 "Adoption of International Financial Reporting Standards (IFRS)" that was issued by the Israel Accounting Standards Board shall not apply when determining the taxable income for the 2007, 2008 and 2009 tax years even if this standard was applied when preparing the financial statements (hereinafter – "the Temporary Order"). On January 12, 2012 Amendment 188 to the Ordinance was issued, by which the Temporary Order was amended so that Standard 29 shall not apply also when determining the taxable income for 2010 and 2011.
The impact of the amendment of the Income Tax Ordinance on the Company's financial statements and on its provisions for taxes is not significant.

(3) The subsidiaries outside of Israel are assessed based on the tax laws in the country of their residence.

B. Benefits under the Law for the Encouragement of Capital Investments

The plants of subsidiaries in Israel have been granted "Approved Enterprise" or "Beneficiary Enterprise" status under the Israeli Law for the Encouragement of Capital Investments, 1959. Part of the income deriving from the "Approved Enterprise" or "Beneficiary Enterprise" during the benefit period is subject to tax at the rate of up to 25% (the total benefit period is seven years and in certain circumstances up to ten years, but may not exceed 14 years from the date of the Letter of Approval and 12 years from the date the "Approved Enterprise" commenced operations or not more than 12 years from the election year for a "Benefitted Enterprise").

Other plants of subsidiaries in Israel are entitled to a tax exemption for periods of between two and six years and a tax rate of up to 25% for the remainder of the benefit period. Should a dividend be distributed from the tax-exempt income, the subsidiaries will be liable for tax on the income from which the dividend was distributed at a rate of 25%.

The benefit period has ended for some of the plants of the subsidiaries and for others will end during years until 2014. In addition, subsidiaries have other investment programs in progress or for which the benefit period has not yet commenced.

Note 17 - Taxes on Income (cont'd)

B. Benefits under the Law for the Encouragement of Capital Investments (cont'd)

The aforementioned benefits are conditional upon compliance with certain conditions specified in the Law, related Regulations and the Letters of Approval, in accordance with which the investments in the Approved Enterprises were made. Failure to meet these conditions may lead to cancellation of the benefits, in whole or in part, and to repayment of any benefits already received, together with interest. Management believes that the companies are in compliance with these conditions.

C. Amendment to the Law for the Encouragement of Capital Investments, 1959

On December 29, 2010, the Knesset approved the Economic Policy Law for Years 2011-2012, under which the Law for the Encouragement of Capital Investments – 1959 was amended ("Amendment to the Law"). The Amendment to the Law is effective commencing from January 1, 2011 and its provisions will apply to preferential income generated or earned by a preferential company, as defined in the Amendment to the Law, in year 2011 and henceforth. A company is allowed to not have the Amendment to the Law apply to it and remain under the effect of the Law before its amendment, until the end of the benefits period or the last election year for a "Benefitted Enterprise". The last year of election that a company is allowed to choose is the 2012 tax year, provided that the minimum entitling investment began in year 2010.

As part of the Amendment, it was provided that eligible for the grants track will be only companies in Development Area A, and they will be entitled to benefit from this track and from the tax benefits track at the same time. Likewise, the existing tax benefits tracks were cancelled (tax exemption track, the "Ireland" track and the "strategic" track) and were replaced by two new tax tracks, preferential enterprise and special preferential enterprise, which are namely a uniform reduced tax rate on all of the income of a company eligible for benefits, as follows: regarding a preferential enterprise – in the 2011-2012 tax years – 10% in Development Area A, and 15% in the rest of the country. In the tax years 2013-2014 – 7% in Development Area A and 12.5% in the rest of the country and in the tax year 2015 and henceforth – 6% in Development Area A and 12% in the rest of the country. On August 5, 2013, the Law for Change of National Priorities (Legislative Amendments for Achieving the Budget Targets for 2013 and 2014), 2013, was passed by the Knesset, which cancelled the format for reduction of the tax such that commencing from 2014 the tax rate on preferred income will be 9% in Development Area A and 16% in the rest of the country.

Moreover, an enterprise that meets the definition of a special preferential enterprise is eligible for a benefits period of 10 consecutive years, to a reduced tax rate of 5% if it is located in Development Area A or to a reduced tax rate of 8% if it is not located in Development Area A.

The Amendment to the Law further provides that a tax will not be imposed on a dividend that will be distributed out of preferential income to a shareholder that is a company, at the distributing company level and at the recipient company level. A tax rate of 15% will still apply to a dividend that will be distributed out of preferential income to a taxpayer who is an individual or a foreign resident covered by a treaty to prevent double taxation. As part of the Law for Change of National Priorities (Legislative Amendments for Achieving the Budget Targets for 2013 and 2014), 2013, an increase in the tax rate was provided on a dividend to an individual and to a foreign resident that is distributed commencing from January 1, 2014, and the source of which is preferred income, up to the rate of 20%.

Note 17 - Taxes on Income (cont'd)

C. Amendment to the Law for the Encouragement of Capital Investments, 1959 (cont'd)

Likewise, the Amendment to the Law provides relief ("the Relief") related to the tax paid on a dividend received by an Israeli company out of the income of an approved/alternative/benefitted enterprise, earned during the benefits period according to the formula of the Law before its amendment, if the dividend-distributing company will notify the tax authorities by June 30, 2015 of the imposition of the Amendment to the Law, and the dividend will be distributed after the notification date. In addition, a distribution from an enterprise's exempt income will be subject to tax in the hands of the company distributing the dividend.

As at the report date, the companies in Israel adopted the amendment to the Law and, accordingly, the deferred taxes that are expected to be realized starting from this date, were recorded based on the tax rates in the amended law.

D. Benefits under the Law for the Encouragement of Industry (Taxes), 1969

Under the Israeli Law for the Encouragement of Industry (Taxes) 1969, the Company is an Industrial Holding Company and some of the subsidiaries in Israel are "Industrial Companies". The main benefit under this law is the filing of consolidated income tax returns (the Company files a consolidated income tax return with Makhteshim Chemical Works Ltd. commencing from the 2000 tax year) and amortization of know-how over 8 years.

Note 17 - Taxes on Income (cont'd)

E. Deferred tax assets and liabilities

(1) Deferred tax assets and liabilities recognized

Deferred taxes are calculated at the tax rate expected to be in effect on the date of the reversal, as provided below. Deferred taxes for subsidiaries operating outside of Israel were calculated according to the relevant tax rates in each country.

Deferred tax assets and liabilities are attributed to the following items:

	Fixed assets and intangible assets	Employee benefits	Tax loss carryforwards	Inventories	Other	Total
	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands
Deferred tax asset (liability) balance as at January 1, 2012	(70,881)	16,197	55,640	46,423	6,111	53,490
Changes recognized to statement of income	4,856	(1,338)	(16,411)	4,656	6,079	(2,158)
Business combinations	(1,250)	35	–	–	–	(1,215)
Changes recognized in other comprehensive income	(290)	1,029	(59)	(26)	4,128	4,782
Deferred tax asset (liability) balance as at January 1, 2013	(67,565)	15,923	39,170	51,053	16,318	54,899
Changes recognized to statement of income	**3,399**	**(1,167)**	**(1,448)**	**(1,584)**	**9,587**	**8,787**
Business combinations	**(801)**	**(1)**	**(300)**	**(1)**	**262**	**(841)**
Changes recognized in other comprehensive income	**(3)**	**(91)**	**(68)**	**(63)**	**31**	**(194)**
Deferred tax asset (liability) balance as at December 31, 2013	**(64,970)**	**14,664**	**37,354**	**49,405**	**26,198**	**62,651**

	December 31 2013	December 31 2012
	$ thousands	$ thousands
Presented in:		
Deferred tax assets	**82,101**	78,792
Deferred tax liabilities	**(19,450)**	(23,893)
Total	**62,651**	54,899

Note 17 - Taxes on Income (cont'd)

E. Deferred tax assets and liabilities (cont'd)

(1) Deferred tax assets and liabilities recognized (cont'd)

The deferred tax asset balance for tax loss carry forwards is mainly from a subsidiary in Brazil and subsidiaries in Israel. Deferred tax assets were recognized since there is an expectation of future taxable income against which it will be possible to offset the tax loss carry forwards not yet utilized or in the amount of the tax reserves.

According to the existing tax laws in the countries in which deferred taxes were recognized, there is no time limit on the utilization of deductible temporary differences. However, Brazil does limit the amount of tax loss carry forwards that may be offset every year (30% of annual taxable income).

The main supporting evidence used by the Company for the purpose of recognizing a tax asset is based on the characteristics of the industry in which the company operates, including: the agrochemicals industry is characterized by stability and the products are old products based on traditional chemistry, not influenced by significant technological developments.

Brazil is one of the Group's main growth engines, due mainly to the vacant cultivation areas and because Brazil is a key factor in the production of major agricultural crops, in domestic consumption and in global exporting.

(2) Deferred tax assets not recognized

Deferred tax assets were not recognized for items:

	December 31 2013	December 31 2012
	$ thousands	$ thousands
Tax losses	**284,751**	328,142

Deferred tax assets were not recognized for these items, since it is not expected that there will be taxable income in the future, against which it will be possible to utilize the tax benefits.

F. Composition of tax expense

Components of income tax expenses (income)

	For the year ended December 31		
	2013	2012	2011
	$ thousands	$ thousands	$ thousands
Current tax expenses (income)			
For current year	**50,204**	41,590	32,698
Adjustments for previous years, net	**3,133**	(4,584)	(13,366)
	53,337	37,006	19,332
Deferred tax expenses (income)			
Creation and reversal of temporary differences	**(17,105)**	2,452	(6,217)
Change in the tax rate	**8,318**	(294)	(6,960)
	(8,787)	2,158	(13,177)
Total income tax expenses	**44,550**	39,164	6,155

Note 17 - Taxes on Income (cont'd)

G. Theoretical tax

Following is reconciliation between the theoretical tax and the tax expense (income) included in the statement of income:

	For the year ended December 31		
	2013	2012	2011
	$ thousands	$ thousands	$ thousands
Income before taxes on income	**171,621**	161,737	126,838
Company's main tax rate	**25%**	25%	24%
Tax calculated at the ordinary tax rate	**42,905**	40,434	30,441
Tax benefits from Approved Enterprises	**(3,246)**	(2,999)	(3,085)
Difference between measurement basis of income for financial statement and for tax purposes	**8,106**	6,098	(552)
Taxable income and temporary differences at other tax rates	**(14,677)**	(17,628)	(28,706)
Taxes in respect of prior years	**3,133**	(4,584)	(13,366)
Temporary differences and losses in the report year for which deferred taxes were not created	**9,816**	9,299	19,796
Reversal of tax asset created in previous years for loss carryforwards	**–**	9,434	1,942
Utilization of tax losses from prior years for which deferred taxes were not created	**(4,235)**	(8,027)	(514)
Creation of deferred taxes in respect of losses from prior years for which deferred taxes had not been previously recorded	**(20,288)**	(4,506)	–
Non-deductible expenses and other differences	**14,718**	11,937	7,159
Change in tax rate in respect of deferred taxes	**8,318**	(294)	(6,960)
	44,550	39,164	6,155
Effective tax rate	**25.96%**	24.21%	4.9%

H. Income taxes in respect of other comprehensive income

	For the year ended December 31								
	2013			2012			2011		
	Before tax	Tax benefit (expense)	Net of tax	Before tax	Tax benefit	Net of tax	Before tax	Tax benefit (expense)	Net of tax
	In thousands of $								
Effective part of change in fair value of cash flow hedge	**(19,145)**	**(620)**	**(19,765)**	(16,982)	1,549	(15,433)	4,484	(1,095)	3,389
Net change in fair value of cash flow hedge transferred to the statement of income	**(13,174)**	**738**	**(12,436)**	(26,692)	2,425	(24,267)	31,014	(1,792)	29,222
Re-measurement of defined benefit plan	**170**	**(47)**	**123**	(4,946)	670	(4,276)	1,898	526	2,424
Total	**(32,149)**	**71**	**(32,078)**	(48,620)	4,644	(43,976)	37,396	(2,361)	35,035

Note 17 - Taxes on Income (cont'd)

I. Final assessments

Agan has received final tax assessments up to the 2009 tax year. Makhteshim and the Company have received final tax assessments up to and including the 2008 tax year. Lycored has received final tax assessments up to and including the 2011 tax year.

J. Losses and deductions available for carryforward to future years

As at the balance sheet date the adjusted amount of the tax losses available for carryforward to the succeeding year is $508.6 million.

For accrued losses, the Group has created a tax asset of about $37.3 million, based on management's assessment that it is probable that these losses will be realized in future years.

K. Additional Information

Regarding tax claims against a subsidiary in Brazil – see Note 19D(1).

Note 18 - Employee Benefits

Employee benefits include post-employment benefits, other long-term benefits, short-term benefits and termination benefits. Likewise, the Company has a defined benefit plan for some of its employees, which are subject to Section 14 of the Severance Pay Law, 1963.

Severance pay and retirement grants

The Company and its subsidiaries in Israel make regular deposits with “Nativ” (the Pension Fund of the Workers and Employees of the Histadrut Ltd.) and insurance companies, conferring pension rights or severance pay upon reaching retirement age. Amounts deposited in the pension fund are not included in the balance sheet because they are not under the management or control of the companies.

Employees dismissed before reaching retirement age, to which Section 14 of the Severance Pay Law does not apply, will be eligible for severance benefits, computed on the basis of their most recent salary. Where the amounts accumulated in the pension fund are not sufficient to cover the computed severance benefits, the companies will cover the difference.

In addition to their above mentioned pension rights, most employees are entitled to receive retirement grants at the rate of 2.33% of their salary at retirement age. The accrual in the balance sheet covers the companies’ obligations to pay retirement grants as mentioned above, as well as the full projected liability to pay severance benefits to some of their employees for the period prior to the date on which these employees joined the pension plan, during which period no deposits had been made in the fund in the name of the employee.

Note 18 - Employee Benefits (cont'd)

Early retirement pension

The financial statements include a liability for payment of pension benefits to a number of employees whose work was terminated before they reached retirement age. The liability was calculated on actuarial basis taking into account the period from the date their employment was terminated until the date stipulated in the agreement, on the basis of the present value of the pension payments.

Regarding the agreements reached by the Company with the Histadrut Haclalit and with the workers' councils of the subsidiaries in Israel during 2010 – see Note 19A(9).

Employee Benefits

	December 31, 2013	December 31, 2012
	$ thousands	$ thousands
Present value of unfunded obligations	**28,641**	24,817
Present value of funded obligations	**42,631**	37,276
Total present value of obligations	**71,272**	62,093
Net of fair value of plan's assets	**20,085**	15,780
Total recognized liability for defined benefit plan, net	**51,187**	46,313
Liability in respect of early retirement	**43,704**	50,272
Liability for other short-term benefits	**20,548**	18,720
Liability for other long-term benefits	**19,103**	17,560
Total employee benefits, net	**134,542**	132,865
Presented as follows:		
Payables and credit balances (1)	**48,504**	44,853
Long-term employees benefits	**86,038**	88,012
	134,542	132,865

(1) Payables and credit balances include liability for salaries, bonuses, social provisions, including vacation and recreation pay.

Note 18 - Employee Benefits (cont'd)

Post-employment benefit plans – defined benefit plan

(1) Movement in the net liability (assets) in respect of defined benefit plans and their components

	Liability in respect of defined benefit plan		Fair value of plan assets		Total	
	2013	2012	2013	2012	2013	2012
	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands
Balance as at January 1	**62,093**	51,093	**15,780**	16,312	**46,313**	34,781
Expense/income recorded to profit and loss:						
Current service cost	**4,896**	3,301	**–**	–	**4,896**	3,301
Interest costs	**2,088**	2,154	**454**	561	**1,634**	1,593
Changes in exchange rates	**4,186**	1,327	**992**	446	**3,194**	881
Recognized in other comprehensive income:						
Actuarial losses deriving from changes in the demographic assumptions	**(19)**	(302)	**–**	–	**(19)**	(302)
Actuarial gains deriving from changes in the financial assumptions	**1,185**	5,086	**–**	–	**1,185**	5,086
Other actuarial gains	**809**	1,634	**2,117**	553	**(1,308)**	1,081
Actual yield less interest income	**165**	114	**193**	1,033	**(28)**	(919)
Changes in exchange rates	**4**	–	**11**	–	**(7)**	–
Additional movements:						
Benefits paid	**(3,885)**	(2,473)	**(1,053)**	(4,590)	**(2,832)**	2,117
Changes in respect of business combinations and loss of control	**(250)**	159	**–**	–	**(250)**	159
Amounts deposited by the Group	**–**	–	**1,591**	1,465	**(1,591)**	(1,465)
Balance as at December 31	**71,272**	62,093	**20,085**	15,780	**51,187**	46,313

Note 18 - Employee Benefits (cont'd)

Actuarial assumptions and sensitivity analysis

The principal actuarial assumptions at the reporting date (weighted average)

	2013	2012	2011
	%	%	%
Discount rate on December 31	**0.8**	0.9	1.7
Expected return on plan assets at January 1	**1.2–1.3**	2.1–2.2	1.6–1.8
Increase in the rate of pension annuity	**CPI linked**	CPI linked	CPI linked

The assumptions regarding the future mortality rate are based on published statistical data and mortality tables.

Possible reasonable changes as at the date of the report in one of the actuarial assumptions, assuming the other assumptions remain unchanged, impact the defined benefit liability as follows:

	As at December 31, 2013	
	Increase of 1%	Decrease of 1%
	$ thousands	$ thousands
Discount rate	**(5,573)**	6,723
Rate of increase in the pension annuity	**1,054**	(1,003)

Impact of the plan on the Group's future cash flows:

The Company's estimate for expected deposits in 2014 in a funded defined benefit plan is $1,062 thousand.

Post-employment benefit plans – defined contribution plans

	For the year ended December 31		
	2013	2012	2011
	$ thousands	$ thousands	$ thousands
Amount recognized as an expense in respect of defined contribution plan	**2,764**	2,328	2,009

Note 19 - Commitments and Contingent Liabilities

A. Commitments

1. The liability of directors and officers of the Company and its subsidiaries (including officers who might be considered controlling shareholders) is covered by an insurance policy, in which the liability limit is $100 million plus an addition of up to 20% of the amount in question, to cover legal protection expenses in Israel. The insurance policy is renewed annually according to the framework decision approved by the Company's General Meeting on December 29, 2010, for periods that will not exceed five years cumulatively, meaning until December 1, 2015 (hereinafter – "the Framework Decision").

Note 19 - Commitments and Contingent Liabilities (cont'd)

A. Commitments (cont'd)

2. On October 8, 2007, the Company's General Meeting approved giving a commitment for advance indemnification to officers by granting letters of indemnity to Company officers (including officers who might be considered controlling shareholders). At the same time, the Company's General Meeting approved an amendment to the sections of the Articles of Association dealing with exemption, insurance and indemnity of Company officers. On November 7, 2011, the Company's Board of Directors resolved to approve an amendment to the letters of indemnity given in the past by the Company to the directors and officers that serve and/or will serve from time to time in the Company and/or companies it controls, whereby provisions will be included with the objective of modifying the letters of indemnity for the amendments made to the legislation regarding exemption, indemnity and officers' insurance and to the provisions of the Efficiency in Enforcement Processes in the Securities Authority (Legislative Amendments), 2011 ("Amendment of Letters of Indemnity"). Further to the resolution of the Company's Board of Directors, the Company's General Meeting held on November 17, 2011 approved the amendment to the letters of indemnity that have been and will be issued to directors.

3. Regarding undertakings of the Company and its subsidiaries as part of a securitization transaction – see Note 4.

4. Regarding undertakings with interested parties – see Note 28.

5. In July 2006, Agan entered into an agreement with Ashdod Energy Ltd. (hereinafter – "Ashdod Energy"), pursuant to which it will rent to Ashdod Energy, as a subtenant, approximately 2.6 acres of land, which is part of a 5.5 acre lot rented by Agan from Israel Lands Administration, on which Ashdod Energy will construct a power plant for production of electricity and steam, based on the use of natural gas (and subject to the existence of an available natural gas pipeline and orderly supply of natural gas). Furthermore, according to the agreement, Ashdod Energy will supply electricity and steam to Agan for a period of 20 years from the power plant's operation date or a period of 24 years and 11 months from the signing date of the sublease agreement, whichever is earlier. When the power plant begins commercial production, the discount embedded in the tariffs for electricity and steam will serve as full payment of the rent, which comes to $80,000 for each year of rental. The construction projects and the building of the power plant are the responsibility of and at the expense of Ashdod Energy, which is also responsible for obtaining the necessary permits and licenses required by law. Since during 2012, Ashdod Energy received all the necessary permits, including provision of all the required financing, in December 2012 the plan for construction of the power plant commenced.

Note 19 - Commitments and Contingent Liabilities (cont'd)

A. Commitments (cont'd)

6. In May 2007, Makhteshim entered into an agreement with Ramat Hanegev Energy Ltd. (hereinafter – "Negev Energy"), a third party that is not related to the Company, which has been amended periodically, to build and operate a power plant in Naot Hovav ("the Agreement"). As a result of the Agreement, the parties signed a sub-rental agreement, pursuant to which Makhteshim will rent to Negev Energy, as a subtenant, on 19,317 square meters, for the purpose of building and operating a power plant pursuant to the agreement ("Sublease Agreement"). As a result of the Sublease Agreement, an area of 19,317 square meters of the land leased by Makhteshim from Israel Lands Administration (ILA) was set aside, and a capitalized lease contract was signed between ILA and Makhteshim in September 2011 for a lease period ending in 2060. Pursuant to the Agreement, Negev Energy will construct a power plant for production of electricity and steam, based on the use of natural gas (and subject to the existence of an available natural gas pipeline and an orderly supply of natural gas) within 30 months of approval of the financing required to build the plant. The consideration to be received for rental of the land is not material to the Company. Furthermore, according to the Agreement, Negev Energy will supply electricity, steam, gas emissions for creation of carbon dioxide, soft water, distilled water and compressed air to Makhteshim's facilities in Naot Hovav for a period of twenty-four (24) years and eleven (11) months from the date of the area was made available to Negev Energy. Thereafter, the power plant will be transferred to Makhteshim's ownership. Execution of the building and construction work is under the responsibility and at the expense of Negev Energy, which is also responsible for obtaining the necessary permits and licenses required by law. Since during 2012, Negev Energy received all the necessary permits, including provision of all the required financing, in December 2012 the plan for construction of the power plant commenced.

