ADAMA Agricultural Solutions Ltd.

PERIODIC REPORT FOR THE YEAR 2016

The information contained herein constitutes an unofficial translation of the Annual Report for the year 2016 published by the Company in Hebrew. The Hebrew version is the binding version.

ADAMA

Periodic Report for the Year 2016

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INTRODUCTION

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 and part of the ChemChina Group.
CC or ChemChina	-	China National Chemical Corporation.
Adama Makhteshim	-	Adama Makhteshim Ltd.
Adama Agan	-	Adama Agan Ltd.
TASE	-	Tel Aviv Stock Exchange.
Financial Statements	-	The Company's consolidated financial statements as of December 31, 2016 attached to this Periodic Report.
Securities Law	-	Israel Securities Law, 1968

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.

Chapter A

Description of the Company's Business

Chapter A

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Part I - General Development of the Company's Business

1. THE COMPANY'S ACTIVITIES AND GENERAL BUSINESS DEVELOPMENT

The Company engages in the development, manufacturing and marketing of crop protection products, and is one of the leading companies in the world in this field. The Company supplies solutions to farmers in approximately 100 countries across the globe, through approximately 60 subsidiary companies throughout the world.

The Company is the world's leading company (by sales) focusing on off-patent active ingredients, and is ranked seventh in the world among all companies engaged in the field of crop protection.

The Company's business model integrates end-customer access, regulatory expertise, and global R&D and production capacities, thereby providing the Company with a significant competitive edge and allowing it to launch new and differentiated products that cater to farmers' needs in key markets worldwide.

In addition, the Company is active in a number of additional areas unrelated to agriculture; these activities are based on its core capabilities in the agricultural and chemical fields and are insignificant in scope.

Since October 2011, the Company has been a member of the ChemChina Group, which is a major economic conglomerate controlled by the Chinese Government with extensive operations in China and around the world, that engages in the fields of chemicals and agrochemicals.

Within the framework of advancing the integration in China and the formation of the Company's commercial and manufacturing infrastructure there, on March 27 2017, following the approval of the Board of Directors of Hubei Sanonda Co. Ltd. ("**Sanonda**") and the approval of the State-owned Assets Supervision and Administration Commission (SASAC), the general shareholders meeting of Sanonda approved the transaction whereby Sanonda will acquire the entire share capital of the Company, in return for assigning new shares of Sanonda to CNAC ("**the Combination**"), such that the Company shall become a wholly owned subsidiary of Sanonda, with control remaining with CNAC[1]. On March 28, 2017 the Combination documents were submitted to the China Securities

[1] For details regarding the Combination, see the immediate report of January 10, 2017 (Reference No. 2017-01-003484).
On October 1, 2014, the Company entered into a transaction whereby it shall acquire from CNAC four companies active in China in the sphere of agrochemicals and associated spheres, among which the acquisition of the control in Sanonda. As per the stipulations of the agreement, since the transaction was not completed by March 31, 2015, the Company and its shareholders are considering various options for execution of the business combination with these companies, either by way of completion of the said transaction, subsequent

Regulatory Commission (CSRC). The Combination is intended to be completed during the course of the first half of 2017, pursuant to the receipt of the necessary approvals, including the approval of the CSRC.[2] Upon completion of the Combination, shares of the combined group will trade on the Shenzhen stock exchange.

As part of the advancement of the Combination, and subject to its completion, in February 2016 the Company entered into an agreement for the sale of the Sanonda B-shares in its ownership.[3] Furthermore, in November 2016 a transaction was completed whereby CNAC acquired the entire 40% minority stake then held in the Company by Koor.

Similarly, as an additional step in the creation of the Company's commercial and operational infrastructure in China, aimed at increasing the Company’s presence in China and fortifying its commercial platform in the world, during the course of 2015 and 2016 the Company entered into a number of agreements with various agrochemical companies under CNAC’s control, including Sanonda, pursuant to which the Company will, inter alia, gradually become the exclusive distributor of formulated crop protection products and active ingredients for these companies in China, and the exclusive agent for the products of several of these companies outside of China.[4]