7. On October 17, 2011, the Company closed a merger transaction, the parties to which are: (1) the Company; (2) China National Agrochemical Corporation (hereinafter – "CNAC"), a Chinese corporation of the China National Chemical Corporation (hereinafter – "CC"), a large Chinese Group controlled by the Chinese Government, engaged in the chemicals and agrochemicals industry; (3) Sinac Merger Sub Ltd. – a private company, wholly-owned (indirectly through its wholly-owned corporation) by CNAC that was established in Israel for the purpose of entering into the merger agreement ("special purpose company"); (4) Koor Industries Ltd. and M.A.G.M. Chemical Holdings Ltd., a wholly-owned subsidiary of Koor (together with Koor – "the Koor Companies") ("the merger agreement" and/or "the merger transaction"). Pursuant to the provisions of the merger agreement, shares of the Company, which on the closing date constituted 60% of the Company's issued and paid-up capital, were acquired by CNAC (through an indirectly owned company) (including acquisition of all of the public's holdings, and acquisition from the Koor Companies of Company shares, which on the closing date constituted 7% of the Company's issued and paid-up capital). The entitling shares were converted into a right to receive in cash from CNAC, the merger consideration of $5.5745 for each entitling share, which is the amount obtained by dividing $1,440,000,000 by the number of entitling shares existing on the transaction closing date.

   On October 19, 2011, upon closing of the merger transaction, the Company's shares were delisted from trading on the stock exchange and the Company became a private company – 60%-held by CNAC (through an indirect subsidiary) and 40%-held by the Koor Companies although it continues to be a Reporting Corporation (as this term is defined in the Securities Law, 1968). Commencing from February 17, 2012, upon entry into effect of Amendment No. 17 to the Companies Law, 1999, the Company constitutes a "Debenture Company".

Note 19 - Commitments and Contingent Liabilities (cont'd)

A. Commitments (cont'd)

8. Concurrent with the signing of the merger agreement with CNAC, a shareholder agreement was signed between the Koor companies and CNAC to arrange the relationship among the Company's shareholders after the merger closing date. The shareholder agreement took effect on the merger closing date, and it provided that immediately after the closing date of the merger, and subject to obtaining the requisite governmental approvals and Koor's consent (that will not refuse due to reasons that are not related to the transferred assets or businesses of the Company), CNAC will be allowed to sell to the Company certain of its agrochemical assets, which will be approved by Company management ("the CNAC assets") provided that the EBITDA of the CNAC assets for the 12 months prior to the sale will not be less than $70 million and not more than $120 million (unless Koor and CNAC agree otherwise), and that the net debt of the CNAC assets as of the date of sale will not be more than 5 times the said EBITDA. In addition, the shareholders' agreement provides that the proceeds for the CNAC assets shall be equal to 10 times the said EBITDA less the net debt of the CNAC assets as of the date of sale and it was provided that the payment for the CNAC assets will not impair the Company's ability to meet its existing liabilities during the ordinary course of business and its projected cash flow requirements.

   The Company is continuing to advance these processes of examination of acquisition of all or part of the shares or assets of a number of companies and their subsidiaries, which are controlled, directly and/or indirectly, by CNAC (hereinafter – "the Assets"), however, as at the date of the report, the Company had not yet completed the process of examining and analyzing the Assets, the negotiations between the Company and CNAC are in the preliminary stages, agreements had not yet been reached, and until such agreements are formulated, if and to the extent they are ultimately formulated, including an agreement regarding the assets to be acquired by the Company, and regarding which as at the date of the report there is no certainty regarding their identity, the Company is unable to estimate the acquisition cost of the assets that will be acquired, the anticipated contribution of the assets to be acquired to the Company's revenues and the future impact of an acquisition as stated.

   In connection with the process, in November 13 the Company acquired, through a subsidiary, 10.6% of the issued and paid-up share capital of Hubei Sanonda Co. Ltd. (hereinafter – "Sanonda"), for a consideration of $56.8 million. The acquisition was made by means of a partial tender offer for the Class B shares held by the public.

   The investment is accounted for using the equity method. This accounting treatment is in light of understandings between the subsidiary and CNAC in connection with the conduct of the parties with respect to the process of making decisions and protecting the subsidiary's interests in Sanonda, which provides the subsidiary significant influence over Sanonda.

9. On October 31, 2010, the Company announced that it reached agreements with the new Histadrut and the workers committees of the subsidiaries in Israel, Makhteshim and Agan, whereby the labor disputes declared with respect to the subsidiaries' plants will come to an end.

Note 19 - Commitments and Contingent Liabilities (cont'd)

A. Commitments (cont'd)

9. (cont'd)

Presented below are highlights of the agreements reached in the agreement of principles:

(1) The Company committed to continue to engage in manufacturing activities in certain volumes and on certain production lines in the subsidiaries' plants in Israel until June 1, 2017 ("the commitment period"), provided that any agreement for transferring control in the Company will be closed by June 1, 2012. The commitment period will be recorded in the agreement for transferring control in the Company, if such an agreement will be signed.

(2) Agreement was reached regarding the voluntary early retirement of up to 100 employees above the age of 57 during the years 2011–2012 in each of the subsidiaries (a total of up to 200 employees). The names of the voluntary retirees will be agreed to between the parties.

(3) In the event any agreement will be signed transferring control of the Company, a special fund will be established to assist the employees and those retiring voluntarily.

The employees' representatives committed to industrial peace on matters settled within the framework of the agreements between the parties, including with respect to a future transfer of control in the Company.

On November 6, 2010, the Company's management gave the Makhteshim workers council its consent in principle, in accordance with the stipulations in the agreement of principles, whereby during the years 2013-2014, up to 50 permanent workers may retire in addition to those already listed in the agreement of principles, subject to all the conditions provided in the agreement of principles.

Pursuant to the agreement of principles with the Histadrut (Workers' Union), it was decided to establish an assistance fund in Makhteshim and in Agan, to which NIS 18 million will be transferred for each company.

In the fourth quarter of 2011, the Company recorded a one-time provision, in the "other expenses" category, in the amount of $8 million in respect of the assistance fund.

B. Contingent liabilities

1. In accordance with the Israeli Law for the Encouragement of Capital Investments, 1959, Company subsidiaries received grants from the State of Israel in respect of investments in fixed assets made as part of plant expansion plans approved by the Investments Center. Receipt of the grants is conditional upon fulfilment of the terms of the Letter of Approval that include, among others, exports at certain rates. If the companies do not comply with the required terms, they will have to refund the amounts of the grants, together with interest from the date of their receipt. Managements of the subsidiaries believe that they are in compliance with the conditions of the approval. See also Note 9E.

Note 19 - Commitments and Contingent Liabilities (cont'd)

B. Contingent liabilities (cont'd)

2. In accordance with the Israeli Law for the Encouragement of Research and Development in Industry, 1984, subsidiaries received grants from the State of Israel in respect of the research and development expenses they incurred on projects approved by the Israeli Industrial Research and Development Administration. Receipt of the grants is conditional upon compliance with the terms of the letter of approval which includes, among other things, the payment of royalties to the State of Israel at rates of between 2%–3.5% of the sales of the products, up to the amount of the State's participation.

   The balance of the State's participation in the said companies' research and development programs (net of royalties paid in respect thereof), after deduction of unsuccessful research projects, amounts to approximately $2 million.

C. Environmental protection

1. The manufacturing processes of the Company, and the products produces and markets, entail environmental risks that impact the environment. The Company invests substantial resources in order to comply with the applicable environmental laws and attempts to prevent or minimize the environmental risks that could occur as a result of its activities. To the best of the Company's knowledge, at the date of the report, none of its applicable permits and licenses with respect to environmental issues has been revoked. The Company has insurance coverage for sudden, unexpected environmental contamination in Israel and abroad. The Company estimates, based on the opinion of its insurance consultants, that the extent of its insurance coverage for said events is reasonable.

   Regarding continuing environmental contamination, as at the date of the financial statements the Company has only limited, relatively low insurance coverage. Such insurance is difficult to obtain and, when it can be obtained, the cost of the premium and the conditions of the coverage do not justify, in the Company's opinion, its purchase.

2. Makhteshim's plant in Be'er Sheva and Agan's plant were required by the Ministry of Environmental Protection to perform various land surveys, including historical surveys (both plants) and ground samples (Agan's plant only). In this connection, the Ministry of Environmental Protection may require the Company to perform monitoring and sampling of contaminated land and water sources. Performance of restoration work may also be required. At this stage, the Company is unable to estimate whether the above-mentioned requirements will be imposed on it, the nature thereof, and if such requirements will have a significant on it.

D. Claims against subsidiaries

In the ordinary course of business, legal claims were filed against subsidiaries, including lawsuits, regarding claims for patent infringement. Inter alia, from time to time, the Company is exposed to class actions for large amounts, which it must defend against while incurring considerable costs, even if these claims, from the start, have no basis. A trend has become evident recently, of an increase in the filing of claims against companies engaged in activities similar to those of the Company, with motions for class action approval, due to various causes of action. In the estimation of the Company's management, based, inter alia, on opinions of its legal counsel regarding the prospects of the proceedings, the financial statements include appropriate provisions where necessary to cover the exposure resulting from the claims. The main claims that were filed against the subsidiaries are detailed below:

Note 19 - Commitments and Contingent Liabilities (cont'd)

D. Claims against subsidiaries (cont'd)

1. Administrative proceedings and fiscal claims are pending against a subsidiary in Brazil (hereinafter – "Milenia"), all of which deal with demands for payment of various taxes, with respect to which the Company has not recorded a provision in the financial statements. The amount of these demands, which in the estimation of Milenia, based on its legal advisors, the chances that they will prevail are lower than the chances that they will be rejected, totals about $12.2 million.

2. In 2002, a claim was filed against Milenia by a private environmental protection organization, claiming that Milenia's plant in Londrina pollutes the environment and causes damage to its vicinity and residents. The plaintiff demanded that Milenia prepare an environmental impact study, provide examinations for Milenia's employees and neighbors, halt production activity at the plant and pay damages to the vicinity's residents. The plaintiff estimates that the amount claimed from Milenia is $20 million. The lower court ordered an environmental impact study to be conducted but the court of appeals decided that Milenia is not obligated to prepare an environmental impact study and/or conduct examinations for Milenia's employees and neighbors until a final ruling is issued obligating Melina to make these remedies. On February 10, 2014, an appeal of this decision filed by the plaintiff in the District Court of Brazil was rejected. Milenia's management estimates, based on its legal advisors, that the claim's chances of succeeding are lower than the chances it will be rejected and, therefore, no provision was recorded for this claim.

3. In 2008, a third-party notices were filed against Makhteshim and thirty-five companies and additional defendants by the Industrial Council of Naot Hovav and the State as part of three claims filed by three groups of plaintiffs, wherein the plaintiffs stated amounts of about NIS 242 million (not including general damage categories that were not quantified). On January 9, 2013, a court decision was rendered entirely rejecting the claims. The plaintiffs have appealed the court decision to the Supreme Court. In the Company's estimation, based on its legal advisors, the chance that the appeal will be accepted is lower than the chance that it will be rejected.

4. On July 24, 2011, a financial claim and a request for approval of the claim as a class action were received in the offices of Agan, which were filed by two residents of Moshav Nir Galim and a resident of Ashdod alleging damages caused due to odor and noise nuisances. To the extent the claim will be approved as a class action, the plaintiffs assess that the amount claimed from Agan is about NIS 642 million. On December 8, 2013, a decision was rendered by the District Court in Be'er Sheva rejecting the request for certification of the claim as a class action and charging the plaintiffs for expenses. Subsequent to the date of the statement of financial position, on February 10, 2014, the plaintiffs filed an appeal of the said court decision to the Supreme Court. In the Company's estimation, based on its legal advisors, the chances the appeal will be accepted are less than the chances it will be rejected.

5. During 2012, a quality problem was found (which did not constitute a health and/or environmental problem) in production of certain doses of technical material and formulations sold by a subsidiary of the Company in Europe to the European market, as a result of which damages were claimed by a number of customers. In the Company's opinion, the financial statements include an appropriate provision for damages anticipated from the said event, which in the Company's estimation are not covered by its insurance policies, to the extent they were known to the Company as at the date of the report.

Note 19 - Commitments and Contingent Liabilities (cont'd)

D. Claims against subsidiaries (cont'd)

6. Aside from that detailed above, various claims have been filed against Group companies in courts throughout the world, in immaterial amounts, for causes of action involving mainly employee-employer relations and various civil claims, for which the Company did not record a provision in the financial statements. The total of the claims that in the estimation of Company management, based on its legal advisors, the chances of their succeeding is lower than the chances they will be rejected, amounts to about $21 million. In addition, tax demands were filed against the Company, in the amount of about $8 million, which in the estimation of the Group companies, based on their legal advisors, the chances they will prevail are lower than the chances they will be rejected. Furthermore, claims were filed for product liability damages, for which the Company has appropriate insurance coverage, such that the Company's exposure in respect thereof is limited to the amount its self-participation requirement (the deductible) or the amount thereof does not exceed the self-participation amount.

E. Legal proceedings that have concluded

In September 2009, the Company signed a strategic collaboration agreement whereby it will invest up to $37 million, according to milestones, in a joint venture with Cibus, the objective of which is to develop improved traits in connection with five key agricultural crops. In addition, on the same date, an investment agreement was signed by the parties, whereby the Company was given several future options to convert the said investment into shares in Cibus. Due to disputes between the parties arising out of reciprocal claims of breach, Cibus started an arbitration proceeding. On July 25, 2013, the Company and Cibus signed a compromise agreement according to which the arbitration proceeding was cancelled. The strategic collaboration agreement and the investment agreement were cancelled and the Company was released from all its obligations thereunder.

Note 20 - Liens and Financial Covenants

A. Liabilities to banks secured by liens:

The Company and its Israeli subsidiaries have made commitments to banks not to register liens on their assets in favor of other parties, except specific liens in the amount of $13 million, securing liabilities in the amount of $11 million, for the benefit of the party financing the acquisition on certain terms, except for creation of liens related to receipt of investment grants, as stated in Par. B below, and except for a lien on trade receivables within the scope of the securitization transaction, as discussed in Note 4.

B. In order to secure fulfilment of the conditions of investment grants received (see Note 9E), the Company's subsidiaries have registered floating liens in unlimited amounts on all of their assets.

C. (1) The main financial covenants included in the financing agreements as at December 31, 2013, are as follows:

(a) The ratio of the interest-bearing financial liabilities to shareholders' equity of the Company shall not exceed 1.25. As at December 31, 2013 the ratio was actually 0.8.

Note 20 - Liens and Financial Covenants (cont'd)

C. (cont'd)

(1) (cont'd)

(b) The ratio of the interest-bearing financial liabilities to earnings before financing expenses, taxes, depreciation and amortization (EBITDA) shall not exceed a ratio 4. As at December 31, 2013, the ratio of the Company's interest-bearing financial liabilities to the EBITDA was actually 2.5.

(c) The shareholders' equity will not be less than $1.22 billion. As at December 31, 2013, the Company's equity amounted to $1.403 billion.

(d) The financing documents of one of the banks further prescribed that the balance of retained earnings of the Company according to the financial statements on every date shall not be less than $700 million. As at December 31, 2013, the retained earnings amounted to $960.8 million.

Pursuant to agreements the Company reached with the bank with which it signed the securitization agreement and with the banks to which the Company is required to maintain financial covenants by virtue of the financing agreements, the balance of the debt under the securitization agreement is not included as part of the financial liabilities for purposes of examining the financial covenants, notwithstanding the fact that during 2013, the Company changed the accounting treatment of the securitization agreement due to application of IFRS 10 and it includes in the statement of financial position the balance of the debt under the securitization agreement.

(2) The financing agreements also include sections providing that a transfer of control (as this term is defined in the relevant financing agreements), in the Company and/or in the subsidiaries Makhteshim and Agan that is made without obtaining the advance written consents of the relevant banks, will constitute grounds for calling the full amount of the relevant liabilities for immediate repayment. The Company received the consents of the relevant banks for transfer of the control, in accordance with the merger transaction that closed on October 17, 2011 with a company from the China National Agrochemical Corporation.

D. The securitization agreement of trade receivables of the Company and its subsidiaries (including the updates thereto) include the Company's commitment to maintain financial ratios, of which the key commitments are below:

(1) The ratio between the Company's net debt and its equity will not exceed 1.25.

(2) The ratio between the Company's net debt and the EBITDA will not exceed 4.

(3) The Company's shareholders' equity will not fall below $1 billion.

Note 20 - Liens and Financial Covenants (cont'd)

D. (cont'd)

The securitization agreement and the agreements with banks contain Cross Default clauses, whereby the party opposite which the Company has undertaken in the agreement will be allowed to demand immediate repayment of the debts under circumstances wherein an event took place entitling another lender of the Company and/or its subsidiaries to call its debts for immediate repayment, in full or part, provided that the amount of the debts and obligations of the Company and/or subsidiaries toward that other financing parties exceeds the minimum amount as prescribed in various financing agreements.

Furthermore, as stated above, the Company has undertaken, under the terms of the letters of consent opposite financing parties to comply with additional criteria which the Company believes, at the report date, does not significantly restrict the Company's activities.

At December 31, 2013, the Company was in compliance with the financial covenants prescribed by the financing banks under the terms of the financing documents, and during the report period, complied with all the financial covenants and the limitations applicable to it prescribed in the financing documents and in the securitization agreement.

Note 21 - Equity

A. Share capital and premium on shares

	Ordinary shares	
	2013	**2012**
Share capital issued and paid-up at December 31, in thousands of shares of NIS 1 par value	**430,532**	430,532
Authorized share capital	**750,000**	750,000

The holders of ordinary shares have the right to receive dividends as declared from time to time, and voting rights at general meetings of the Company, at one vote per share.

B. Translation reserve of foreign activities

The capital reserve includes all exchange rate differences deriving from the translation of the financial statements of foreign activities.

C. Hedge fund

The hedge fund includes the effective part of the net cumulative change in fair value of cash flow hedging instruments that relate to transactions that were hedged but did not yet occur.

D. Share-based payments

During December 2013, and on January 1, 2014, the Company's Remuneration Committee and Board of Directors approved an issuance of 9,322,227 options to Group officers and employees, in accordance with the Company's options' plan (hereinafter – "the Plan"). The options were issued on January 29, 2014.

Note 21 - Equity (cont'd)

D. Share-based payments (cont'd)

Every option may be exercised for one share of NIS 1 par value.

The options will vest in three equal portions, where each third may be exercised after two years, three years and four years, respectively, commencing from January 1, 2014. The options may be exercised, in whole or in part, pursuant to the conditions of the Plan, subject to the Company's shares being listed for trading on the Tel-Aviv Stock Exchange Ltd or any other stock exchange outside of Israel (in whole or in part) on the exercise date, and subject to reaching the Group's net sales' targets and EBITDA targets, as provided in the Plan.

The cost of the benefit embedded in the options issued, as stated, based on the fair value on the date of their issuance, amounted to a total of $21 million. This amount will be recognized in the statement of income over the vesting period of each portion.

E. Buy-Back of Shares

Under the conditions precedent for the closing of the CC merger ("the merger transaction"), the Company's board of directors resolved on August 7, 2011, to purchase 4,415,569 shares of the Company that were held by subsidiaries, which constituted all of the Company's shares held by subsidiaries, for consideration that is immaterial.

In view of the Company's commitment under the terms of the merger agreement, that on the closing date there will be no dormant shares in the Company's capital (a commitment that constituted a condition precedent for closing the merger), on October 9, 2011, the Company's board of directors approved the cancellation of all the shares in Company capital that were owned by the Company, i.e. 44,298,055 shares (hereinafter – "the dormant shares"), so that following the cancellation, and at the report date, there are no dormant shares in the Company's capital.

Following cancellation of the treasury shares, the cost of the Company's shares held by the Company and a subsidiary, totalling $245,548 thousand, is presented in capital reserves in the statement of changes in shareholders' equity, the balance of distributable earning according to the Company's financial statement as of December 31, 2013 is $715,275 thousand.

F. Dividend distribution policy

In the closing date of the merger, the dividend distribution policy prescribed in the shareholder agreement and the Company's bylaws took effect, whereby subject to the provisions of the bylaws and the provisions of the Companies Law, the board of directors will be allowed, from time to time, to declare and cause the Company to pay a dividend for any fiscal period, as the board of directors will find appropriate in a justifiable manner, considering the Company's earnings. Subject to all laws and the Company's reasonable liquidity needs, the Company will declare an annual dividend that will not be less than 40% of that year's annual earnings, if the IPO is not completed within three years from the closing of the merger, October 17, 2011, subject to all laws and reasonable cash flow requirements applicable to the Company, the Company will declare an annual dividend at an amount that will not be less than 80% of the Company's earnings in that year, beginning with the first fiscal year after that date.

Pursuant to the securitization agreement (as defined in Note 4) as amended, so long as the ratio of the interest-bearing financial liabilities to the EBITDA exceeds 3.3, the Company will not distribute a dividend to its shareholders and will see to it that its related companies do not distribute a dividend to their shareholders, or do not make any other distribution, and will not pay management fees, except in the ordinary course of business and on market terms.

Note 22 - Revenues

	For the year ended December 31		
	2013	**2012**	**2011**
	$ thousands	**$ thousands**	**$ thousands**
Sales outside of Israel	**2,967,174**	2,730,101	2,588,799
Sales in Israel	**109,181**	104,402	102,575
	3,076,355	2,834,503	2,691,374

Note 23 - Cost of Sales

	For the year ended December 31		
	2013	**2012**	**2011**
	$ thousands	**$ thousands**	**$ thousands**
Materials and commercial inventory	**1,759,049**	1,612,117	1,535,773
Salaries and related expenses	**112,275**	107,867	108,943
Outsourcing	**79,282**	79,891	76,892
Other production expenses	**160,409**	162,763	148,650
Depreciation	**51,565**	47,490	42,964
	2,162,580	2,010,128	1,913,222
Change in finished goods and work in process inventory	**(54,298)**	(75,212)	(63,379)
	2,108,282	1,934,916	1,849,843

Note 24 - Selling and Marketing Expenses

	For the year ended December 31		
	2013	**2012**	**2011**
	$ thousands	**$ thousands**	**$ thousands**
Salaries and related expenses	**166,025**	151,363	139,467
Commissions and delivery costs	**83,106**	91,824	86,451
Advertising and sales promotion	**50,235**	35,696	29,762
Depreciation and amortization	**98,543**	94,522	81,412
Licensing	**16,758**	18,439	24,736
Professional services	**15,513**	11,700	14,595
Insurance	**12,347**	12,408	11,984
Royalties	**2,709**	2,540	2,760
Other	**76,814**	68,581	64,007
	522,050	487,073	455,174

Note 25 - General and Administrative Expenses

	For the year ended December 31		
	2013	**2012**	**2011**
	$ thousands	**$ thousands**	**$ thousands**
Salaries and related expenses	**50,148**	42,342	47,022
Directors' fees to Koor and the IDB Group	**–**	–	377
Depreciation and amortization	**5,112**	5,002	4,587
Bad and doubtful debts	**3,326**	7,894	15,706
Professional services	**24,650**	20,159	18,276
Insurance, tax and fees	**3,495**	2,960	2,078
Other	**27,754**	23,163	21,056
	114,485	101,520	109,102

Note 26 - Research and Development Expenses

	For the year ended December 31		
	2013	**2012**	**2011**
	$ thousands	**$ thousands**	**$ thousands**
Salaries and related expenses	**16,097**	13,543	11,262
Field tests	**2,542**	4,487	7,067
Professional services	**6,556**	5,006	3,018
Materials	**910**	589	335
Other expenses	**7,562**	6,503	4,521
	33,667	30,128	26,203

Note 27 - Net Financing Expenses (Income)

	For the year ended December 31		
	2013	**2012**	**2011**
	$ thousands	**$ thousands**	**$ thousands**
Financing Income:			
Interest income on trade receivables, net	**18,794**	12,449	11,861
Interest income on investments from banks and others	**4,566**	7,492	4,896
Net change in fair value of derivative financial assets	**108,574**	64,255	–
Exchange rate differences, net	–	33,016	29,416
CPI income in respect of debentures	**223**	4,237	–
Interest income in respect of plan assets	**454**	561	1,029
Interest income recognized in the statement of income	**132,611**	122,010	47,202
Financing expenses:			
Loss in respect of sale of trade receivables in securitization transaction	**6,568**	7,553	8,908
Revaluation of put options, net	**10,878**	1,327	2,878
Interest expenses on debentures	**67,025**	59,907	52,669
CPI expenses on debentures	**19,270**	16,253	18,441
Interest expenses on short and long-term loans	**35,082**	35,095	32,302
Exchange rate differences, net	**129,428**	76,318	2,601
Dividend to holders of non-controlling interests	–	–	1,473
Interest expenses on post-employment employee benefits	**2,088**	2,154	2,051
Net change in fair value of derivative financial assets	–	29,992	34,004
Other expenses	**2,837**	3,662	2,076
Financing expenses recognized in statement of income	**273,176**	232,261	157,403
Net financing expenses recognized in statement of income	**140,565**	110,251	110,201

Note 28 - Transactions and Balances with Related and Interested Parties

A. Transactions with interested parties

In July 2007, Discount Investment, company of the I.D.B. Group acquired shares of Koor Industries Ltd. (“Koor”) from the prior shareholders. Following the closing of the merger transaction in October 2011, as described in Note 19A(8), the Company is 60%-held by CNAC (through an indirect subsidiary) and 40%-held by Koor (see Regulation 21A to Part D of the Periodic Report).

Negligible transactions

Pursuant to Regulation 41(a)(6) to the Securities Regulations (Annual Financial Statements), 2010 ("the Financial Statements Regulations"), on March 10, 2009, the Company’s Board of Directors adopted for the first time guidelines and rules, as detailed below, for classification of a transaction of the Company or its subsidiary (hereinafter – “Group”) with an interested party therein as a negligible transaction.

Determination of the said benchmarks is made together with determination of transaction that might constitute negligible transactions and, therefore, that are approved in advance every year, as detailed below:

These updated rules and guidelines, which are updated from time to time, also serve to evaluate the scope of the disclosure in the periodic report and in the prospectus (including in a shelf offering) related to a transaction of the Company, a corporation it controls and its related company, with a controlling shareholder, or the controlling shareholder has a personal interest in its approval, as provided in Regulation 22 of the Securities Regulations (Periodic and Immediate Reports), 1970 ("Periodic Reports Regulations") and in Regulation 54 of the Securities Regulations (Details of Prospectus and Draft Prospectus – Structure and From), 1969 ("Prospectus Details Regulations"), and to evaluate the need to file an immediate report for such a transaction of the Company, as provided in Regulation 37A(6) of the Periodic Reports Regulations (Types of Transactions Provided in the Financial Statement Regulations and in the Prospectus Details Regulations mentioned previously, (hereinafter – “Interested Party Transactions”).

It is clarified that pursuant to the Company’s position, transactions executed by the Company or its Group companies with companies controlled by the government of China, which are not companies in the China National Chemical Corporation (hereinafter – “Chem China” or “CC”) group, that are executed in the ordinary and ongoing course of the Company’s business, do not constitute transactions in which the Company’s controlling shareholder has a personal interest.

Note 28 - Transactions and Balances with Related and Interested Parties (cont'd)

A. Transactions with interested parties (cont'd)

Negligible transactions (cont'd)

Types of transactions that might constitute negligible transactions:

During the ordinary course of business, the Company and its subsidiaries, especially in view of the multi-branched holding structure of the Group and its diverse activities, execute or could execute interested party transactions, mainly the purchase of services (such as logistical services, shipping services, travel and aviation services, operating leases of vehicles, communication services, tourism, investment portfolio management,), the purchase or rental of goods, movable property or real estate (such as, insurance products, office equipment, packagings, fuels, and food products), marketing transactions, acquisition and distribution of crop protection products, raw materials, active materials and formulations used as part of the production process of the Company's products in the area of its activities, signing agreements with suppliers for development and production of materials and products in the areas of the Company's activities etc. For the most part, these are transactions that are not significant for the Group from a quantitative standpoint or from a qualitative perspective and they are generally executed on terms similar to transactions executed with third parties.

Quantitative and qualitative benchmarks for classification as a negligible transaction:

An interested party transaction that is not an exceptional transaction (as the term is defined in the Companies Law) shall be deemed a negligible transaction if it meets the following two-stage test: (1) qualitative test – if from the standpoint of the nature, substance and influence on the Company, is not material to the Company and there are no special considerations arising from the range of circumstances of the matter, testifying to the materiality of the transaction; (2) quantitative test (which was updated by the Company's Board of Directors on March 7, 2013) – (a) for immediate report purposes – if the ratio between the total amount of the interested party transaction to the relevant criteria is less than 0.5% and its amount does not exceed $1.25 million (however, with respect to acquisitions/sales of products, raw materials, active materials and formulas in the area of the Company's activities, which are executed in the ordinary course of business from/to companies directly or indirectly controlled by Chem China, the Company will publish an Immediate Report if the ratio of the aggregate transaction to the relevant benchmark is less than 0.5%, and the scope thereof does not exceed $3 million), as provided below; (b) for periodic report purposes – if the ratio between the total amount of transactions of that type (in annual terms) ("cumulative transaction") and the relevant criteria in the annual report is less than 0.5%, and their total does not exceed $1.25 million (in order to remove doubt – the aggregate transactions for acquisition/sale of products, raw materials, active materials and formulations will be examined for each supplier/customer separately) (however, with reference to acquisitions/sales of products, raw materials, active materials and formulas in the area of the Company's activities, which are executed in the ordinary course of business from/to companies directly or indirectly controlled by ChemChina, disclosure will be included in the Periodic Report if the ratio of the aggregate transaction to the relevant benchmark is less than 0.5%, and the scope thereof does not exceed $3 million) as provided below:

In each type of interested party transaction (including cumulative transactions of a certain type) whose classification as a negligible transaction was evaluated, the said ratio will be calculated against one or more of the relevant criteria of the certain transaction, based on the last reviewed or audited consolidated financial statements of the Company: (a) in the purchase of a fixed asset ("a non-current asset") – the amount of the transaction against total assets (in other words, total balance sheet); (b) in sale of a fixed asset ("a non-current asset") – the gain/loss from the sale against the average annual income (i.e. for four quarters) based on the last 12 quarters for which reviewed or audited financial statements were issued.

Note 28 - Transactions and Balances with Related and Interested Parties (cont'd)

A. Transactions with interested parties (cont'd)

Negligible transactions (cont'd)

In this context, the gain/loss from the transaction and the income/loss in each quarter will be calculated at their absolute value: (c) receipt of monetary liability – amount of the transaction against total liabilities in the balance sheet; (d) in the purchase/sale of products, raw materials, active materials, mixtures and formulations (except for fixed assets) or services – amount of the transaction against total revenues from sales or the cost of sales, as applicable, in the last 4 quarters for which reviewed or audited financial statements were issued.

In cases in which, at the Company's discretion, none of the quantitative criteria mentioned previously are relevant for evaluating the negligibility of an interested party transaction, the transaction will be considered negligible, in accordance with another relative criterion, to be prescribed by the Company (provided that the relevant criterion calculated for the transaction will less than 0.5% and will not exceed $1.25 million). With respect to multi-year transactions, the amount of the transaction for purposes of evaluating negligibility will be calculated on an annual basis.

It is noted that even if an interested party transaction meets the above quantitative test, it will not be deemed negligible if the qualitative considerations testify to its materiality, whether from the standpoint of its impact on the Company or due to the importance of its disclosure to the investing public.

For purposes of filing Immediate Reports, the negligibility of a transaction will be examined on the basis of the specific individual transaction. For purposes of reporting in a Periodic Report, annual financial statements and a prospectus (including shelf offer reports), negligibility will be examined of the aggregate transactions on an annual basis (that is, after aggregating all the interested party transactions of the same type).

If the Company does not have available information that enables an examination of the classification of interested party transactions as negligible transactions, then the cumulative total of all the transactions of that type as a negligible transaction will be deemed a negligible transaction, unless one of the following two conditions are met: (a) the transaction itself, as an individual transaction, is not negligible; or (b) the cumulative total of the transactions is material for the Company.

Separate transactions which are interdependent, so that they are actually part of the same undertaking (for example, negotiating a group of transactions on a consolidated basis) will be examined as a single transaction.

The total transactions classified as negligible by the Company's investees will be deemed negligible also at the Company level. Transactions of the Company's investees, which have been classified by them as not negligible, will be examined against the relevant criteria at the Company level.

It is clarified that a transaction that is not in the Company's ordinary course of business, or that is not on market terms, or that may have a significant impact on the Company's profits, assets or liabilities, will not be classified as a negligible transaction.

Note 28 - Transactions and Balances with Related and Interested Parties (cont'd)

A. Transactions with interested parties (cont'd)

Negligible transactions (cont'd)

Annually, the Audit Committee will review the manner in which the instructions of this procedure are carried out by the Company and will perform sample testing of transactions that were classified as negligible by the instructions of the procedure. Within the scope of the sample testing of the said transactions, the Audit Committee will also examine the ways prices and the remaining terms of the transactions are determined, under the circumstances of the matter, and will examine the effect of the transaction on the Company's financial position and operating results. The activities of the Audit Committee pursuant to this paragraph, including the said sample testing, the manner in which it is performed, and a summary of its results and conclusions, will be disclosed in the Company's periodic report. The Company's Board of Directors will be updated regarding the procedure as part of the approval process of the financial statements.

From time to time, the Company's Audit Committee will examine the need for updating the instructions of this procedure, noting the interested party transactions in which the Company has undertaken and changes in the provisions of the relevant laws.

Based on the Company's consolidated financial statements for 2013, the expenses involved with interested party transactions, as stated, which were classified as negligible in accordance with the provisions of this procedure, amounted to about $13,982 thousand.

Transactions included in Sections 270(4) and 270(4A) of the Companies Law, 1999 ("the Companies Law") (see Regulation 21A and 22 to Part D of the Periodic Report)

(A) Transactions included in Section 270(4A) to the Companies Law

(1) Regarding the merger transaction and the agreements accompanying the merger transaction – see Note 19(A)(8).

(2) The Company entered into a number of undertakings with Clal Insurance Company Ltd. (Clal), a company controlled by I.D.B. Development Company Ltd. at market terms and in consideration of cumulative amounts that are not significant to the Company. For details regarding a policy for insurance and indemnification of interested parties – see Note 19A(1) and (2). On October 17, 2013, the Company took out an officers' insurance policy with Clal, on the same terms as those provided above – as a framework transaction (as this term is defined in Note 19A1 above).

(3) On June 6, 2013, the Company's Audit Committee and Board of Directors and the General Meeting of the Company's shareholders approved that Mr. Hen Lichtenstein (who served at that time as the Company's Deputy CEO) may be appointed concurrently to his position with the Company to the position of President and CEO of CNAC, the Company's controlling shareholder. In addition, an arrangement was approved for prevention of a fear of a conflict of interests between Mr. Lichtenstein and the Company in connection with his appointment, as stated, and revision of Mr. Lichtenstein's employment conditions was also approved.

(4) On August 4, 2013 and September 8, 2013, the Company's Board of Directors and the General Meeting of the Company's shareholders approved execution of a partial tender offer for acquisition of Class B shares of Hubei Sanonda Co. Ltd. (hereinafter – "Sanonda") from public shareholders.

Note 28 - Transactions and Balances with Related and Interested Parties (cont'd)

A. Transactions with interested parties (cont'd)

Negligible transactions (cont'd)

(B) Transactions not included in Sections 270(4A) of the Companies Law and that are not negligible

(1) The Company has entered into a number of undertakings with Clal, at market terms and in exchange for cumulative amounts that are not significant to the Company, including the undertakings detailed in Section (2) above.

(2) On December 27, 2012, the Company's Board of Directors decided to approve the Company's undertaking with Clal Underwriting as the distributor of the debentures (Series B) offered through expansion of the series as part of a private offering to classified investors and private investors in a number not in excess of 35, which was made in January 2013, and to classify the transaction as a non-exceptional transaction. In exchange for its services, Clal Underwriting received 0.25% of the total immediate consideration actually received in respect of the debentures issued as part of the private offering. Mr. Nochi Dankner, who served at that time as a Company director, and who could have, for the sake of caution, been deemed a controlling shareholder in the Company, was at that time a controlling shareholder (indirect) in Clal Finance Ltd., which was at that time a shareholder in Clal Underwriting.

(3) On March 24, 2013, the Company, through subsidiaries, signed an agreement with five suppliers of natural gas that hold the "Tamar" gas reserve, for acquisition of natural gas for operation of the Company's facilities in Israel, where as part of the said agreement the consideration for the natural gas will be split up and transferred to each of the five suppliers based on the rate of holdings of the particular supplier in the "Tamar" gas reserve. To the best of the Company's knowledge, Avraham Livnat, who during the year of the report was one of the controlling shareholders in I.D.B. Holding Company Ltd. (which is the controlling shareholder, indirectly, in Koor), is an interested party in Isramco Negev 2 – Limited Partnership, one of the natural gas suppliers under the agreement. In 2013, the amounts the Company paid to this gas supplier totalled an amount that is not significant for the Company.

(4) Commencing from the end of 2007, the Company leases from Airport City Ltd., areas in a building located on the Airport City site in the Airport Complex, wherein the Company's main offices are located, at a cost that is not significant to the Company. To the best of the Company's knowledge, Avraham Livnat, who during the year of the report was one of the controlling shareholder in I.D.B. Holdings Ltd. (which is the indirect controlling shareholder in Koor), is an interested party in Airport City Ltd.

(5) The Group purchases certain fuels, required for production in its plants, from Paz Oil Company Ltd., a public company in which, to the best of the Company's knowledge, the interested parties include Clal Insurance Holdings Ltd. (a company controlled by I.D.B. Development Corp. Ltd., which is an indirect controlling shareholder Koor), Clal Finance Ltd. (a subsidiary of Clal Insurance Holdings Ltd.). The underwriting is at market terms and in consideration for an amount that is not material for the Company.

(6) During 2013, and in the ordinary course of business, the Company acquired Sanonda or a company related to it ("Sanonda"), and from Jiangsu Anpon Electrochemical Co. Ltd. or a company related to it ("Anpon"), raw materials on market terms and in cumulative amounts that are not significant to the Company. Sanonda and Anpon are Chinese companies in which CC is an interested party.

Note 28 - Transactions and Balances with Related and Interested Parties (cont'd)

A. Transactions with interested parties (cont'd)

Provided below are details of transactions with related and interested parties:

	For the year ended December 31		
	2013	2012	2011
	$ thousands	$ thousands	$ thousands
Revenues	**196**	409	1,147
Expenses	**34,405**	43,235	32,434

B. Benefits to interested parties

	For the year ended December 31		
	2013	2012	2011
	$ thousands	$ thousands	$ thousands
Salaries and related benefits to interested party employed by the Group	**2,504**	2,300	1,300
Number of interested parties	**1**	1	1
Expenses from options to interested party employed by the Group	–	–	1,473
Number of interested parties	–	–	1
Fees to directors appointed by Koor and IDB	–	–	377
Number of directors	–	–	8
Fees to other directors	**252**	124	289
Number of directors	**4**	3	5

C. Balances with related and interested parties

	December 31 2013	December 31 2012
	$ thousands	$ thousands
Trade receivables (1) – Related parties	**89**	43
Trade payables – Related parties	**4,523**	8,462
(1) Highest balance during the year – trade receivables	**296**	103

Note 28 - Transactions and Balances with Related and Interested Parties (cont'd)

C. Balances with related and interested parties (cont'd)

Benefits to a group of officers and senior management in Israel and abroad

In addition to salary, senior executives in the Group are entitled to benefits beyond regular salary. These benefits include: annual bonuses, social and salary-related benefits and options granted.

The benefits attributed to the key management personnel are comprised as follows:

	2013	2012	2011
	$ thousands	$ thousands	$ thousands
Direct salary	**4,979**	4,364	4,398
Short-term bonuses*	**6,041**	5,374	3,807
Post-employment and other benefits	**2,375**	1,744	2,076
Share-based payments**	**–**	–	6,243
	13,395	11,482	16,524

* The bonuses are based on the operating results of the Group.

** The cost of the benefit to each officer from share-based payments is calculated only once, according to the economic value of the options on the grant date, amortized over the vesting period until vesting date and does not change and is not affected by changes in the price of the share or the ability to exercise.

Note 29 - Financial Instruments

A. General

The Group has extensive international operations, and, therefore, it is exposed to credit risks, liquidity risks and market risks (including currency risk, interest risk and other price risk). In order to reduce the exposure to these risks, the Group uses financial derivatives instruments, including forward transactions, swaps and options (hereinafter – "derivatives").

Transactions in derivatives are undertaken with major financial institutions in and outside of Israel and, therefore, in the opinion of Group Management the credit risk in respect thereof is low.

This note provides information on the Group's exposure to each of the above risks, the Group's objectives, policies and processes regarding the measurement and management of the risk. Additional quantitative disclosure is included throughout these consolidated financial statements.

The Board of Directors has overall responsibility for establishing and monitoring the framework of the Group's risk management policy. The Finance Committee is responsible for establishing and monitoring the Group's actual risk management policy. The Chief Financial Officer reports to the Finance Committee on a regular basis regarding these risks.

The Group's risk management policy was formulated in order to identify and analyze the risks facing the Group, to prescribe reasonable limits for the risks and controls and monitoring of the risks and compliance with the limits. The risks and methods for managing the risks are reviewed regularly, in order to reflect changes in market conditions and the Group's activities. The Group, through training, and management standards and procedures, works to develop an effective control environment in which all the employees understand their roles and obligations.

Note 29 - Financial Instruments (cont'd)

B. Credit risk

Credit risk is the risk of financial loss that the Group will sustain if a customer or counterparty to a financial instrument does not meet its contractual obligations, and derives mainly from trade receivables and other receivables as well as from cash and deposits in financial institutions.

As at December 31, 2012, the balance of the trade receivables and short-term credit was restated due to the initial application of a new set of standards regarding consolidation of financial statements. See Note 3R.

Trade and other receivables

The Group's revenues are derived from a large number of widely dispersed customers in many countries. Customers include multi-national companies and manufacturing companies, as well as distributors, agriculturists, agents and agrochemical manufacturers who purchase the products either as finished goods or as intermediate products for their own requirements.

The financial statements contain specific provisions for doubtful debts, which properly reflect, in management's estimate, the loss embedded in debts, the collection of which is doubtful.