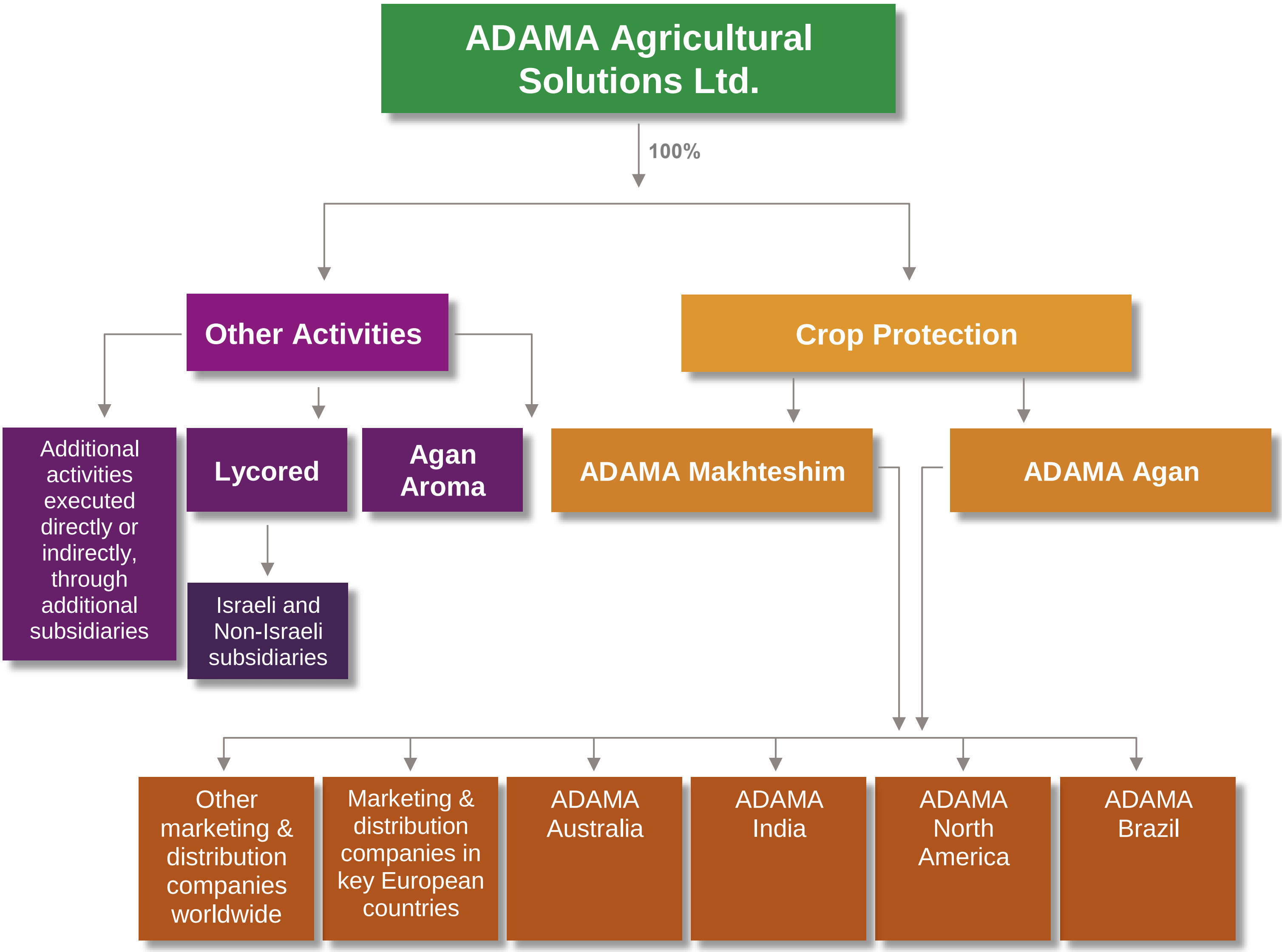
to the necessary modifications, or in other manners, including by means of the Combination. For details of the Chinese purchase transaction see Note 19 of the Financial Statements.

[2] In parallel to the approval of the Combination and subject to its closing (but not as a pre-condition to its closing), and in view of a regulatory change relating to private placements in China, the general shareholders meeting of Sanonda approved a private placement under which Sanonda intends to raise up to RMB 2.5 billion (Approximately $ 380 million) from up to ten investors, designated in its majority to fund various projects of the Company, with slight changes in respect of the composition of the investments and their amounts from those specified in the immediate report published on September 14, 2016 (Reference No: 2016-01-122758).

[3] For the transaction terms and further information see the immediate report of February 7, 2016 (Reference No. 2016-01-023893).

[4] For further information regarding the commercial cooperation agreement as a result of which the Company will gradually become the exclusive distributor, see section 12 of this report.

Overview of the Company's Operational Structure:[5]



[5] This diagram does not include all the Group's companies, but rather only those most significant to its operations. For a complete listing of the Company's subsidiaries and affiliates, see the Appendix to the Company's Financial Statements.