The Company entered into an agreement for the sale of trade receivables in a securitization transaction. For details – see Note 4.

In April 2012, a two-year agreement with an international insurance company was renewed. The amount of the insurance coverage was fixed at $150 million cumulative per year. The indemnification from the insurer is full indemnification up to a sum of $10 million for securitized trade receivables and for sums exceeding $10 million up to $150 million the indemnification is 80% of the debt of securitized trade receivables. For the remaining trade receivables, indemnification is limited to about 90% of the debt.

The Group's exposure to credit risk is influenced mainly by the personal characterization of each customer, and by the demographic characterization of the customer's base, including the risk of insolvency of the industry and geographic region in which the customer operates. Approximately 1.7% (2012 and 2011 – 2.7% and 1.9%, respectively) of the Group's revenues derive from sales opposite an individual customer.

Company management has prescribed a credit policy, whereby the Company performs current ongoing credit evaluations of existing and new customers, and every new customer is examined thoroughly regarding the quality of his credit, before offering him the Group's customary shipping and payment terms. The examination made by the Group includes an outside credit rating, if any, and in many cases, receipt of documents from an insurance company. A credit limit is prescribed for each customer, setting the maximum open amount of the trade receivable balance. These limits are examined annually. Customers that do not meet the Group's criteria for credit quality may do business with the Group on the basis of a prepayment or against furnishing of appropriate collateral.

Most of the Group's customers have done business with it for many years. In monitoring customer credit risk, the customers were grouped according to a characterization of their credit, based on geographical location, industry, aging of receivables, maturity, and existence of past financial difficulties. Customers defined as "high risk" are classified to the restricted customer list and are supervised by management. In certain countries, mainly, Brazil, customers are required to provide property collaterals (such as agricultural lands and equipment) against execution of the sales, the value of which is examined on a current ongoing basis by the Company. In these countries, in a case of a doubtful debt, the Company records a provision for the amount of the debt less the value of the collaterals provided and acts to realize the collaterals.

Note 29 - Financial Instruments (cont'd)

B. Credit risk (cont'd)

The Group closely monitors the economic situation in Eastern Europe and where necessary it executes transactions to limit its exposure to customers in countries having significantly unstable economies.

The Group recognizes an impairment provision, which reflects its assessment of losses sustained from trade receivables and other receivables and investments. The key elements of this provision are specific losses related to specific significant exposure, and examination of the need for a general loss provision to be determined for groups of similar assets regarding losses sustained but yet identified. The general loss provision is determined based on historical information regarding payment statistics relating to events that occurred in the past.

Cash and deposits in banks
The Company holds cash and deposits in banks with a high credit rating. These banks are also required to comply with capital adequacy or maintenance of a level of security based on different situations.

Guarantees
The Company's policy is to provide financial guarantees only to investee companies.

(1) Exposure to credit risk

The carrying value of the financial assets represents the maximum credit exposure without taking into account the value of collaterals. The maximum exposure to credit risk on the balance sheet date was as follows:

	December 31 2013	December 31 2012
	Book value in thousands $	
Cash and cash equivalents	**379,386**	300,412
Short-term investments	**11,063**	1,607
Assets in respect of currency swap contracts used for hedging	–	14,015
Assets in respect of forward contracts on exchange rates not used for hedging	**43,558**	23,174
Assets in respect of forward contracts on exchange rates used for hedging	–	6,253
Trade receivables	**979,497**	875,047
Non-current trade receivables	**12,088**	15,902
Long-term deposits	**52,500**	–
Long-term loans	**8,011**	7,965
	1,486,103	1,244,375

The above balances are included in cash and cash equivalents, short-term investments, trade receivables, accounts receivable, including derivatives and other financial investments.

Note 29 - Financial Instruments (cont'd)

B. Credit risk (cont'd)

(1) Exposure to credit risk (cont'd)

The maximum exposure to credit risk from trade receivables as at the date of the financial statements, according to geographic regions was as follows:

	December 31 2013	December 31 2012
	$ thousands	$ thousands
Israel	**38,948**	36,764
Latin America	**421,122**	336,032
Europe	**251,245**	237,696
North America	**125,325**	121,677
Rest of the world	**154,945**	158,780
	991,585	890,949

The Group's most significant customer is an agricultural corporation that constitutes $21,022 thousand out of the total carrying value of trade receivables as at December 31, 2013 (as at December 31, 2012 – $20,143 thousand).

(2) Aging of receivables and allowance for doubtful accounts

Presented below is the aging of trade receivables:

	December 31 2013	December 31 2012
	$ thousands	$ thousands
Not past due	**882,111**	777,433
Past due by less than 90 days	**95,089**	98,313
Past due by more than 90 days	**61,256**	79,476
	1,038,456	955,222

The change in the allowance for doubtful accounts during the year was as follows:

	December 31 2013	December 31 2012
	$ thousands	$ thousands
Balance as at January 1	**64,273**	62,716
Additions during the year	**3,326**	7,894
Write-off to bad debts	**(14,343)**	(2,771)
Transition from proportionate consolidation for a company accounted for using the equity method of accounting	**(527)**	–
Exchange rate differences	**(5,858)**	(3,566)
Balance as at December 31	**46,871**	64,273

Note 29 - Financial Instruments (cont'd)

C. Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting its financial obligation when they come due. The Group's approach to managing its liquidity risk is to assure, to the extent possible, an adequate degree of liquidity for meeting its obligations timely, under ordinary conditions and under pressure conditions, without sustaining unwanted losses or hurting its reputation.
The cash-flow forecast is determined both at the level of the various entities as well as at the consolidated level. The Company examines the current forecasts of its liquidity requirements in order to ascertain that there is sufficient cash for the operating needs, including the amounts required in order to comply with the financial liabilities, while taking strict care that at all times there will be unused credit frameworks so that the Company will not exceed the credit frameworks granted to it and the financial benchmarks with which it is required to comply with. These forecasts take into consideration matters such as the Company’s plans to use debt for financing its activities, compliance with required financial covenants, compliance with certain liquidity ratios and compliance with external requirements such as laws or regulation.

The surplus cash held by the Group companies, which is not required for financing the current ongoing operations, are invested in short-term interest-bearing investment channels.

Note 29 - Financial Instruments (cont'd)

C. Liquidity risk (cont'd)

Presented below are the contractual maturity dates of the financial liabilities, including estimated interest payments:

	As at December 31, 2013						
	Carrying value	Contractual cash flow	First year	Second year	Third year	Fourth year	Fifth year and above
	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands
Non-derivative financial liabilities							
Bank overdrafts	**6,474**	**6,563**	**6,563**	**–**	**–**	**–**	**–**
Short-term loans from banks	**294,458**	**297,036**	**297,036**	**–**	**–**	**–**	**–**
Trade payables	**641,525**	**641,525**	**641,525**	**–**	**–**	**–**	**–**
Other payables	**436,926**	**436,926**	**436,926**	**–**	**–**	**–**	**–**
Debentures (1)	**1,092,718**	**1,810,827**	**124,301**	**120,051**	**115,802**	**46,174**	**1,404,499**
Long-term loans from banks (1)	**344,277**	**381,513**	**110,994**	**88,752**	**80,057**	**40,684**	**61,026**
Other long-term liabilities (1)	**25,228**	**33,981**	**131**	**6,826**	**7,804**	**271**	**18,949**
Derivative financial liabilities							
Derivatives in foreign currency	**33,641**	**33,641**	**23,376**	**10,265**	**–**	**–**	**–**
	2,875,247	**3,642,012**	**1,640,852**	**225,894**	**203,663**	**87,129**	**1,484,474**

(1) Including current maturities

Note 29 - Financial Instruments (cont'd)

C. Liquidity risk (cont'd)

	As at December 31, 2012						
	Carrying value	Contractual cash flow	First year	Second year	Third year	Fourth year	Fifth year and above
	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands
Non-derivative financial liabilities							
Bank overdrafts	8,000	8,116	8,116	–	–	–	–
Short-term loans from banks	290,190	293,456	293,456	–	–	–	–
Trade payables	597,245	597,245	597,245	–	–	–	–
Other payables	437,674	438,978	438,978	–	–	–	–
Debentures (1)	969,242	1,557,177	203,890	106,744	102,810	98,876	1,044,857
Long-term loans from banks (1)	358,192	397,981	131,604	98,594	75,381	64,347	28,055
Other long-term liabilities (1)	36,996	41,706	178	10,127	9,177	5,430	16,794
Derivative financial liabilities							
Derivatives in foreign currency	14,778	14,778	14,475	303	–	–	–
CPI/NIS forwards	226	226	226	–	–	–	–
	2,712,543	3,349,663	1,688,168	215,768	187,368	168,653	1,089,706

(1) Including current maturities

The Group has bank loans totaling $288 million and securitized trade receivables totaling $174.6 million, which contain financial covenants. For information on the financial covenants, see Note 20C and 20D. Interest payments on the variable-interest loans and the future cash flows for the contingent consideration and put options to holders of non-controlling interests, could differ from the amounts described in the table above.
Aside from these financial liabilities, it is not expected that the cash flows included in the analysis of maturity dates will occur significantly earlier or in significantly different amounts.

Note 29 - Financial Instruments (cont'd)

D. Market risks

Market risk is the risk that changes in market prices, such as currency exchange rates, CPI, interest rates and prices of capital instruments, will affect the Group's revenues or the value of its holdings in its financial instruments. The objective of market risk management is to manage and monitor the exposure to market risks within acceptable parameters, while maximizing the yield.

During the ordinary course of business, the Group purchases and sells derivatives and assumes financial liabilities for the purpose of managing market risks. The said transactions are executed according to guidelines prescribed by the Finance Committee.

(1) Index and foreign currency risks

Currency risk
The Group is exposed to currency risk from its sales, purchases, expenses and loans denominated in currencies that differ from the Group's functional currency. The main exposure is in Euro, Brazilian real and in NIS. In addition, there are smaller exposures to various currencies such as the British pound, Polish zloty, the Australian dollar and Indian rupee.

The Group uses foreign currency derivatives – forward transactions, swaps and currency options – in order to hedge the risk that the dollar cash flows, which derive from existing assets and liabilities and anticipated sales and costs and projected sales, may be affected by exchange rate fluctuations.

The Group hedged a part of the estimated currency exposure for projected sales and purchases during the subsequent year. Likewise, the Group hedges most of its financial balances denominated in a non-dollar currency. The Group uses foreign currency derivatives to hedge its currency risk, mostly with maturity dates of less than one year from the reporting date.

The Company has debentures, some of which are linked to the CPI and, therefore, an increase in the CPI, as well as changes in the shekel exchange rate, could cause significant exposure with respect to the Company's functional currency – the US dollar. As at the approval date of the financial statements, the Company had hedged most of its exposure deriving from issuance of the debentures, in swap transactions and forward contracts.

Note 29 - Financial Instruments (cont'd)

D. Market risks (cont'd)

(1) Linkage and foreign currency risks

(A) The Group's exposure to linkage and foreign currency risk, except in respect of derivative financial instruments (see hereunder) was as follows:

December 31, 2013

	Denominated in or linked to the dollar	In euro	In Brazilian real	In CPI-linked Israeli currency	In unlinked Israeli currency	Denominated in or linked to other foreign currency	Non-monetary items	Total
	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands
Assets –								
Cash and cash equivalents	90,299	81,513	39,174	41	31,489	136,870	–	379,386
Short-term investments	9,201	11	–	481	–	1,370	–	11,063
Trade receivables	384,283	163,136	141,092	–	39,455	251,531	–	979,497
Financial and other assets including derivatives*	34,014	28,082	10,653	16	24,108	20,233	20,164	137,270
Current tax assets	2,265	1,957	–	–	10	8,249	–	12,481
Inventories	–	–	–	–	–	–	1,218,200	1,218,200
Investments, loans and other long-term debit balances (including current maturities)	61,233	2,899	23,813	–	611	1,602	99,853	190,011
Deferred tax assets	–	–	–	–	–	–	82,101	82,101
Fixed assets	–	–	–	–	–	–	723,194	723,194
Other assets	–	–	–	–	–	–	723,698	723,698
	581,295	277,598	214,732	538	95,673	419,855	2,867,210	4,456,901
Liabilities –								
Credit from banks (not including current maturities)	126,996	55,394	–	–	19,371	99,171	–	300,932
Trade payables	371,610	109,305	17,571	–	105,836	37,203	–	641,525
Other payables and credit balances*	104,482	84,039	34,020	7,548	105,237	79,924	492	415,742
Provision for taxes net of advances	8,654	8,836	7,534	1,071	7,657	5,706	–	39,458
Put option to holders of non-controlling interests	58,624	6,445	–	–	–	6,428	–	71,497
Loans from banks (including current maturities)	336,434	1,980	4,462	–	–	1,401	–	344,277
Debentures (including current maturities)	–	–	–	896,585	196,133	–	–	1,092,718
Other long-term liabilities (including current maturities)	19,398	7,882	10,452	363	–	3,016	–	41,111
Reserve for taxes	–	–	–	–	–	–	19,450	19,450
Employee benefits	130	3,160	563	–	78,790	3,395	–	86,038
	1,026,328	277,041	74,602	905,567	513,024	236,244	19,942	3,052,748

* Regarding the group's exposure to linkage and currency risks of financial derivatives – see Note 29D(1)(b) below.

Note 29 - Financial Instruments (cont'd)

D. Market risks (cont'd)

(1) Linkage and foreign currency risks (cont'd)

(A) The Group's exposure to linkage and foreign currency risk, except in respect of derivative financial instruments (see hereunder) was as follows: (cont'd)

December 31, 2012

	Denominated in or linked to the dollar	In euro	In Brazilian real	In CPI-linked Israeli currency	In unlinked Israeli currency	Denominated in or linked to other foreign currency	Non-monetary items	Total
	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands
Assets –								
Cash and cash equivalents	94,091	90,036	13,372	–	10,137	92,776	–	300,412
Short-term investments	49	11	–	301	–	1,246	–	1,607
Trade receivables	328,148	158,648	121,597	–	37,024	229,630	–	875,047
Financial and other assets including derivatives*	21,322	17,857	13,541	–	24,191	23,884	21,208	122,003
Current tax assets	5,202	857	–	3,919	7	7,344	–	17,329
Inventories	–	–	–	–	–	–	1,239,154	1,239,154
Investments, loans and other long-term debit balances (including current maturities)	22,745	1,598	36,621	–	–	1,028	42,728	104,720
Deferred tax assets	–	–	–	–	–	–	78,792	78,792
Fixed assets	–	–	–	–	–	–	707,539	707,539
Other assets	–	–	–	–	–	–	707,510	707,510
	471,557	269,007	185,131	4,220	71,359	355,908	2,796,931	4,154,113
Liabilities –								
Credit from banks (not including current maturities)	122,787	43,795	–	–	25,514	106,094	–	298,190
Trade payables	350,464	101,973	18,267	–	96,496	30,045	–	597,245
Other payables and credit balances*	114,458	75,213	20,639	3,457	93,018	64,715	882	372,382
Provision for taxes net of advances	5,364	7,100	3,874	8,062	–	8,190	–	32,590
Put option to holders of non-controlling interests	17,466	4,016	–	–	–	26,810	–	48,292
Loans from banks (including current maturities)	343,522	4,655	6,550	–	–	3,465	–	358,192
Debentures (including current maturities)	–	–	–	725,628	243,614	–	–	969,242
Other long-term liabilities (including current maturities)	14,486	6,287	9,772	3,705	–	3,049	–	37,299
Reserve for taxes	–	–	–	–	–	–	23,893	23,893
Employee benefits	100	3,144	762	–	80,687	3,319	–	88,012
	968,647	246,183	59,864	740,852	539,329	245,687	24,775	2,825,337

* Regarding the group's exposure to linkage and currency risks of financial derivatives – see Note 29D(1)(b) below.

Note 29 - Financial Instruments (cont'd)

D. Market risks (cont'd)

(1) Linkage and foreign currency risks (cont'd)

(B) The exposure to linkage and foreign currency risk

The Group's exposure to linkage and foreign currency risk in respect of derivatives is as follows:

	December 31, 2013				
	Currency/ linkage receivable	Currency/ linkage payable	Date of expiration	Notional value (currency)	Fair value
				$ thousands	$ thousands
Forward foreign currency contracts and purchase options	USD	EUR	07/09/2014	**807,960**	**(25,637)**
	USD	PLN	12/04/2014	**78,727**	**(5,813)**
	USD	BRL	22/05/2014	**152,287**	**2,732**
	USD	GBP	09/05/2014	**82,775**	**(2,164)**
	ILS	USD	30/03/2014	**999,069**	**17,227**
	USD	OTHERS		**226,122**	**4,280**
CPI forward contracts	CPI	ILS	30/01/2014	**28,810**	**16**
CPI and foreign currency forward contracts	NIS linked	USD	30/04/2014	**399,778**	**18,229**

	December 31, 2012				
	Currency/ linkage receivable	Currency/ linkage payable	Date of expiration	Notional value (currency)	Fair value
				$ thousands	$ thousands
Forward foreign currency contracts and purchase options	USD	EUR	25/04/2013	570,446	(3,574)
	USD	PLN	19/02/2013	77,059	(2,061)
	USD	BRL	11/01/2013	142,000	(768)
	USD	GBP	20/03/2013	40,486	(25)
	ILS	USD	26/03/2013	708,722	16,012
	USD	OTHERS		175,946	1,187
CPI forward contracts	CPI	ILS	03/05/2013	80,364	(541)
Interest rate swaps	ILS	USD	29/11/2013	87,884	14,015
CPI and foreign currency forward contracts	NIS linked	USD	23/06/2013	569,362	4,487

Presented below are data on Consumer Price Index and significant exchange rates:

	December 31			Average 1-12		
	2013	2012	Change in 2013	2013	2012	Change in 2013
EUR\USD	**1.378**	1.318	(4.5%)	**1.328**	1.285	(3.3%)
USD/BRL	**2.343**	2.044	14.6%	**2.158**	1.955	10.4%
USD/PLN	**3.012**	3.100	(2.8%)	**3.159**	3.256	(3.0%)
USD/ZAR	**10.531**	8.486	24.1%	**9.631**	8.196	17.5%
AUD/USD	**0.894**	1.037	13.8%	**0.965**	1.036	6.8%
GBP/USD	**1.654**	1.617	(2.3%)	**1.564**	1.585	1.3%
USD/ILS	**3.471**	3.733	(7.0%)	**3.607**	3.849	(6.3%)
Known Index	**124.446**	122.115				
In respect of Index	**124.568**	122.346				

Note 29 - Financial Instruments (cont'd)

D. Market risks (cont'd)

(1) Linkage and foreign currency risks (cont'd)

(C) Sensitivity analysis

The strengthening or weakening of the dollar against the following currencies as at December 31 and the increase or decrease in the CPI would increase (decrease) the equity and profit or loss by the amounts presented below. This analysis assumes that all the remaining variables, among others interest rates, remained fixed. The analysis for 2012 was done on the same basis.

	December 31, 2013			
	Decrease of 5%		Increase of 5%	
	Equity	Profit (loss)	Equity	Profit (loss)
	$ thousand	$ thousand	$ thousand	$ thousand
Shekel	**5,210**	**503**	**5,222**	**6,078**
Pound sterling	**(1,495)**	**1,168**	**1,488**	**(1,175)**
Euro	**(45,754)**	**(3,004)**	**44,063**	**1,863**
Real	**1,878**	**1,878**	**(1,798)**	**(1,798)**
Polish zloty	**(4,784)**	**(655)**	**4,735**	**650**
Consumer Price Index	**26,724**	**26,724**	**(26,724)**	**(26,724)**

	December 31, 2012			
	Decrease of 5%		Increase of 5%	
	Equity	Profit (loss)	Equity	Profit (loss)
	$ thousand	$ thousand	$ thousand	$ thousand
Shekel	6,759	(285)	(1,827)	4,622
Pound sterling	(1,482)	(49)	1,478	45
Euro	(23,954)	(3,608)	19,798	4,069
Real	993	993	(993)	(993)
Polish zloty	(2,590)	(59)	2,352	61
Consumer Price Index	247	440	(247)	(440)

(2) Interest rate risks

The Group has exposure to changes in the Libor interest rate on the U.S. dollar since the Group has U.S. dollar obligations, which bear variable Libor interest. The Company prepares a quarterly summary of exposure to a change in the Libor interest rate. As at the approval date of the financial statements, the Company had not hedged this exposure.

The Group does not enter into commodity contracts for the purpose of meeting the estimated usage and sales needs; except for barter contracts opposite a customer, these contracts are not settled on a net basis.

Note 29 - Financial Instruments (cont'd)

D. Market risks (cont'd)

(2) Interest rate risk (cont'd)

(A) Type of interest

Presented below are data on the type of interest on the Group's interest-bearing financial instruments:

	December 31	
	2013	2012
	Carrying value	Carrying value
	$ thousands	$ thousands
Fixed-interest instruments – unlinked to the CPI		
Financial assets	**55,235**	24,633
Financial liabilities	**(274,853)**	(273,609)
	(219,618)	(248,976)
Fixed-interest instruments – linked to the CPI		
Financial liabilities	**(896,585)**	(725,628)
Variable-interest instruments		
Financial assets	**16,054**	29,980
Financial liabilities	**(566,489)**	(454,169)
	(550,435)	(424,189)

The Group's exposure to interest risk in respect of derivatives is as follows:

As at December 31, 2013, the Group had no exposure to interest risk in respect of derivatives.

	December 31, 2012				
	Interest receivable	Interest payable	Expiration date	Notional value	Fair value
	NIS linked	(USD)		($ thousands)	($ thousands)
Interest rate swaps	4.45%	6.89%	29/11/2013	36,568	4,715
	4.45%	6.295%	29/11/2013	36,956	9,734
	4.45%	6.42%	29/11/2013	6,993	33
	4.45%	6.65%	29/11/2013	7,367	(467)
		6.582%		87,884	14,015

(B) Sensitivity analysis of fair value flows regarding fixed interest instruments

The Group's fixed-interest assets and liabilities are not measured at fair value through profit and loss. Therefore, a change in the interest rate as at the balance sheet date is not expected to have any effect on profit or loss due to changes in the value of the fixed-interest assets and liabilities.

Note 29 - Financial Instruments (cont'd)

E. Cash flow hedge accounting

The table below presents the periods in which cash flows that are related to the derivatives used to hedge cash flows are anticipated:

	2013								
	Carrying value	Projected cash flows	6 months or less	6-12 months	Second year	Third year	Fourth year	Fifth year	Sixth year and above
	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands
Forward contracts and options on exchange rates:	(36,123)	(36,123)	(19,220)	(4,102)	(12,801)	–	–	–	–

The table below presents the periods in which cash flows that are related to the derivatives used to hedge cash flows are expected to impact income or loss.

	2013								
	Carrying value	Projected cash flows	6 months or less	6-12 months	Second year	Third year	Fourth year	Fifth year	Sixth year and above
	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands
Interest rate swap	(1,924)	(1,924)	(240)	(241)	(481)	(481)	(481)	–	–
Forward contracts and options on exchange rates:	(36,719)	(36,719)	(19,630)	(4,282)	(12,807)	–	–	–	–
	(38,643)	(38,643)	(19,870)	(4,523)	(13,288)	(481)	(481)	–	–

Note 29 - Financial Instruments (cont'd)

E. Cash flow hedge accounting (cont'd)

The table below presents the periods in which cash flows that are related to the derivatives used to hedge cash flows are anticipated:

	2012								
	Carrying value	Projected cash flows	6 months or less	6-12 months	Second year	Third year	Fourth year	Fifth year	Sixth year and above
	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands
Interest rate swap:	14,015	13,611	(474)	14,085	–	–	–	–	–
Forward contracts and options on exchange rates:	(6,326)	(6,326)	(6,333)	396	(389)	–	–	–	–
	7,689	7,285	(6,807)	14,481	(389)	–	–	–	–

The table below presents the periods in which cash flows that are related to the derivatives used to hedge cash flows are expected to impact income or loss.

	2012								
	Carrying value	Projected cash flows	6 months or less	6-12 months	Second year	Third year	Fourth year	Fifth year	Sixth year and above
	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands
Interest rate swap:	(2,511)	(2,511)	(293)	(294)	(481)	(481)	(481)	(481)	–
Forward contracts and options on exchange rates:	(4,924)	(4,924)	(5,244)	709	(389)	–	–	–	–
	(7,435)	(7,435)	(5,537)	415	(870)	(481)	(481)	(481)	–

Note 29 - Financial Instruments (cont'd)

F. Fair value

The fair value of forward contracts on foreign currency is based on their listed market price, if available. In the absence of market prices, the fair value is estimated based on the discounted difference between the stated forward price in the contract and the current forward price for the balance of the contract period to maturity, using an appropriate interest rate.

The fair value of foreign currency options and interest rate swaps is based on bank quotes. The reasonableness of the quotes is evaluated through discounting future cash flow estimates, based on the conditions and duration to maturity of each contract, using the market interest rates of a similar instrument at the measurement date and in accordance with the Black & Scholes model.

(1) Financial instruments measured at fair value for disclosure purposes only

The carrying value of certain financial assets and liabilities, including cash and cash equivalents, trade receivables, other receivables, other short-term investments, derivatives, bank overdrafts, short-term loans and credit, trade payables and other payables, conform to or approximate their fair value.

The table below provides the carrying value and fair value of categories of long-term financial instruments, which are stated in the financial statements at other than their fair value:

	December 31, 2013		December 31, 2012	
	Carrying value	Fair value	Carrying value	Fair value
	$ thousands	$ thousands	$ thousands	$ thousands
Financial assets				
Long-term loans and other receivables (a)	**83,425**	**76,328**	47,970	33,144
Financial liabilities				
Long-term loans (b)	**354,429**	**365,099**	393,168	403,715
Debentures (c)	**1,092,718**	**1,188,219**	969,242	1,007,030

(a) The fair value of the long-term loans granted is based on a calculation of the present value of cash flows, using the acceptable interest rate for similar loans having similar characteristics (Level 2).

(b) The fair value of the long-term loans received is based on a calculation of the present value of cash flows, using the acceptable interest rate for similar loans having similar characteristics (Level 2).

(c) The fair value of the debentures is based on stock exchange quotes (Level 1).

(2) The interest rates used determining fair value

The interest rates used to discount the estimate of projected cash flows are:

	December 31, 2013
	In %
Brazilian real interest	**9.79 – 12.81**
U.S. dollar interest	**0.13 – 1.82**
Euro interest	**0.13 – 1.25**

Note 29 - Financial Instruments (cont'd)

F. Fair value (cont'd)

(3) Fair value hierarchy of financial instruments measured at fair value

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active market for identical instrument.
- Level 2: inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly.
- Level 3: inputs that are not based on observable market data.

The Company's financial instruments carried at fair value, are evaluated by observable inputs and therefore are concurrent with the definition of level 2.

	December 31, 2013
	$ thousands
Derivatives used for hedging:	
Forward contracts and options	**(36,123)**
Derivatives not used for hedging:	
Forward contracts and options	**44,994**
	8,871

Financial Instrument	Fair value
Forward contracts	The fair value is estimated by means of discounting the difference between the "forward price" denominated in the contract and the current "forward price" in respect of the balance of the contract period up to its maturity, using quoted market interest rates appropriate for similar instruments.
Foreign currency options	The fair value is determined in accordance with the Black and Scholes model.

Note 30 - Segment Reporting

A. Products and services:

The Company presents its segment reporting according to a primary format, which is based on a breakdown by business segments:

- Activity in the agrochemical products market (Agro)
  This is the main area of the Company's operations and includes the manufacture and marketing of conventional agrochemical products and operations in the seed sector.

- Non-Agro activity (Non-Agro)
  This field of activity includes a large number of sub-fields, including: Lycopan (an oxidization retardant), aromatic products, and other chemicals. It combines all the Company's activities not included in the agro-products segment.

Note 30 - Segment Reporting (cont'd)

A. Products and services: (cont'd)

Segment results reported to the chief operating decision maker include items directly attributable to a segment as well at those that can be allocated on a reasonable basis. Unallocated items comprise mainly financing expenses, net.

	For the year ended December 31, 2013			
	Agro activity	**Non-Agro activity**	**Adjustments**	**Consolidated**
	$ thousands	**$ thousands**	**$ thousands**	**$ thousands**
Statement of income information:				
Revenues				
Sales outside the Group	**2,876,198**	**200,157**	**–**	**3,076,355**
Inter-segment sales	**–**	**1,165**	**(1,165)**	**–**
Total revenues	**2,876,198**	**201,322**	**(1,165)**	**3,076,355**
Results				
Segment's results	**292,884**	**15,905**	**200**	**308,989**
Financing expenses, net				**(140,565)**
Share of income of equity-accounted investee company				**3,197**
Taxes on income				**(44,550)**
Non-controlling interests				**177**
Net income for the year				**127,248**

	For the year ended December 31, 2012			
	Agro activity	**Non-Agro activity**	**Adjustments**	**Consolidated**
	$ thousands	**$ thousands**	**$ thousands**	**$ thousands**
Statement of income information:				
Revenues				
Sales outside the Group	2,648,673	185,830	–	2,834,503
Inter-segment sales	–	1,103	(1,103)	–
Total revenues	2,648,673	186,933	(1,103)	2,834,503
Results				
Segment's results	271,134	10,269	188	281,591
Financing expenses, net				(110,251)
Share of loss of equity-accounted investee company				(9,603)
Taxes on income				(39,164)
Non-controlling interests				(110)
Net income for the year				122,463

Note 30 - Segment Reporting (cont'd)

A. Products and services: (cont'd)

	For the year ended December 31, 2011			
	Agro activity	Non-Agro activity	Adjustments	Consolidated
	$ thousands	$ thousands	$ thousands	$ thousands
Statement of Income information:				
Revenues				
Sales outside the Group	2,502,749	188,625	–	2,691,374
Inter-segment sales	–	1,208	(1,208)	–
Total revenues	2,502,749	189,833	(1,208)	2,691,374
Results				
Segment's results	226,224	17,164	(286)	243,102
Financing expenses, net				(110,201)
Share of loss of equity-accounted investee company				(6,063)
Taxes on income				(6,155)
Non-controlling interests				(165)
Net income for the year				120,518

B. Geographic:

Presented below are sales revenues according to geographic segments based on the location of the customers (sales targets):

	For the year ended December 31		
	2013	2012	2011
	$ thousands	$ thousands	$ thousands
Europe	**1,140,346**	1,092,373	1,049,285
North America	**516,153**	497,542	478,352
Latin America	**757,518**	642,906	609,256
Asia Pacific and Africa	**553,157**	497,280	451,906
Israel	**109,181**	104,402	102,575
	3,076,355	2,834,503	2,691,374

Note 31 - Investments in Investees

Additional details in respect of subsidiaries directly held by the Company

	For the year ended December 31, 2013			
	Country of association	Company equity rights	Loans to investees	Investments in investees
		%	$ thousands	$ thousands
Makhteshim Chemical Works Ltd.	Israel	100	**306,666**	**833,327**
Agan Chemical Manufacturers Ltd.	Israel	100	**406,911**	**552,344**
Lycored Ltd.	Israel	100	–	**98,026**
			713,577	**1,483,697**

The Company is a guarantor of the liabilities to banks of subsidiaries unlimited in amount.
The balance of subsidiaries' liabilities to banks as at balance sheet date for which the Company is guarantor is $427 million.

	For the year ended December 31, 2012			
	Country of association	Company equity rights	Loans to investees	Investments in investees
		%	$ thousands	$ thousands
Makhteshim Chemical Works Ltd.	Israel	100	274,367	773,457
Agan Chemical Manufacturers Ltd.	Israel	100	442,964	536,443
Lycored Ltd.	Israel	100	–	86,330
			717,331	1,396,230

Note 32 – Subsequent Events

On Febuary 9, 2014, the Company issued debentures through an expansion of Series D totaling NIS 487.8 million par value of debentures, in consideration for 106.74 of their par value. The total net proceeds from the issuance amounted to $146.8 million.

Series D constitutes debebtures bearing base annual interest, unlinked, of 6.5%. The principal will be repaid in 3 equal payments in the years 2014 to 2016. The issuance costs for this series totaled $563 thousand.

Appendix to the Financial Statements as at December 31, 2013

Holding company	Investee company	Control rate and ownership of holding company %
A. Domestic consolidated subsidiaries		
Adama Agricultural Solutions Ltd.	Makhteshim Chemical Works Ltd. (Makhteshim)	100
	Agan Chemical Manufacturers Ltd. (Agan)	100
	Lycored Ltd. (Lycored)	100
Makhteshim	Makhteshim Chemical Works Trade and Marketing Ltd.	100
	Target Gene Biotechnologies Ltd.	50.1
	Energin.R Technologies 2009 Ltd.	15
Agan	Agan Aroma and Fine Chemicals Ltd.	100
	Agan Chemical Marketing Ltd.	100
Lycored	Lycored Bio Ltd.	100
	Dalidar Pharma Israel (1995) Ltd.	100
Agan Aroma and Fine Chemicals Ltd.	Interconnect Aroma Ltd.	100
B. Foreign consolidated subsidiaries		
Makhteshim	Celsius Property B.V. (Celsius)	100
Agan	Fahrenheit Holding B.V. (Fahrenheit)	100
Lycored	Lycored Sarl	100
	ALB Holdings UK	100
	Lycored Corp. (USA)	100
	Lycored Asia Limited	100
	VN Biotech Limited	100
Lycored Asia Limited	Lycored Food Additives (Changzhou) Co. Ltd.	100
ALB Holdings UK	Lycored Ltd (UK)	100
VN Biotech Limited	LLC Scientific and Production Enterprise “VITAN”	100
Makhteshim and Agan in equal parts	Makhteshim Agan Holding B.V.	100
Celsius	Irvita Plant Protection N.V. (Irvita)	100
	JK Magan Inc.	51
	Makhteshim Agan Industry Vietnam Limited company	100
	Makhteshim Agan Agrovita Slovakia s.r.o.	100
Fahrenheit	Quena Plant Protection N.V. (Quena)	100
Fahrenheit and Celsius in equal parts	Magan HB B.V.	100
	Magan Argentina S.A.	100
	Kollant s.r.l	100
	MACEE k.f.t.	100
	Proficol Andina N.V.	75

Appendix to the Financial Statements as at December 31, 2013

Holding company	Investee company	Control rate and ownership of holding company %
B. Foreign consolidated subsidiaries (cont'd)		
Fahrenheit 30%, Celsius 30% and Makhteshim Agan Holding B.V. 40%	Aragonesas Agro S.A.	100
Irvita and Quena	Makhteshim Agan C LLC	100
Magan HB B.V.	Milenia Agrociencias S.A.	100
MACEE k.f.t.	Makhteshim Agan Hungary Trading k.f.t.	100
Proficol Andina B.V.	Proficol Adnina B.V. Colombia	100
	Proficol Andina B.V. Ecuador	100
	Proficol Venezuela	100
	Profiandian Peru S.A.	100
Proficol Andina B.V. Ecuador	Profiandina S.A.	100
Profiandina S.A.	Agroprotection Andina S.A.S.	90
Agroprotection Andina S.A.S.	Servicidas de Colombia	100
Makhteshim Agan Holding B.V.	Agricur Defensivos Agricolas Ltd.	100
	Agronica (New Zealand) Ltd.	100
	Agrovita Spol S.r.o	100
	Magan Holding Germany GmbH	100
	Magan Korea Co Ltd.	100
	Magan Agrochemicals d.oo. Subotica	100
	Marus Ltd.	100
	Makhteshim Agan (Australia) Pty Ltd.	100
	Makhteshim Agan Agro Poland S.A.	100
	Makhteshim Agan Benelux and Nordic B.V.	55
	Makhteshim Agan (Australiasia) Pty	100
	Makhteshim Agan Costa Rica SA.	100
	Makhteshim Agan Dominican Republic	100
	Makhteshim Agan France S.A.S.	100
	Makhteshim Agan Guatemala Ltd	100
	Makhteshim Agan Holland B.V. (M.A. Holland)	100
	Makhteshim Agan India Private Ltd.	100
	Makhteshim Agan Italia S.R.L. (the balance of 5% is held by M.A. Holland.)	95
	Makhteshim Agan Japan K.K.	100
	Makhteshim Agan de Mexico S.A.	100
	Makhteshim Agan (New Zealand) Ltd.	100
	Makhteshim Aga of North America Inc.	100
	Makhteshim Agan Paraguay S.R.L.	100
	Makhteshim Agan Poland SP Z.O.O	100
	Makhteshim Agan (Portugal) Importacao e commercializacao de Produtos Ltd (the balance of 5% is held by M.A. Holland.)	95
	Makhteshim Agan Marom S.R.L	100
	Makhteshim Agan (Shanghai) Trading Co Ltd.	100
	Makhteshim Agan South Africa PTY Ltd.	100

Appendix to the Financial Statements as at December 31, 2013

B. Foreign consolidated subsidiaries (cont'd)

Holding company	Investee company	Control rate and ownership of holding company %
Makhteshim Agan Holding B.V.	Makhteshim Agan Switzerland AG	100
	Makhteshim Agan Singapore Pte Ltd.	100
	Makhteshim Agan (Thailand) Ltd.	100
	Makhteshim Agan (UK) Ltd.	100
	Makhteshim Agan Ukraine LLC.	100
	Makhteshim Agan Venezuela S.A.	100
	Makhteshim Agan West Africa Ltd.	100
	Makhteshim Agan East Africa Ltd.	100
	Makhteshim Agan Chile SPA	100
Makhteshim Agan Chile SPA	Chileagro Bioscience Inc.	100
Chileagro Bioscience Inc.	Chileagro Solutions S.A.	60
MA India	Royal Agro Indonesia PT	100
Magan Holding Germany GmbH	Feinchemie Schwebda GmbH	100
	Makhteshim Agan Deutschland GmbH	100
Makhteshim Agan de Mexico S.A.	Brovo AG S.A. DE C.V. (the balance of 1.4% is held by Makhteshim Agan Holdings B.V.)	98.6
	Plant Protection, SA DE C.V (the balance of 1% is held by Makhteshim Agan Holdings B.V.)	99
	Servicios Ingold S.A DE C.V (the balance of 1% is held by Makhteshim Agan Holdings B.V.)	99
	Ingennieris Industrial S.A DE C.V (the balance of 1% is held by Makhteshim Agan Holdings B.V.)	99
Makhteshim Agan de Mexico S.A., Plant Protection and Ingennieris Industrial	Integradora Bravo S.A DE C.V	70
Makhteshim Agan Benelux and Nordic B.V	UAB Mabeno	100
Makhteshim Agan Holding B.V	Makhteshim Agan Lda (the balance of 2.5% is held by Fahrenheit)	97.5
Makhteshim Agan of North America Inc.	Farm Saver Group	100
	Control Solutions Inc.	67.1
	Alligare LLC	80
	Makhteshim Agan of North America CANADA Ltd.	100
	Bold Formulators LLC	100
	Makhteshim Agan American Inc.	100
Makhteshim Agan Australasia Pty Ltd	Ecktrade Australia Pty Ltd	100
	Farmoz Pty Limited (the balance of 50% is held by Ecktrade Australia Pty Ltd.)	50
Makhteshim Agan West Africa	Makhteshim Agan West Africa (Nigeria) Ltd.	100
	Makhteshim Agan Ivory Coast Ltd.	100
	Makhteshim Agan West Africa Pty Ltd. Burkina Faso	100

Appendix to the Financial Statements as at December 31, 2013

C. Jointly-controlled associated companies

Adama Agricultural Solutions Ltd.	Biotec M.A.H. Foundation plant genome - Limited Partnership	50
Biotec M.A.H Limited Partnership	Biotec Agro Ltd.	100
Agan Aroma Chemicals Ltd.	Negev Aroma (Naot Hovav) Ltd.	50
Makhteshim Agan Holdings B.V.	Alfa Agricultural Supplies S.A.	49
Alfa Agricultural Supplies S.A.	Agribul Ltd.	100
Fahrenheit	InnovAroma S.A.	50

D. Associated company

Celsius	Hubei Sanonda Co.	10.6

Makhteshim and Agan hold shares in other foreign companies that hold registration rights to certain products sold outside of Israel.

Adama Agricultural Solutions Ltd.

Separate Financial Data
As at December 31, 2013
In USD

Separate Financial Data as at December 31, 2013

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To: The Shareholders of Adama Agricultural Solutions Ltd.

Dear Sirs,

Subject: Special auditors' report on separate financial data according to Regulation 9C of the Israeli Securities Regulations (Periodic and Immediate Reports), 1970

We have audited the separate financial data presented in accordance with Regulation 9C of the Securities Regulations (Periodic and Immediate Reports), 1970, of Adama Agricultural Solutions Ltd. (formerly, Makhtenshim Agan Industries Ltd.) (hereinafter – "the Company") as of December 31, 2013 and 2012 and for each of the three years, the last of which ended on December 31, 2013. The separate financial data are the responsibility of the Company's Board of Directors and of its Management. Our responsibility is to express an opinion on the separate financial data based on our audit.

We did not audit the financial statements of equity accounted investees the investment in which amounted to $111,726 thousand and $98,551 thousand as of December 31, 2013 and 2012, respectively, and the Group's share in their profits amounted to $15,657 thousand, $15,222 thousand and $11,551 thousand for each of the three years, the last of which ended December 31, 2013. The financial statements of those companies were audited by other auditors whose reports thereon were furnished to us, and our opinion, insofar as it relates to amounts emanating from the financial statements of such companies, is based on the reports of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards in Israel. Such standards require that we plan and perform the audit to obtain reasonable assurance that the financial data are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the separate financial data. An audit also includes assessing the accounting principles that were used in preparing the separate financial data and significant estimates made by the Board of Directors and by Management, as well as evaluating the separate financial data presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit and on the reports of the abovementioned other auditors, the separate financial data has been prepared, in all material respects, in accordance with Regulation 9C of the Securities Regulations (Periodic and Immediate Reports), 1970.

Somekh Chaikin
Certified Public Accountants (Isr.)

March 6, 2014

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

Separate Financial Data as at December 31, 2013

Data on Financial Position

	Note	December 31 2013 $ thousands	December 31 2012 $ thousands
Current assets			
Cash and cash equivalents	(3)	**4,242**	1,095
Prepaid expenses		**752**	868
Other receivables and investee companies	(4)	**320,595**	195,952
Derivatives	(4)	**28,709**	25,774
Total current assets		**354,298**	223,689
Long-term investments, loans and receivables			
Investments in investee companies		**1,483,697**	1,396,230
Loans to investee companies	(4)	**713,577**	717,331
		2,197,274	2,113,561
Fixed assets		**2,740**	2,883
Intangible assets		**2,108**	1,492
Deferred tax assets	(6)	**–**	410
Total non-current assets		**2,202,122**	2,118,346
Total assets		**2,556,420**	2,342,035

Separate Financial Data as at December 31, 2013

Data on Financial Position

	Note	December 31 2013 $ thousands	December 31 2012 $ thousands
Current liabilities			
Debentures	(4)	**65,378**	150,140
Other payables	(4)	**32,478**	18,293
Derivatives	(4)	**–**	1,923
Total current liabilities		**97,856**	170,356
Long-term liabilities			
Debentures	(4)	**1,050,916**	840,609
Employee benefits		**4,497**	2,930
Total non-current liabilities		**1,055,413**	843,549
Total liabilities		**1,153,269**	1,013,895
Equity			
Share capital		**125,595**	125,595
Share premium		**623,829**	623,829
Reserves		**(307,096)**	(257,662)
Retained earnings		**960,823**	836,378
Total equity attributable to equity holders of the Company		**1,403,151**	1,328,140
Total liabilities and equity		**2,556,420**	2,342,035

Yang Xingqiang	Chen Lichtenstein	Aviram Lahav
Chairman of the Board of Directors	President & Chief Executive Officer	Chief Financial Officer

Date of approval financial statements: March 6, 2014

The accompanying additional information is an integral part of the separate financial data.