Description of the Structural Changes in the Group's Development; Material Mergers and Acquisitions

The Company was incorporated as a public company in Israel in December 1997, as part of the execution of scheme of arrangement for the change of the holdings structure of the Makhteshim-Agan group (as it was named then). As part of its operating method and strategic goals, the Company reviews and executes, from time to time, collaborations with or acquisitions of companies, operations, registrations and distribution rights for existing and additional products in the areas of its activity. Within the framework of these operations, in recent years, the Company has executed acquisitions of a number of companies, including in Mexico, Colombia, Chile, Poland, Serbia, Slovakia and South Korea. These acquisitions have contributed to the Company's growth alongside the Company's own organic growth, which has been the prime growth driver in recent years.

2. THE COMPANY'S AREAS OF OPERATION

Crop Protection

The Company is focused on the development, manufacturing and marketing of off-patent crop protection products, which are largely herbicides, fungicides and insecticides designed to protect agricultural and other crops, and utilizes its expertise for the development and adaptation of similar products for non-agricultural purposes (*Consumer and Professional Solutions*). In 2016, crop protection (including the sale of these substances for non-agricultural uses) represented approximately 93.7% of the Company's sales. For additional information and a description of the field, see Section A.1 of Part III of the Report.

Other Activities

The Company leverages its core capabilities in the agricultural and chemical fields also in operations in several other non-agricultural areas, none of which, individually, is material for the Company, and which together accounted for approximately 6.3% of the Company's sales in 2016. These activities include primarily, (a) the manufacture and marketing of dietary supplements, food color, texture and flavor enhancement ingredients, and food fortification ingredients; (b) fragrance products for the perfume, cosmetics, body care and detergents industries; (c) the manufacture of industrial products and (d) other immaterial activities. For further information and a description of these aforementioned activities, see Section A.2 of Part III of the Report.

3. INVESTMENTS IN THE COMPANY'S EQUITY AND DEALINGS IN ITS SHARES

On November 22, 2016, the acquisition by CNAC of the entire 40% minority stake owned by Koor in the Company was completed ("**Acquisition of the minority shares**").[6]

To the best of the Company's knowledge, aside from the Acquisition of the minority shares, during 2015-2016, no transactions were executed in the Company's shares by interested parties outside the TASE, nor was there any repurchase of shares or share-convertible securities of the Company.

It is noted that if the Combination will be completed, the Company shall become a wholly owned subsidiary of Sanonda, with control remaining with CNAC.

4. DIVIDEND DISTRIBUTION

The Company Articles of Association that were adopted as a result of, and following the completion of, the Acquisition of the minority shares do not include a profit distribution policy.

In the course of 2015 and 2016, the Company distributed dividends as follows:

- In September 2016, the Company declared a dividend of approximately USD 40.3 million, of which only a total of approximately USD 18.5 million had been paid to the shareholders by the date of publishing of this Report[7]
- On December 2015, the Company distributed a dividend in the amount of USD 100 million

The balance of retained earnings available for distribution as per the Company's financial statements as of December 31, 2016 is approximately USD 982 million (less retired treasury stock).[8]

[6] For details, see immediate report of February 23, 2016 (Reference No. 2016-01-081135).

[7] The dividend that was declared was partially paid following an announcement by CNAC that regardless of the cash flow status of the Company, CNAC forgoes as of that date the receipt of its portion of the said declared dividend (the "Postponed dividend"), excluding an amount of approximately USD 2.4 million required for payment of the withholding tax as a result of the declaration of a dividend to CNAC. CNAC further informed the Company that the Postponed dividend shall only be paid at a later date on receipt of notification from CNAC pursuant to the approval of the Company's Board of Directors that payment of the Postponed dividend may be deemed to meet the "solvency test".

[8] For details on the tax considerations applicable to the distribution of part of these earnings, see Section 27 of the Report.

Part II - Additional Information

5. FINANCIAL DATA

Split of the Company's consolidated revenues by segment, from its primary area of operation, being crop protection products, together with income from its other activities (in a format identical to the segmentation in the financial statements and without adjustments to the consolidated financial statements[9]) in the three years prior to the Report follows (in USD millions):

2016							
Segment of Operation	Segment Revenues	Segment Costs[10]	Profit from Regular Activities (Operating Profit)		Operating Profit Margin (in %)	Total Assets	Total Liabilities
			Attributed to owners of Parent Company	Attributed to non-controlling rights			
Crop Protection	2,877	2,540	340	(2)	11.7%	3,304	493
Other Activities	193	186	7	-	3.5%	187	49
Total	**3,070**	**2,726**	**347**	**(2)**	**11.2%**	**3,491**	**542**

2015							
Segment of Operation	Segment Revenues	Segment Costs[10]	Profit from Regular Activities (Operating Profit)		Operating Profit Margin (in %)	Total Assets	Total Liabilities
			Attributed to owners of Parent Company	Attributed to non-controlling rights			
Crop Protection	2,883	2,583	301	(0.3)	10.4%	3,427	530
Other Activities	180	181	(0.7)	-	(0.4%)	193	24
Total	**3,064**	**2,764**	**300**	**(0.3)**	**9.8%**	**3,619**	**554**