Separate Financial Data as at December 31, 2013

Data on Income

	Note	Year ended December 31 2013 $ thousands	2012 $ thousands	2011 $ thousands
Revenues				
Management fees from investees		**34,223**	29,149	26,551
Expenses				
General and administrative expenses		**45,564**	33,498	34,908
Operating loss		**(11,341)**	(4,349)	(8,357)
Financing income		**171,578**	166,508	133,442
Financing expenses		**(171,466)**	(168,333)	(129,252)
Financing income (expenses), net		**112**	(1,825)	4,190
Loss after financing expenses, net		**(11,229)**	(6,174)	(4,167)
Income from investees		**139,184**	128,556	127,952
Profit before taxes		**127,955**	122,382	123,785
Taxes on income (tax benefit)	(5)	**707**	(81)	3,267
Profit for the year attributable to the owners of the Company		**127,248**	122,463	120,518

The accompanying additional information is an integral part of the separate financial data.

Separate Financial Data as at December 31, 2013

Data on Comprehensive Income

	Year ended December 31		
	2013	2012	2011
	$ thousands	$ thousands	$ thousands
Profit for the year attributable to the owners of the Company	**127,248**	122,463	120,518
Components of other comprehensive income where after the initial recognition as part of the comprehensive income were transferred or will be transferred to the statement of income			
Effective portion of changes in fair value of cash flow hedges	**7,294**	3,943	(16,124)
Net change in fair value of cash flow hedges transferred to profit or loss	**(7,881)**	(5,482)	11,902
Other comprehensive income (loss) from investees, net from tax	**(48,509)**	(27,490)	21,931
Taxes on other components of comprehensive income that were transferred or will be transferred to the statement of income in succeeding periods	**76**	(9)	1,494
Total other comprehensive income (loss) for the year where after the initial recognition as part of the comprehensive income was transferred or will be transferred to the statement of income, net of tax	**(49,020)**	(29,038)	19,203
Components of other comprehensive income that will not be transferred to the statement of income			
Re-measurement of defined benefit plan, net of tax	**(11)**	(302)	615
Other comprehensive income (loss) from investees, net from tax			
Taxes on other components of comprehensive income	**134**	(3,974)	1,809
Total comprehensive income (loss) that will not be transferred to the statement of income, net	**123**	(4,276)	2,424
Total comprehensive income for the year attributable to the owners of the Company	**78,351**	89,149	142,145

The accompanying additional information is an integral part of the separate financial data.

Data on Cash Flows

	Year ended December 31		
	2013	**2012**	**2011**
	$ thousands	**$ thousands**	**$ thousands**
Cash flows from operating activities			
Profit for the year attributable to Company's equity holders	**127,248**	122,463	120,518
Adjustments			
Income from investees	**(139,184)**	(128,556)	(127,952)
Depreciation and amortization	**1,572**	1,666	1,675
Amortization of discount/premium and issuance costs	**667**	(228)	21
Expenses for employee options	**–**	–	6,243
Adjustment of long-term liabilities	**105,752**	36,759	(50,009)
SWAP transactions	**(7,882)**	(5,481)	11,902
Change in provision for tax and income tax advances, net	**–**	–	1,102
Change in deferred taxes, net	**486**	(218)	2,124
Changes in assets and liabilities			
Decrease (increase) in accounts receivable and current assets	**(16,830)**	(12,370)	36,617
Increase (decrease) in accounts payable and other liabilities	**12,836**	(47,473)	49,332
Change in provisions and employee benefits	**982**	36	58
Net cash used in operating activities in respect of transactions with investees	**(119,740)**	(95,520)	(87,371)
Net cash used in operating activities	**(34,093)**	(128,922)	(35,740)
Cash flows from investing activities			
Acquisition of fixed assets	**(365)**	(424)	(1,082)
Additions to intangible assets	**(1,681)**	(736)	(1,350)
Net cash provided by (used in) operating activities in respect of transactions with investees	**1,721**	(869)	153,534
Net cash provided by (used in) investing activities	**(325)**	(2,029)	151,102
Cash flows from financing activities			
Issuance of debentures net of issuance costs	**177,215**	276,183	–
Repayment of debentures	**(160,959)**	(147,230)	(117,803)
Payment of SWAP transaction	**21,309**	12,242	11,519
Purchase of options from employees	**–**	–	(19,138)
Increase (decrease) in short-term liabilities to banks	**–**	(9,993)	9,993
Net cash provided by (used in) financing activities	**37,565**	131,202	(115,429)
Increase (decrease) in cash and cash equivalents	**3,147**	251	(67)
Cash and cash equivalents at beginning of the year	**1,095**	844	911
Cash and cash equivalents at end of the year	**4,242**	1,095	844
Supplementary information:			
Interest paid in cash	**(62,848)**	(61,111)	(54,610)
Interest received in cash	**1,854**	4,225	1,005
Taxes paid in cash, net	**(216)**	(135)	(130)

The accompanying additional information is an integral part of the separate financial data.

Additional Information

1. General

Presented hereunder are financial data from the Group's consolidated financial statements of December 31, 2013 (hereinafter – the consolidated financial statements), which are issued in the framework of the periodic reports, and which are attributed to the Company itself (hereinafter – separate financial data), and are presented in accordance with Regulation 9C (hereinafter – the Regulation) and the tenth addendum to the Securities Regulations (Periodic and Immediate Reports) – 1970 (hereinafter – the tenth addendum) regarding separate financial data of an entity.

The separate financial information should be read together with the consolidated financial statements.

In these separate financial data – the Company, subsidiaries and investees as defined in Note 1B in the consolidated financial statements.

2. Significant accounting policies applied in the separate financial data

The accounting policies described in Note 3 to the consolidated financial statements have been applied consistently to all periods presented in the Company's separate financial data, including the manner by which the financial data were classified in the consolidated financial statements, with any necessary changes deriving from that mentioned hereunder:

A. Presentation of the financial data

(1) **Data on financial position**
Information on amounts of assets and liabilities included in note 3 to the consolidated financial statements that are attributable to the Company itself (other than in respect of investee companies), according to categories of assets and liabilities, as well as information regarding the net amount, on the basis of the consolidated financial statements, that is attributable to the Company's owners, of total assets less total liabilities, in respect of investee companies, including goodwill.

(2) **Data on comprehensive income**
Information on amounts of revenues and expenses included in the consolidated financial statements, allocated between income and other comprehensive income, attributable to the Company itself (other than in respect of investee companies), while specifying the categories of revenues and expenses, as well as information regarding the net amount, on the basis of the consolidated financial statements, that is attributable to the Company's owners, of total revenues less total expenses in respect of the operating results of investee companies.

(3) **Data on cash flows**
Information on cash flows included in the consolidated financial statements that are attributable to the Company itself (other than in respect of investee companies), taken from the consolidated statement of cash flows, classified according to flow from operating activities, investing activities and financing activities with details of their composition. Cash flows from operating activities, investing activities and financing activities for transactions with investee companies are presented separately on a net basis, under the relevant type of activity, in accordance with the nature of the transaction.

Additional Information

2. Significant accounting policies applied in the separate financial information (cont'd)

B. Transactions between the Company and investees

(1) Presentation

Intra-group balances and transactions, and any income and expenses arising from intra-group transactions, which were eliminated in preparing the consolidated financial statements, were presented separately from the balance in respect of investee companies and the profit in respect of investee companies, together with similar balances with third parties.

(2) Measurement

Transactions between the Company and its subsidiaries were measured according to the recognition and measurement principles provided in International Financial Reporting Standards ("IFRS") with respect for the accounting treatment for transactions of this kind that are executed with third parties.

3. Cash and Cash Equivalents

	December 31	
	2013	2012
	$ thousands	$ thousands
Cash and cash equivalents denominated in shekels	**3,215**	415
Cash and cash equivalents linked to the dollar	**674**	477
Cash and cash equivalents linked to other currency	**353**	203
Total cash and cash equivalents	**4,242**	1,095

4. Financial Instruments

A. Short-term investments and other receivables

	December 31, 2013		
	Denominated in or linked to the dollar	Denominated in or linked to other currencies	Total
	$ thousands	$ thousands	$ thousands
Current assets			
Other receivables and investee companies	**295,075**	**25,520**	**320,595**

	December 31, 2013	
	Denominated in or linked to the dollar	Total
	$ thousands	$ thousands
Non-current assets		
Loans to investees (see Note 7B)	**713,577**	**713,577**

Additional Information

4. Financial Instruments (cont'd)

A. Short-term investments and other receivables (cont'd)

	December 31, 2012			
	In linked Israeli currency	Denominated in or linked to the dollar	Denominated in or linked to other currencies	Total
	$ thousands	$ thousands	$ thousands	$ thousands
Current assets				
Other receivables and investees	155,767	22,343	17,842	195,952

	December 31, 2012		
	In linked Israeli currency	Denominated in or linked to the dollar	Total
	$ thousands	$ thousands	$ thousands
Non-current assets			
Loans to investees (see Note 7B)	564,292	153,039	717,331

B. Derivatives

Breakdown according to financial asset groups

	December 31	
	2013	2012
	$ thousands	$ thousands
Current investments		
Assets in respect of forward contracts on exchange rates not used for hedging	**28,709**	11,759
Assets in respect of interest rate SWAPs used for hedging	–	14,015
	28,709	25,774

Additional Information

4. Financial Instruments (cont'd)

C. Loans and credit

(1) This section provides information regarding the contractual terms of the Company's interest-bearing loans and credit, measured at amortized cost.

	Linkage terms	Interest rate as at balance sheet date	Par value	Total
		%	NIS thousands	$ thousands
Debentures – Series B	CPI	5.15	2,751,027	**920,161**
Debentures – Series D	Unlinked	6.5	677,842	**196,133**
Total			3,428,869	**1,116,294**

(2) Maturities

	$ thousands
First year (current maturities)	65,378
Second year	65,378
Third year	65,378
Fourth year	–
Fifth year and thereafter	920,160
	1,116,294

Additional Information

4. Financial Instruments (cont'd)

D. Other payables

	December 31, 2013				
	In unlinked Israeli currency	In CPI-linked Israeli currency	Denominated in or linked to dollar	Denominated in or linked to other currency	Total
	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands
Other payables	**17,977**	**4,184**	**10,148**	**169**	**32,478**

	December 31, 2012			
	In unlinked Israeli currency	In CPI-linked Israeli currency	Denominated in or linked to dollar	Total
	$ thousands	$ thousands	$ thousands	$ thousands
Other payables	13,076	3,322	1,895	18,293

Additional Information

4. Financial Instruments (cont'd)

E. Liquidity risk

Present below are the contractual maturity dates of the financial liabilities, including estimates of interest payments:

	As at December 31 2013						
	Carrying amount	Projected cash flows	First year	Second year	Third year	Fourth year	Fifth year and above
	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands
Non-derivative financial liabilities							
Other payables	32,478	32,478	32,478	–	–	–	–
Debentures	1,116,294	1,852,615	125,515	121,265	117,016	47,388	1,441,431
Total	1,148,772	1,885,093	157,993	121,265	117,016	47,388	1,441,431

Additional Information

4. Financial Instruments (cont'd)

E. Liquidity risk

Present below are the contractual maturity dates of the financial liabilities, including estimates of interest payments:

	As at December 31 2012						
	Carrying amount	Projected cash flows	First year	Second year	Third year	Fourth year	Fifth year and above
	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands
Non-derivative financial liabilities							
Other payables	18,293	18,293	18,293	–	–	–	–
Debentures	990,749	1,596,440	205,000	107,854	103,920	99,986	1,079,680
Financial instruments							
Derivatives in foreign currency	1,994	1,994	1,994	–	–	–	–
CPI/NIS forward transactions	226	226	226	–	–	–	–
Total	1,011,262	1,616,153	225,513	107,854	103,920	99,986	1,079,680

Additional Information

4. Financial Instruments (cont'd)

E. Liquidity risk (cont'd)

The table below presents the periods in which cash flows that are related to the derivatives used to hedge cash flows are expected to impact income or loss:

	2013								
	Carrying amount	**Projected cash flows**	**6 months or less**	**6-12 months**	**Second year**	**Third year**	**Fourth year**	**Fifth year**	**Sixth year and above**
	$ thousands	**$ thousands**	**$ thousands**	**$ thousands**	**$ thousands**	**$ thousands**	**$ thousands**	**$ thousands**	**$ thousands**
Interest rate swap:	**(1,924)**	**(1,924)**	**(240)**	**(241)**	**(481)**	**(481)**	**(481)**	**–**	**–**

The table below presents the periods in which the projected cash flows that are related to the derivatives used to hedge cash flows are expected to occur:

	2012								
	Carrying amount	**Projected cash flows**	**6 months or less**	**6-12 months**	**Second year**	**Third year**	**Fourth year**	**Fifth year**	**Sixth year and above**
	$ thousands	**$ thousands**	**$ thousands**	**$ thousands**	**$ thousands**	**$ thousands**	**$ thousands**	**$ thousands**	**$ thousands**
Interest rate swap:	14,015	13,611	(474)	14,085	–	–	–	–	–

The table below presents the periods in which cash flows that are related to the derivatives used to hedge cash flows are expected to impact income or loss:

	2012								
	Carrying amount	**Projected cash flows**	**6 months or less**	**6-12 months**	**Second year**	**Third year**	**Fourth year**	**Fifth year**	**Sixth year and above**
	$ thousands	**$ thousands**	**$ thousands**	**$ thousands**	**$ thousands**	**$ thousands**	**$ thousands**	**$ thousands**	**$ thousands**
Interest rate swap:	(2,511)	(2,511)	(293)	(294)	(481)	(481)	(481)	(481)	–

Additional Information

4. Financial Instruments (cont'd)

F. Linkage and foreign currency risks

(1) Presented below are the company exposure to linkage and foreign currency risk in respect of derivatives:

	December 31 2013				
	Currency/ linkage receivable	Currency/ linkage payable	Average date of expiration	Par value (currency)	Fair value
				$ thousands	$ thousands
Forward foreign currency contracts and purchase options	NIS	USD	30/03/2014	**679,275**	**10,464**
CPI forward contract	CPI	NIS	30/01/2014	**28,810**	**16**
Forward contract on the CPI and foreign currency	NIS linked	USD	30/04/2014	**399,778**	**18,229**

	December 31 2012				
	Currency/ linkage receivable	Currency/ linkage payable	Average date of expiration	Par value (currency)	Fair value
				$ thousands	$ thousands
Forward foreign currency contracts and purchase options	NIS	USD	15/03/2013	335,279	5,890
CPI forward contract	CPI	NIS	03/05/2013	80,364	(541)
Interest rate swaps ILS	NIS	USD	29/11/2013	87,884	14,015
Forward contract on the CPI and foreign currency	NIS linked	USD	23/06/2013	569,362	4,487

Additional Information

4. Financial Instruments (cont'd)

G. Sensitivity analysis

A strengthening or weakening of the dollar against the shekel as at December 31 and an increase or decrease in the CPI would have increased (decreased) the shareholders' equity and the profit or loss in the amounts shown below. This analysis was made on the assumption that all the other variables, among others, the interest rates, remain constant. The analysis for 2012 was made on the same basis.

	December 31, 2013			
	Decrease of 5%		Increase of 5%	
	Equity	Profit (loss)	Equity	Profit (loss)
	$ thousands	$ thousands	$ thousands	$ thousands
Shekel	**(952)**	**(952)**	**7,555**	**7,555**
CPI	**26,564**	**26,564**	**(26,564)**	**(26,564)**

	December 31, 2012			
	Decrease of 5%		Increase of 5%	
	Equity	Profit (loss)	Equity	Profit (loss)
	$ thousands	$ thousands	$ thousands	$ thousands
Shekel	36,667	36,748	(32,127)	(32,193)
CPI	(35,068)	(34,874)	35,068	34,874

Additional Information

5. Income tax expenses (income)

A. Components of income tax expenses (income)

	For the year ended December 31		
	2013	2012	2011
	$ thousands	$ thousands	$ thousands
Current tax expenses (income)			
For the current period	**221**	137	130
Adjustments for prior years, net	**–**	–	1,013
	221	137	1,143
Deferred tax expenses (income)			
Creation and reversal of temporary differences	**421**	76	878
Changes in the tax rate	**65**	(294)	1,246
	486	(218)	2,124
Total income tax expenses (income)	**707**	(81)	3,267

Additional Information

5. Income tax expenses (income) (cont'd)

B. Income taxes on components of other comprehensive income

	For the year ended December 31								
	2013			2012			2011		
	Before tax	Tax benefit	Net of tax	Before tax	Tax benefit	Net of tax	Before tax	Tax benefit	Net of tax
	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands
Hedge of cash flows	**(587)**	**76**	**(511)**	(1,539)	(9)	(1,548)	(4,222)	1,494	(2,728)
Actuarial gains (losses) from defined benefit plan	**(11)**	**–**	**(11)**	(302)	–	(302)	103	512	615
Total other comprehensive income	**(598)**	**76**	**(522)**	(1,841)	(9)	(1,850)	(4,119)	2,006	(2,113)

Additional Information

6. Deferred tax assets and liabilities

A. Deferred tax assets and liabilities recognized

Deferred tax assets and liabilities are attributed to the following items:

	Financial instruments	Total
	$ thousands	$ thousands
Deferred tax asset balance as at January 1, 2012	201	201
Changes charged to statement of income	218	218
Changes charged to other comprehensive income	(9)	(9)
Deferred tax asset balance as at December 31, 2012	**410**	**410**
Changes charged to statement of income	**(486)**	**(486)**
Changes charged to other comprehensive income	**76**	**76**
Deferred tax asset balance as at December 31, 2013	**–**	**–**

B. Items for which deferred tax assets were not recognized

Pursuant to the Law for Encouragement of Industry (Taxes), 1969, the Company files a consolidated report for tax purposes with Makhteshim Chemical Plants Ltd. (hereinafter – "Makhteshim").

As at December 31, 2013, deferred taxes were not recognized in respect of losses for tax purposes o the Company and of Makhteshim, in the amount of $74 million (December 31, 2012 – $135 million) since it is not expected that there will be taxable income in the future against which it will be possible to utilize these benefits.

According to existing tax laws, there is no time limit on the utilization of tax losses and the utilization of temporary differences that may be deducted.

C. Final assessments

The Company and Makhteshim have received final tax assessments up to and including the 2008 tax year.

Additional Information

7. Ties, commitments and material transactions with investee companies

A. Financial guarantees

The Company has guaranteed the liabilities to banks of subsidiaries, unlimited in amount. The balance of liabilities to banks of subsidiaries at the reporting date, for which the Company is a guarantor, is $427 million.

B. Loans

The loans between the Company and Israeli investee companies are given at the same terms as those obtained by the Company, provided that the loan terms will not be less than the minimum interest required by Israeli tax law. During the financial statement preparation, the loan terms complied with the said agreement.

C. Agreement to provide services

The Company provides services to the subsidiaries Makhteshim and Agan, management services and various headquarter services. For these services, the subsidiaries, Makhteshim and Agan, pay annual consideration, which is calculated based on the cost of the services plus a designated margin, in quarterly payments.

8. Buy-back of shares

See Note 21E to consolidated financial statements.

אדמה פתרונות לחקלאות בע"מ
ADAMA Agricultural Solutions Ltd.

Chapter D

Additional Information on the Corporation

Chapter D – Additional Information on the Corporation

Company name: ADAMA Agricultural Solutions Ltd. **Corporate ID No.:** 52-004360-5
Address: Golan st. Arava Building, POB 298, Airport City Park, 70100 **Fax:** 073-2321074
Telephone: 073-2321000 **Report date:** March 6, 2014
Balance sheet date: December 31, 2013

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Regulation 10A – Condensed consolidated statements of profit for each quarter of 2013 (in USD thousands)

	Year 1-12/2013	Quarter 10-12/2013	Quarter 7-9/2013	Quarter 4-6/2013	Quarter 1-3/2013
Sales revenues	3,076,355	655,686	732,029	803,255	885,385
Cost of sales	2,108,282	469,712	498,143	549,829	590,598
Gross profit	968,073	185,974	233,886	253,426	294,787
Other revenues	(12,815)	(2,519)	(4,564)	(5,332)	(400)
Selling and marketing expenses	522,050	135,979	128,697	129,069	128,305
General and administrative expenses	114,485	31,429	28,032	28,225	26,799
Research and development expenses	33,667	8,807	7,990	8,037	8,833
Other expenses (profit)	1,697	1,193	194	147	163
Total expenses	659,084	174,889	160,349	160,146	163,700
Operating profit	308,989	11,085	73,537	93,280	131,087
Finance expenses, net	140,565	37,721	38,867	34,703	29,274
Profit (loss) after finance	168,424	(26,636)	34,670	58,577	101,813
Equity in loss of held company treated on equity basis	(3,197)	1,576	418	(4,196)	(995)
Pre-tax profit (loss)	171,621	(28,212)	34,252	62,773	102,808
Income taxes	44,550	859	16,329	14,688	12,674
Profit (loss) for the period	127,071	(29,071)	17,923	48,085	90,134
Attributed to:					
Holders of equity rights	127,248	(29,092)	17,958	48,184	90,198
Non-controlling interest	(177)	21	(35)	(99)	(64)
Profit (loss) for the period	127,071	(29,071)	17,923	48,085	90,134

Condensed statements of comprehensive Profit of the Company for each quarter of 2013 (in USD thousands)

	Year 1-12/2013	Quarter 10-12/2013	Quarter 7-9/2013	Quarter 4-6/2013	Quarter 1-3/2013
Profit (loss) for the period	127,071	(29,071)	17,923	48,085	90,134
Components of other comprehensive Profit that, after being recognized in the comprehensive profit, was transferred or will be transferred to profit and loss.					
Foreign currency translation differences for foreign operations	(16,691)	33	1,900	(16,085)	(2,539)
Effective portion of changes in fair value of cash flow hedges	(19,145)	(19,255)	(24,882)	(1,101)	26,002
Net change in fair value of cash flow hedges transferred to profit and loss	(13,174)	(895)	(5,065)	(2,682)	(4,532)
Taxes on components of other comprehensive profit that were transferred or will be transferred to profit and loss in consecutive periods.	118	77	1,451	450	(1,860)
Total comprehensive Profit (loss) to the year after first recognized in the comprehensive profit, that was transferred or will be transferred to profit and loss, net of tax	(48,892)	(20,040)	(26,596)	(19,327)	17,071
Components of other comprehensive Profit that will not be transferred to profit and loss.					
Reassessing defined benefit plan	170	(2,505)	2,156	(83)	602
Taxes on components of other comprehensive profit that will not be transferred to profit and loss	(47)	272	(219)	(58)	(42)
Total other comprehensive profit (loss) for the year, that will not be transferred to profit and loss, net of tax	123	(2,233)	1,937	(141)	560
Comprehensive profit (loss) for the period	78,302	(51,344)	(6,736)	28,617	107,765
Total comprehensive profit attributed to:					
Holders of equity rights	78,351	(51,598)	(6,596)	28,716	107,829
Non-controlling interest	(49)	254	(140)	(99)	(64)
Comprehensive profit for the period	78,302	(51,344)	(6,736)	28,617	107,765

Regulation 10C – Use of proceeds from securities

On May 9, 2010, the Company published a shelf prospectus ("the Shelf Prospectus") (Ref. 2010-01-000043), pursuant to which the Company was allowed to offer to the public shares, straight debentures, debentures convertible to shares, options exercisable to shares, options exercisable to debentures and commercial paper.

In the shelf offering report published by the Company, on January 15, 2012 (Ref. 2012-02-015084), additional Debentures (Series B and D) of the Company were listed for trading on the Tel Aviv Stock Exchange Ltd. by way of series expansion, at a total par value of NIS 1,054,097,000.

As noted in the aforementioned shelf offering report, the Company used the proceeds from the debentures for various purposes, as designated by the Company, including for the implementation and realization of its business strategy goals and for improving the structure of its net debt. For details of the Company's strategic business goals, see Section 31 of Chapter A of this report.

Regulation 11 – List of investments in subsidiaries and related companies at date of statement of financial condition

Company name	Stock exchange number	Class of share	Number of shares held	Total held issued and paid up par value	Cost (in USD K's)	Value in Company separate financial statements	% held by Company			
							In security	In equity	In voting	In authority to appoint directors
Makhteshim Chemical Works Ltd.	Not traded	Ordinary	114,238,074	114,238,074	219,216	773,457	100%	100%	100%	100%
Agan Chemical Manufacturers Ltd.	Not traded	Ordinary	15,065,980	15,065,980	206,962	536,443	100%	100%	100%	100%
Lycored Ltd.	Not traded	Ordinary	11,736,558	11,736,558	12,654	86,332	100%	100%	100%	100%
Total investments in subsidiaries					**438,832**	**1,396,232**				

Balance of loans to subsidiaries and related companies – as of date of statement of financial condition (in USD thousands)

Company name	Loan amount	Linkage terms	Interest rate	Maturity date
Agan Chemical Manufacturers Ltd.	406,911	Dollar-linked	7.76%	Not yet fixed
Makhteshim Chemical Works Ltd.	306,666	Dollar-linked	7.76%	Not yet fixed
Total	**713,577**			

Regulation 12 – Changes in investments in subsidiaries and related companies in the reporting period

During 2013 the Company, through wholly-owned subsidiaries, made investments in subsidiaries and related companies that are not material to the Company, at a total cost of USD 68,700 thousand.

Regulation 13 – Revenues of subsidiaries and related companies and the Company's revenues from them at date of statement of financial condition (in USD thousands).

Name of subsidiary	Profit (loss)		Company's revenues from subsidiaries		
	Before provision for tax	After provision for tax and including equity gains from subsidiaries	Dividend	Manage-ment fees	Interest, linkage differences
Makhteshim Chemical Works Ltd.	(25,039)	49,638	-	15,155	29,606
Agan Chemical Manufacturers Ltd.	(55,451)	66,110	-	19,068	50,002
Lycored Ltd.	14,266	12,808	-	554	-

Regulation 14 – List of loans given at date of statement of financial condition, if giving loans was one of the corporation's main occupations

None.

Regulation 20 – Stock exchange trading – Securities listed for trading/suspension of trading – Dates and reasons

On January 9, 2013, NIS 600,000,000 par value of Debentures (Series B) were issued by way of series expansion and were listed for trading, in a private placement to classified investors and a number of private investors who did not exceed thirty-five. For more information, see the immediate report of January 6, 2013 (Ref. 2013-01-004971).

After the report date, on February 11, 2014, NIS 487,795,000 par value Debentures (Series D) were issued by way of series expansion and were listed for trading, in a private placement to classified investors and a number of private investors who did not exceed thirty-five. For more information, see the immediate report of February 9, 2014 (Ref. 2014-01-034657).

Regulation 21 – Payments to senior officers

Below are details of compensation paid during the reporting year, as provided in the Sixth Schedule to the Reporting Regulations.

A. Senior officers in the Company and in the companies it controls

Compensation recipient				Compensation for services (in NIS thousands)*		
Name	**Title**	**Scope of position**	**Holding in Company equity**	**Salary(1)**	**Bonus for 2013(4)**	**Total**
Erez Vigodman (2)	President and CEO	100%	0	2,093	6,939 (5)	9,032
Ignacio Dominguez (7)	SVP, CCO and head of Products and Global Marketing	100%	0	3,519	2,147 (6)	5,666
Saul Friedland (7)	Americas Regional Manager	100%	0	2,190	1,723 (6)	3,914
Ran Maidan (7)	Asia Pacific and Africa Regional Manager	100%	0	2,332	1,523 (6)	3,855
Chen Lichtenstein (3) (7)	Deputy CEO	100%	0	2,285	1,296 (6)	3,581

(*) Compensation amounts are in terms of cost to the Company.

(1) The salary component stated above includes all of the following components: monthly CPI-linked salary, social benefits, prevailing social provisions and related expenses, grossing up of vehicle value, and reimbursement of landline and cellular telephone expenses.

(2) On December 24, 2013, the Company's Board of Directors approved the adjustment of the employment agreement of Mr. Erez Vigodman, so that the bonus mechanism set in the agreement will be consistent with the compensation policy adopted by the Company. For further details see an immediate report from December 25, 2013 (Ref. 2013-01-107488),

(3) On February 7, 2014, Mr. Chen Lichtenstein began his term as president and CEO of the Company. The data in the table describes the remuneration to which Mr. Lichtenstein was entitled for his role as deputy CEO during the reported year.

(4) It is noted that during 2013, the Remuneration Committee and the Board of Directors of the Company, at their meetings on March 7, 2013, approved bonuses to officers for 2012 as described in Chapter D of the Periodic report for 2012 (regulation 21).

(5) According to the approval of the Remuneration Committee from March 5, 2014 and the approval of the Board of Directors and of the shareholders of the Company from March 6, 2014, the bonus component presented in the table reflects the annual bonus for 2013 to be granted to Mr. Vigodman.

(6) According to the approval of the Remuneration Committee from March 5, 2014 and of the Board of Directors from March 6, 2014, the bonus component presented in the table reflects the annual bonus for 2013 and a special bonus as substitute for share based remuneration for 2013 to be granted to the senior officers according to the Company's remuneration policy.

(7) According to the approval of the Remuneration Committee and the Board of Directors of the Company from December 24, 2013 the Company granted to its officers, on January 29, 2014, options exercisable to Company's shares in

accordance to an option plan for officers and employees, adopted by the Company (see immediate report from January 30, 2014 (ref. 2014-01-028075)). No expense was recorded in the Company's books in 2013 due to such grant.

B. **Senior officers in the Company itself**

There are no senior officers receiving the highest compensation in the corporation and to whom the compensation was granted in connection with his/her service in the corporation itself, who are not included in the list above.

C. **Compensation paid to senior officers after the balance sheet date, related to their tenure or their employment in the reporting year**

See the above table.

D. **Compensation paid to each of the interested parties in the Company who is not included in the above item**

During 2013, compensation to directors that is not irregular (i.e. does not exceed the maximum amount under Regulations 4 and 5 of the Companies Regulations (Principles for Compensation and Expenses for an External Director), 2000) ("the Compensation Regulations")), amounted, with regard to all entitled directors, to NIS 909.7 thousand.

In accordance with the Company's Articles of Association, as long as not determined otherwise by the general meeting of the shareholders of the Company, directors in the Company are not entitled to any compensation for their service other than reimbursement of expenses, except for external directors (Mr. Yehezkel Ofir and Mrs. Shoshan Haran) and the independent director (Mr. Zhang Gong), who are entitled to the maximum amount of compensation set in the Compensation Regulations. For information about the amount of compensation and the reasons of the Audit Committee and the Board of Directors, see the Company's immediate report of May 14, 2008 (Ref. 2008-01-122468). On June 6, 2013 the shareholders of the Company approved a payment of Director's compensation to Mr. Ami Erel. The Director's compensation approved for Mr. Erel is identical to the compensation approved to the external directors in the Company.

E. For additional details on the Company's remuneration policy, see the immediate report from December 25, 2013 (Ref. 2013-01-107488).

Regulation 21A – Control in the Company

As of the reporting date, the controlling shareholder in the Company is CNAC International Pte Ltd. ("CNAC"). It is noted that because of a shareholders' agreement between Koor Industries Ltd. ("Koor") and CNAC, Koor may be considered as joint holder with CNAC, and accordingly, for the sake of caution, as a controlling shareholder.

For more details about the shareholders agreement, see section 2.1.5 of Chapter A of this Periodic Report.

Regulation 22 – Transactions with a controlling shareholder

For details of transactions with the controlling shareholder or in which the controlling shareholder has a personal interest in their approval[1] (except for negligible transactions), in which the Company engaged during the reporting period or on a date subsequent to the end of the reporting year until the filing date of the report, or are still in effect on the report date, see Note 28 to the financial statements.

Negligible transactions procedure

At its meeting on March 5, 2014, the Audit Committee of the Company reviewed the manner of application of the negligible transactions procedure in 2013 and examined a sampling of transactions that were classified in 2013 as negligible pursuant to the procedure. Accordingly, the Audit Committee determined that the Company applies the procedure in the required manner.

For details about the negligible transactions procedure see Note 28 to the financial statements of the Company as of December 31, 2013.

Regulation 24 – Holdings of interested parties and senior officers

For details on the holdings of interested parties in the Company in Company shares and securities, see the Company's immediate report of March 6, 2014 (Ref. 2014-01-006687), which is included here by way of reference.

Regulation 24A – Registered capital, issued capital and convertible securities

See Note 21A to the financial statements.

Regulation 24B – Shareholders Register

As of the publication date this Periodic Report, the register of the Company's shareholders is as follows:

Name of shareholder	Corporate/ID No.	Street	City	Residency	Par value
CNAC International Pte Ltd.	201110171Z	80 Raffles, PL #32-01, 048624	Singapore	Singapore	258,318,930
Koor Industries Ltd.	520014143	Azrieli Center 3	Tel Aviv	Israel	172,212,612

[1] Since, as provided in Regulation 21A above, Koor may be considered joint holder with CNAC, and accordingly and for the sake of caution, as a controlling shareholder, Regulation 22 describes also transactions made with Koor and/or with companies in the IDB group.

Regulation 25A – Registered address

The registered address of the Company is Golan Street, Ha'arava Building, POB 298, Airport City Park, 70100.

Telephone: 073-2123000; Fax: 073-2321074

Email: www.ma-industries.com

Regulation 26 – Directors of the Corporation (as of March 6, 2014)

Below are the personal particulars and professional details of the Company's directors:

(1)	Name of director	Ami Erel
	ID No.	04871265
	Date of birth:	1947
	Address for service of process:	Discount Investments Ltd., Azrieli Center 3, Triangular Building, 44th floor, Tel-Aviv
	Citizenship:	Israeli
	Member of board committees:	No
	External director:	No
	Employee of the corporation, a subsidiary, related company or interested party	To March 19, 2013, President and Chief Business Officer of Discount Investments Ltd., an interested party in the Company.
	Start date of tenure as director:	2006
	Education:	BA Electrical Engineering, The Technion, Haifa
	Occupation in the past five years and other corporations in which he serves as director:	Director in Dan Hotels Ltd., President and Chief Business Officer of Discount Investments Ltd (from June 201 to.; CEO of Netvision Ltd. from March 2007 to December 2007; Chairman of Cellcom Israel Ltd.; Chairman of Netvision Ltd. from January 2008 to December 2011; Chairman of Koor Industries Ltd. from September 2007 to December 2011; director in Elron Electronic Industries Ltd.
	Relative of an interested party	No
	Is he a director considered by the Company to have accounting and finance expertise for the purpose of compliance with the minimum number set by the board pursuant to Section 92(A)(12) of the Companies Law:	No
	Independent director?	No

(2)	Name of director	Raanan Cohen
	ID No.	23073919
	Date of birth:	1967
	Address for service of process:	Koor Industries Ltd., Azrieli Center 3, Triangular Building, 44th floor, Tel-Aviv
	Citizenship:	Israeli
	Member of board committees:	No
	Outside director:	No
	Employee of the corporation, a subsidiary, related company or interested party	CEO of Koor Industries Ltd. and Vice President of Discount Investments Ltd.
	Start date of tenure as director:	2006
	Education:	BA Economics and Law, Tel Aviv University. MBA from Kellogg School of Business, Northwestern University, USA
	Occupation in the past five years and other corporations in which he serves as director:	CEO of Koor Industries since 2006; Vice President of Discount Investments sine 2001; director in Cellcom Israel Ltd.
	Relative of an interested party:	No
	Is he a director considered by the Company to have accounting and finance expertise for the purpose of compliance with the minimum number set by the board pursuant to Section 92(A)(12) of the Companies Law:	Yes
	Independent director?	No

(3)	Name of director	Yang Xingqiang
	Passport no.:	S90303761
	Date of birth:	1967
	Address for service of process:	Gross, Kleinhendler, Hodak, Halevy, Greenberg & Co., 1, Azrieli Center (Round Tower),Tel Aviv 60721, Israel
	Citizenship:	Chinese
	Member of board committees:	No
	Outside director:	No
	Employee of the corporation, a subsidiary, related company or interested party:	Employed by China National Chemical Corporation, a shareholder (linked) of the Company
	Start date of tenure as director:	October 17, 2011
	Education:	B.Sc. Chemistry from Sichuan University
	Occupation in the past five years and other corporations in which he serves as director:	2004-2009, President, China National BlueStar Group Corporation Since 2009: Senior Vice Chairman, China National Chemical Corporation; since 2010: Director, BlueStar Adisseo Nutrition Group

	Relative of an interested party:	No
	Is he a director considered by the Company to have accounting and finance expertise for the purpose of compliance with the minimum number set by the board pursuant to Section 92(A)(12) of the Companies Law:	No
	Independent director?	No

(4)	**Name of director:**	**Ren Jianxin**
	Passport no.:	P01407769
	Date of birth:	1958
	Address for service of process:	Gross, Kleinhendler, Hodak, Halevy, Greenberg & Co., 1, Azrieli Center (Round Tower), Tel Aviv 60721, Israel
	Citizenship:	Chinese
	Member of board committees:	No
	Outside director:	No
	Employee of the corporation, a subsidiary, related company or interested party:	Employed by China National Chemical Corporation, a shareholder (tiered) in the Company
	Start date of tenure as director:	October 17, 2011
	Education:	MA Economics and Management from Lanzhou University
	Occupation in the past five years and other corporations in which he serves as director:	Since 2004: President, China National Chemical Corporation Since 2008: Chairman of the Board of Directors for China National BlueStar Co. Ltd.
	Relative of an interested party:	No
	Is he a director considered by the Company to have accounting and finance expertise for the purpose of compliance with the minimum number set by the board pursuant to Section 92(A)(12) of the Companies Law:	No
	Independent director?	No

(5)	**Name of director:**	**Lu Xiaobao**
	Passport no.:	P01586297
	Date of birth:	1965
	Address for service of process:	Gross, Kleinhendler, Hodak, Halevy, Greenberg & Co., 1, Azrieli Center (Round Tower), Tel Aviv 60721, Israel
	Citizenship:	Chinese
	Member of board committees:	No
	Outside director:	No
	Employee of the corporation, a subsidiary, related company or	Employed by China National Chemical Corporation, a shareholder (tiered) in the Company

	interested party:	
	Start date of tenure as director:	September 20, 2012
	Education:	Bachelor of Applied Chemistry, Beijing University of Chemical Technologies
	Occupation in the past five years and other corporations in which he serves as director:	Commencing September 2012 – Assistant general Manager in China National Chemical Corporation 2010-09/2012 – President in China National Bluestar (Group) 2009-2010 – Acting President in China National Bluestar (Group)
	Relative of an interested party:	No
	Is he a director considered by the Company to have accounting and finance expertise for the purpose of compliance with the minimum number set by the board pursuant to Section 92(A)(12) of the Companies Law:	No
	Independent director?	No

(6)	**Name of director:**	**An Liru**
	Passport no.:	P01178835
	Date of birth:	1969
	Address for service of process:	Gross, Kleinhendler, Hodak, Halevy, Greenberg & Co., 1, Azrieli Center (Round Tower), Tel Aviv 60721, Israel
	Citizenship:	Chinese
	Member of board committees:	No
	Outside director:	No
	Employee of the corporation, a subsidiary, related company or interested party:	Secretary of the Communist Party Committee, China National Agrochemical Corporation, a shareholder (linked) of the Company
	Start date of tenure as director:	February 27, 2014
	Education:	Master degrees in Chemical engineering and Business Administration-Nanjing university-China
	Occupation in the past five years and other corporations in which he serves as director:	Since 11/2013: - Secretary of the Communist Party Committee- China National Agrochemical 2009-11/2013: President of Jiangsu Huaihe chemical Co
	Relative of an interested party:	No
	Is he a director considered by the Company to have accounting and finance expertise for the purpose of compliance with the minimum number set by the board pursuant to Section 92(A)(12) of the Companies Law:	No
	Independent director?	No

(7)	Name of director:	Zhang Gong
	Passport no.:	G47653145
	Date of birth:	1968
	Address for service of process:	ADAMA Agricultural Solutions Ltd., Hagolan Street, Airport City 70151, Israel
	Citizenship:	Chinese
	Member of board committees:	Audit committee, the Financial Statements Review committee, Compensation committee and Independent Committee for the Approval of a Transaction with an Interested Party
	Outside director:	No
	Employee of the corporation, a subsidiary, related company or interested party:	No
	Start date of tenure as director:	February 27, 2012
	Education:	EMBA ,Guanghua School OF Peking University
	Occupation in the past five years and other corporations in which he serves as director:	Director and CFO First Huida Risk Management Co. Ltd. ; Director - Xingjiang Blue Ridge Tunhe Chemical Industry Co. Ltd.
	Relative of an interested party:	No
	Is he a director considered by the Company to have accounting and finance expertise for the purpose of compliance with the minimum number set by the board pursuant to Section 92(A)(12) of the Companies Law:	Yes
	Independent director?	Yes

(8)	Name of director:	Yehezkel Ofir
	ID No.	50716281
	Date of birth:	1951
	Address for service of process:	5 Hadror, Mevaseret 90805
	Citizenship:	Israeli
	Member of board committees:	Audit committee, the Financial Statements Review committee, Compensation committee and Independent Committee for the Approval of a Transaction with an Interested Party
	Outside director:	Yes
	Employee of the corporation, a subsidiary, related company or interested party:	No
	Start date of tenure as director:	February 27, 2012
	Education:	PhD and Masters in Business Administration – Columbia University
	Occupation in the past five years and other corporations in which he serves as director:	Faculty Member, The Hebrew University of Jerusalem; Chairman of the Board – Kfar Menachem Metals and Blokal Ravid; Director- Micronet Ltd.

	Relative of an interested party:	No
	Is he a director considered by the Company to have accounting and finance expertise for the purpose of compliance with the minimum number set by the board pursuant to Section 92(A)(12) of the Companies Law:	Yes
	Is he a director who, due to his education, experience and qualifications is highly skilled and has deep understanding of the Company's core activity:	Yes
	Independent director?	No
(9)	**Name of director:**	**Shoshan Haran**
	ID No.	054016076
	Date of birth:	1956
	Address for service of process:	Zeitim 508, Kibbutz Be'eri 85135
	Citizenship:	Israeli
	Member of board committees:	Audit committee, the Financial Statements Review committee, Compensation committee and Independent Committee for the Approval of a Transaction with an Interested Party
	Outside director:	Yes
	Employee of the corporation, a subsidiary, related company or interested party:	No
	Start date of tenure as director:	February 27, 2012
	Education:	PhD and BSc in plant protection, Department of Plant Patholgy and Microbiology, Faculty of Agriculture, The Hebrew University of Jerusalem
	Occupation in the past five years and other corporations in which he serves as director:	Founder and manager of operation of Fair Planet; Professional Manager – Hazera Genetics and Vilmorin Co
	Relative of an interested party:	No
	Is he a director considered by the Company to have accounting and finance expertise for the purpose of compliance with the minimum number set by the board pursuant to Section 92(A)(12) of the Companies Law:	No
	Is he a director who, due to his education, experience and qualifications is highly skilled and has deep understanding of the Company's core activity:	Yes

Independent director?	No

For details of the independent directors in the Company, see the section about Corporate Governance in Chapter B of the report.

Regulation 26A – Senior Officers (as of March 6, 2014)

(1)	**Name of officer:**	**Chen Lichtenstein**
	ID No.	022977631
	Date of birth:	1967
	Commencement of office:	January 26, 2006
	Address for service of process:	ADAMA Agricultural Solutions Ltd., Hagolan Street, Airport City 70151, Israel
	Citizenship:	Israeli
	Is he an interested party in the corporation/relative of an interested party or other senior officer in corporation:	No
	Education:	Doctoral degree in Business Administration and Law, Stanford University
	Position in the Company:	President and CEO[2]
	Occupation in the past five years:	Deputy CEO, VP Global Resources, VP Business Development at ADAMA Agricultural Solutions Ltd.

(2)	**Name of officer:**	**Aviram Lahav**
	ID No.	056115876
	Date of birth:	1959
	Commencement of office:	June 1, 2010
	Address for service of process:	ADAMA Agricultural Solutions Ltd., Hagolan Street, Airport City 70151, Israel
	Citizenship:	Israeli
	Is he an interested party in the corporation/relative of an interested party or other senior officer in corporation:	No
	Education:	BA Accounting, Hebrew University in Jerusalem' graduate of Harvard Business School Advanced Management
	Position in the Company:	CFO
	Occupation in the past five years:	CEO of Synergy Cables Ltd; CEO of Delta Group

[2] Mr. Chen Lichtenstein began his office as president and CEO of the Company on February 7, 2014. See immediate report from February 9, 2014 (Ref. 2014-01-034729).

(3)	Name of officer:	Shaul Friedland
	ID No.	060847746
	Date of birth:	1952
	Commencement of office:	November 1, 2003
	Address for service of process:	Makhteshim Agan Americas, Inc.18851 N.E. 29th Avenue, #501 Aventura, Florida 33180 USA
	Citizenship:	Israeli
	Is he an interested party in the corporation/relative of an interested party or other senior officer in corporation:	No
	Education:	B.Sc. and M.Sc. in Agronomy, Hebrew University of Jerusalem, and MBA
	Position in the Company:	CEO of a subsidiary –Manager of Americas Region
	Occupation in the past five years:	VP Sales and Marketing in the Company; CEO of subsidiary – Manager of Americas Region

(4)	Name of officer:	Ran Maidan[3]
	ID No.	027866268
	Date of birth:	1970
	Commencement of office:	September 9, 2006
	Address for service of process:	Makhteshim-Agan Singapore PTE Ltd. 9 Temaselc Blvd. #16-o3A Suntec tower two Singapore 038989, Singapore
	Citizenship:	Israeli
	Is he an interested party in the corporation/relative of an interested party or other senior officer in corporation:	No
	Education:	BA Economics and Accounting; MA Business Administration and Finance- Bar –Ilan university; Certified Public Accountant
	Position in the Company:	CEO of a subsidiary - Manager of APAC Region
	Occupation in the past five years:	VP Finance in the Company; CEO of subsidiary – Manager of APAC region

(5)	Name:	Ignacio Dominguez
	Passport no.:	5240022
	Date of birth:	July 14, 1960
	Commencement of office:	September 5, 2007
	Address for service of process:	ADAMA Agricultural Solutions Ltd., Hagolan Street, Airport City 70151, Israel
	Citizenship:	Spanish

[3] On February 19, 2014, Mr. Maidan announced the end of his tenure in the Company effective from May 14, 2014.

	Is he an interested party in the corporation/relative of an interested party or other senior officer in corporation:	No
	Education:	MA Automatic Calculus, Complutense University of Madrid
	Position in the Company:	VP, CCO and head of Products and Global Marketing
	Occupation in the past five years:	CEO of subsidiary – Head of Europe Region

(6)	**Name:**	**Michal Arlosoroff**
	ID No.	055458921
	Date of birth:	1958
	Commencement of office:	August 1, 2007
	Address for service of process:	ADAMA Agricultural Solutions Ltd., Hagolan Street, Airport City 70151, Israel
	Citizenship:	Israeli
	Is he an interested party in the corporation/relative of an interested party or other senior officer in corporation:	No
	Education:	LLB, B.Sc. Political Science, Tel Aviv University
	Position in the Company:	VP, General Counsel and Company Secretary, Corporate Social Responsibility Director (CSR)
	Occupation in the past five years:	VP, General Counsel and Company Secretary, Corporate Social Responsibility Director (CSR)

(7)	**Name of officer:**	**Karl Anders Olof Harfstrand**
	Passport No.	81008296
	Date of birth:	July 23, 1956
	Commencement of office:	January 1, 2013[4]
	Address for service of process:	ADAMA Agricultural Solutions Ltd., Hagolan Street, Airport City 70151, Israel
	Citizenship:	Swedish
	Is he an interested party in the corporation/relative of an interested party or other senior officer in corporation:	No
	Education:	MD Karolinska Institute, Sweden; Ph.D. Medical Science, Karolinska Institute, Sweden
	Position in the Company:	CEO of subsidiary; Europe Region manager
	Occupation in the past five years:	President and CEO of Humabs Biomed Securities Authority; CEO of Nitec Pharma

[4] See immediate report of November 18, 2012 (Ref. 2012-01-281574).

(8)	Name:	Daniel Harari
	ID No.	55732408
	Date of birth:	March 2, 1959
	Commencement of office:	January 1, 2010
	Address for service of process:	ADAMA Agricultural Solutions Ltd., Hagolan Street, Airport City 70151, Israel
	Citizenship:	Israeli
	Is he an interested party in the corporation/relative of an interested party or other senior officer in corporation:	No
	Education:	BA Arabic and Middle Eastern Studies, Tel Aviv University; MA Middle Eastern Studies, Tel Aviv University; MA International Political Science, Haifa University
	Position in the Company:	VP Strategy, Innovation and Business Intelligence
	Occupation in the past five years:	VP Strategy, Innovation and Business Intelligence; Brig. Gen. in IDF

(9)	Name of officer:	Elhanan Abramov
	ID No.	052746302
	Date of birth:	August 29, 1954
	Commencement of office:	April 1, 2012
	Address for service of process:	ADAMA Agricultural Solutions Ltd., Hagolan Street, Airport City 70151, Israel
	Citizenship:	Israeli
	Is he an interested party in the corporation/relative of an interested party or other senior officer in corporation:	No
	Education:	B.Sc. Mechanical and nuclear engineering – Tel Aviv University M.Sc. Mechanical and nuclear engineering – Tel Aviv University Ph.D. Materials engineering, Tel Aviv University
	Position in the Company:	VP Global Resources
	Occupation in the past five years:	VP in Baran Group; Senior VP for Business Development, Baran Group; Deputy CEO – Nuclear Research Center

(10)	Name of officer:	Amos Rabin
	ID No.	054960513
	Date of birth:	October 6, 1957
	Commencement of office:	March 10, 2010
	Address for service of process:	ADAMA Agricultural Solutions Ltd., Hagolan Street, Airport City

		70151, Israel
	Citizenship:	Israeli
	Is he an interested party in the corporation/relative of an interested party or other senior officer in corporation:	No
	Education:	B.Sc Social Sciences, Tel Aviv University; MBA, Tel Aviv University
	Position in the Company:	VP Human Resources
	Occupation in the past five years:	VP Human Resources at Elisra, of Elbit Group; VT Human Resources at 013 Barak

(11)	**Name:**	**Rony Patishi-Chillim**
	ID No.	027237296
	Date of birth:	August 10, 1974
	Start date of office:	January 30, 2012
	Address for service of process:	ADAMA Agricultural Solutions Ltd., Hagolan Street, Airport City 70151, Israel
	Citizenship:	Israeli
	Interested party in the corporation/relative of an interested party or other senior officer in corporation:	No
	Education:	BA Business Administration and Comparative Literature, the Hebrew University of Jerusalem; MBA, Boston University Graduate School of Management
	Position in the Company:	SVP Business Development and Corporate Communications
	Occupation in the past five years:	Head of Corporate Communication in the Company; Senior VP at Barclays Capital Investment Bank

(12)	**Name:**	**Uri Shani**
	ID No.	050057744
	Date of birth:	1950
	Start date of office:	1.1.2014
	Address for service of process:	ADAMA Agricultural Solutions Ltd., Hagolan Street, Airport City 70151, Israel
	Citizenship:	Israeli
	Is he an interested party in the corporation/relative of an interested party or other senior officer in corporation:	No
	Education:	Professor of water and soil since –Hebrew University, Ph.d water and soil since –Hebrew University
	Position in the Company:	VP Novel Agricultural Technologies
	Occupation in the past five	Head of Novel Agricultural Technologies

years:

(13)	Name:	David Hebel
	ID No.	067131508
	Date of birth:	1957
	Start date of office:	February 12, 2013
	Address for service of process:	ADAMA Agricultural Solutions Ltd., Hagolan Street, Airport City 70151, Israel
	Citizenship:	Israeli
	Is he an interested party in the corporation/relative of an interested party or other senior officer in corporation:	No
	Education:	B.Sc. Chemistry, Tel Aviv University; M.Sc. Organic Chemistry, Tel Aviv University; Ph.D. Organic Chemistry, Tel Aviv University
	Position in the Company:	Global Quality manager
	Occupation in the past five years:	Global Quality manager in the Company; CEO of subsidiaries in the Group

(14)	Name:	Keren Yonayov
	ID No.	025699950
	Date of birth:	January 16, 1974
	Start date of office:	June 1, 2010
	Address for service of process:	ADAMA Agricultural Solutions Ltd., Hagolan Street, Airport City 70151, Israel
	Citizenship:	Israeli
	Interested party in the corporation/relative of an interested party or other senior officer in corporation:	No
	Education:	Business Management and Accounting – Rishon Lezion Business College; CPA, LL.M for auditors – Bar Ilan University.
	Position in the Company:	Controller
	Occupation in the past five years:	Comptroller in the Company; head of Auditing at Somekh Chaikin KPMG, CPA

(15)	Name:	Yehoshua Hazenfratz
	ID No.	52187966
	Date of birth:	1953
	Start date of office:	November 6, 2007
	Address for service of process:	52 Menachem Begin Road, Tel Aviv
	Citizenship:	Israeli
	Interested party in the corporation/relative of an	No

interested party or other senior officer in corporation:	
Education:	B.A. Economics and Accounting, Tel Aviv University
Position in the Company:	Internal auditor
Occupation in the past five years:	Internal auditor – Oil and Energy Infrastructures Ltd., Cross Israel Highway Ltd., Castro Ltd., Gaon Holdings Ltd., Clal Biotechnology Ltd., Metav Stock Exchange Services, Metav Portfolio Management, Nesher, Halikud, Dan, Ligad

Regulation 26B – Independent authorized signatories

As of the report date, the Company has no authorized signatories with the power to bind the Company, without requiring the signature of another officer of the corporation, for the matter of a particular action.

Regulation 27 – The auditor of the Company

Somekh Chaikin & Co., 17 Ha'arba'a Street, Tel Aviv

Regulation 28 – Change in Memorandum or Articles of Association

No changes were made in the Company's memorandum or Articles of Association in 2013. After the date of the report on January 19, 2014 the General Meeting has approved, within a resolution that came into effect on January 23, 2014, changing the name of the Company to "ADAMA Agricultural Solutions Ltd.", and amending the Company's Articles of Association to reflect such name change. The Company has published the amended Articles of Association on January 26, 2014 (Ref. 2014-01-023680).

Regulation 29 – Recommendations and resolutions of directors

A. Regulation 29(A) – None.

B. Regulation 29(B) – None.

C. Regulation 29C – Resolutions of special general meetings

1. On March 7, 2013 a special general meeting of the shareholders of the Company approved the granting of bonuses for 2012 to senior officers in the Company including to Mr. Erez Vigodman (who served at that time as the Company's president and CEO), all in accordance with the provisions of amendment 20 to the Companies Law. For further details see immediate report from March 10, 2013 (Ref. 2013-01-000139).

2. On May 9, 2013 a special general meeting of the shareholders of the Company approved the raise of the base salary for an officer in the Company all in accordance with the provisions of amendment 20 to the Companies Law.

3. On June 6, 2013 a special general meeting of the shareholders of the Company approved that Mr. Chen Lichtenstein (who served at that time as deputy CEO in the Company) may serve also as president and CEO of CNAC (the controlling shareholder of the Company). In addition and at the same date, the general meeting approved an arrangement to prevent conflict of interests with regard to Mr. Lichtenstein’s said appointment and also an amendment to his terms of employment. For further details see an immediate report from June 9, 2013 (Ref. 2013-01-059448).

4. On September 8, 2013, a special general meeting of the shareholders of the Company approved (after obtaining the approval of the Board of directors from August 4, 2013 and of the Audit committee from July 28, 2013) to appoint an authorized team of members of the management, to approach the Chinese authorities for receiving approvals to launch a partial tender offer to purchase all or part of class B shares of Hubei Sanonda Co., Ltd. a public company that is controlled by CNAC, which operates in the agro-chemicals field and whose shares are traded on the Shenzhen Stock Exchange. See the company's immediate report from September 10m 2013. Ref. 2013-01-140892.

5. On December 24, 2013 (after the obtaining the approval of the Board of Directors on the same day) a special general meeting of the shareholders of the Company approved the following resolutions: (a) adopting a Remuneration Policy according to amendment No. 20 to the Companies Law (after obtaining the approvals of the Remuneration Committee from December 11, 2013); (b) adjusting the bonus mechanism in the employment agreement of Mr. Erez Vigodman (who served at that time as the Company’s president and CEO) so that it will be consistent with the Remuneration Policy. For further details see an immediate report from December 25, 2013 (Ref. 2013-01-107488).

6. After the date of the report, on January 19, 2014 a special general meeting of the shareholders of the Company approved, within a resolution that came into effect on January 23, 2014 changing the name of the Company to “ADAMA Agricultural Solutions Ltd.”, and amending the Company’s Articles of Association to reflect such name change.

7. After the date of the report, on January 29, 2014 a special general meeting of the shareholders of the Company approved, in accordance to the shareholders agreement, to appoint Mr. Chen Lichtenstein as the Company’s President and CEO as from February 7, 2014.

Regulation 29A – Company decisions

Below are the resolutions of the board of directors of the Company which are not noted in the above section "Regulation 29 – Recommendations and resolutions of directors":

1. **Approval of actions under section 255 of the Companies Law:** None.

2. **Actions under section 254(a) of the Companies Law:** None.

3. **Extraordinary transactions requiring special approvals under section 270(1) of the Companies Law:** There are no such resolutions which are not mentioned in "Regulation 29 – Recommendations and resolutions of directors" or in "Regulation 22 – Transactions with a controlling shareholder".

4. **Officers exemption, indemnification and insurance:** See Note 19(a)(1) and 19(a)(2) to the financial statements.

Date: March 6, 2014

Yang Xingqiang, Chairman	Chen Lichtenstein, CEO

אדמה פתרונות לחקלאות בע"מ
ADAMA Agricultural Solutions Ltd.

Chapter E

Report regarding the Effectiveness of the Internal Auditing of Financial Reporting and Disclosure

Annual report regarding the effectiveness of the internal auditing of financial reporting and disclosure according to Regulation 9B(a):

The Management, under the supervisions of the Board of Directors of ADAMA Agricultural Solutions Ltd. (hereafter: the corporation) is responsible for determining and maintaining appropriate internal auditing of financial reporting and of disclosure in the corporation.

In this matter, the members of the Management are as follows:
1. Chen Lichtenstein, President and CEO
2. Aviram Lahav, SVP CFO
3. Ignacio Dominguez, SVP CCO and head of the Global Products and Marketing Division
4. Michal Arlosoroff, SVP General Legal Counsel
5. Amos Rabin, SVP Global HR
6. Dani Harari, SVP Strategy, Innovation and Business Intelligence
7. Elhanan Abramov, SVP Global Resources
8. Rony Patishi-Chillim, SVP Business Development & Global Corporate Communications

The internal auditing of financial reporting and disclosure includes the existing controls and procedures in the corporation, which were designed by the Chief Executive Officer and the senior corporate financial officer or under their supervision, or by someone who in practice carries out these functions, under the supervision of the corporation's Board of Directors and which are intended to provide a reasonable degree of confidence regarding the reliability of financial reporting and the preparation of the reports according to the instructions of the law and to ensure that the information which the corporation is required to disclose in the reports that it publishes according to the instructions of the law is gathered, processed, summarized and reported on the dates and in the format dictated by law.

The internal auditing includes, among other things, audits and procedures that were designed to ensure that the information which the corporation is required to disclose was accumulated and submitted to the corporation's Management, including the Chief Executive Officer and the senior corporate financial officer or someone who in practice fulfills these functions, in order to facilitate decision making at the appropriate time, with regard to the disclosure requirements.

Due to its structural constraints, internal auditing of financial reporting and disclosure is not intended to fully guarantee that a biased presentation or the omission of information in the reports will be avoided or discovered.
The Management, under the supervision of the Board of Directors, has carried out an assessment of the internal auditing of financial reporting and disclosure in the corporation and its effectiveness.

Based on this assessment, the Board of Directors and the Management of the corporation have reached the conclusion that the internal auditing of the financial reports and disclosure in the corporation as of December 31, 2013 is Effective.

Officers' Certification
Certification of CEO

I, Chen Lichtenstein, certify that:

(1) I have reviewed the periodic report of ADAMA Agricultural Solutions Ltd. (hereinafter – "the Company") for the year 2013 (hereinafter – "the reports").

(2) Based on my knowledge, the reports do not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the reports.

(3) Based on my knowledge, the financial statements and other financial information included in the reports, fairly present in all material respects, the financial condition, results of operations and cash flows of the Company as of the dates and for the periods presented in the reports.

(4) I have disclosed, based on my most recent evaluation regarding internal control over financial reporting and disclosure, to the Company's auditors, Board of Directors and audit and financial statements committees of the Board of Directors:

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting and disclosure, which could reasonably adversely affect the Company's ability to record, process, summarize and report financial data so as to cast doubt on the reliability of financial reporting and the preparation of financial statements in accordance with law; and –

(b) Any fraud, whether or not material, that involves the CEO or anyone directly subordinated to the CEO or that involves other employees who have a significant role in internal control over financial reporting and disclosure.

(5) I, alone or together with others in the Company, state that:

(a) I have designed such controls and procedures, or caused such controls and procedures to be designed under my supervision, to ensure that material information relating to the Company, including its consolidated corporations within their meaning in the Securities Law (Annual Financial Statements) – 2010, is made known to me by others in the Company and within those corporations, particularly during the period in which the reports are being prepared; and –

(b) I have designed such controls and procedures, or caused such controls and procedures to be designed under my supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with law, including in accordance with generally accepted accounting principles;

(c) I have evaluated the effectiveness of internal control over financial reporting and disclosure, and have presented in this report the conclusions of the Board of Directors and of Management about the effectiveness of internal control as at the date of the financial statements.

Nothing in the aforesaid derogates from my responsibility or from the responsibility of any other person under the law.

________________ ____________________

Date

Chen Lichtenstein
CEO

Officers' Certification
Certification of Chief Financial Officer

I, Aviram Lahav, certify that:

(1) I have reviewed the financial statements and other financial information included in the reports of ADAMA Agricultural Solutions Ltd. (hereinafter – "the Company") for the year 2013 (hereinafter – "the reports").

(2) Based on my knowledge, the financial statements and other financial information do not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the reports.

(3) Based on my knowledge, the financial statements and other financial information included in the reports, fairly present in all material respects, the financial condition, results of operations and cash flows of the Company as of the dates and for the periods presented in the reports.

(4) I have disclosed, based on my most recent evaluation regarding internal control over financial reporting and disclosure, to the Company's auditors, Board of Directors and audit and financial statements committees of the Board of Directors:

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting and disclosure to the extent it relates to the financial statements and other financial information included in the reports, which could reasonably adversely affect the Company's ability to record, process, summarize and report financial data so as to cast doubt on the reliability of financial reporting and the preparation of financial statements in accordance with law; and –

(b) Any fraud, whether or not material, that involves the CEO or anyone directly subordinated to the CEO or that involves other employees who have a significant role in internal control over financial reporting and disclosure.

(5) I, alone or together with others in the Company, state that:

(a) I have designed such controls and procedures, or caused such controls and procedures to be designed under my supervision, to ensure that material information relating to the Company, including its consolidated corporations within their meaning in the Securities Law (Annual Financial Statements) – 2010, to the extent it relates to the financial statements and other financial information included in the reports, is made known to me by others in the Company and within those corporations, particularly during the period in which the reports are being prepared; and –

(b) I have designed such controls and procedures, or caused such controls and procedures to be designed under my supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with law, including in accordance with generally accepted accounting principles;

(c) I have evaluated the effectiveness of internal control over financial reporting and disclosure, to the extent it relates to the financial statements and other financial information included in the reports. My conclusions regarding my aforesaid evaluation have been presented to the Board of Directors and Management and are combined in this report.

Nothing in the aforesaid derogates from my responsibility or from the responsibility of any other person under the law.

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Date	Aviram Lahav CFO