2014							
Segment of Operation	Segment Revenues	Segment Costs[10]	Profit from Regular Activities (Operating Profit)		Operating Profit Margin (in %)	Total Assets	Total Liabilities
			Attributed to owners of Parent Company	Attributed to non-controlling rights			
Crop Protection	3,029	2,725	304	(0.4)	10.0%	3,670	625
Other Activities	193	185	7	-	3.7%	205	26
Total	3,221	2,910	311	(0.4)	9.7%	3,875	651

For explanations of the developments in the figures presented in the Financial Statements, see the Board of Directors' Report, attached to this Report.

9 At the report date, revenues and income from inter-segment sales within the Group are negligible.

10 At the report date, the Company's 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.

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

Trends, events and key developments in the Company's macro-economic environment may have a material impact on its business results and development. The effects of these factors may differ in each geographic region and with regard to different products of the Company. Since the Company maintains a broad product portfolio and since it is active in many geographic regions, the aggregate effect of these factors in any given year and the course thereof is not uniform and may sometimes even be mitigated by counterbalancing influences.[11]

Global Factors

Demographic changes, economic growth and rising standards of living

Multi-year global economic growth, population increase, 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 a general increase in food consumption, particularly in the consumption of animal-derived foods. Accordingly, there has been a clear trend of increasing demand for agricultural crops to satisfy this rising food consumption, as well as increasing demand for crops containing vegetable proteins that are intended for the food industry (for use in cereals, corn and soybean primarily), and for grains utilized in animal feed.

An additional trend has been observed in parallel to these processes: the desire of the world's countries to reduce their dependence on the importation of fuel, alongside the strengthening of the idea of sustainability in western culture, which have led many countries in different parts of the world to adopt market practices that encourage the development of energy sources other than fuel and its derivatives, with such sources being considered less harmful to the environment. As a result, many countries maintain advanced industries for the manufacture of biofuels that are produced from certain agricultural products such as corn, sugarbeet and sugarcane.

The abovementioned increase in demand has served to drive the growth of the agricultural sector, combined with the concurrent stabilization of planting areas (whose maximum global area is limited) and the reduction of arable land (inter alia, due to the demand for space to build new urban areas), together incentivize farmers to optimize crop production per unit land area, to maximize the yield of each individual farmer and to enhance the quality of their crops, which has positively impacted the demand for the Company's products. The Company believes that the aforementioned trends will

[11] The Company's estimates presented in this section and in the rest of this report are based, among other things, on published data not independently assessed by the Company, as follows:

(1) Phillips McDougall (http://www.phillipsmcdougall.com) – an independent consulting and research firm specializing in agriculture, crop protection and biotechnology;
(2) The website of the US Department of Agriculture (USDA) (http://www.usda.gov/wps/portal/usdahome);
(3) The website of the Financial Times (https://www.ft.com).

continue for many years to come.

Agricultural commodity prices

High prices for agricultural commodities encourage farmers to reach maximum yield from their existing planting areas. As their profitability increases, the farmers' incentive to increase the protection of their crops from disease and pests also increases, and accordingly the demand for crop protection products rises. The Company believes that in the long term, the relative stability of planting areas, rising population growth and increasing standards of living, together with the global food crisis, will continue to positively impact demand for the Company's crop protection products. However, the price levels of agricultural commodities in the period 2014-2016 were lower relative to the previous years, primarily due to an increase in agricultural output and an increase in the inventories of the major crops (corn, soy, cotton and wheat). Farmer incomes were significantly impacted in these three years in comparison to prior years, and therefore the demand for crop protection products was muted, a trend that is expected to continue in 2017.

Significant fluctuations in raw material costs and global energy prices

The most significant constituent of the cost of goods of companies in this field is the cost of the raw materials utilized in the manufacturing of the products. Therefore, significant increases or decreases in the costs of raw material affect the cost of goods sold, which is generally observable a number of months following the change in the costs of the raw material.

Since the raw materials are chemicals produced, inter alia, as third or fourth-order derivatives of oil, extreme changes in global oil prices may influence the cost of goods sold. However, such influences are only partial, due to the fact that these chemicals are only derivatives of oil. In addition, oil is used as a source of energy for the operation of production facilities and in the transportation (over land and sea) of products, and therefore global oil price fluctuations may have an impact on energy costs.

In recent years there has been a significant change in the global energy market, resulting from the development by western countries, primarily the U.S.A., of capabilities for the independent production of energy, with the aim of decreasing their dependence on certain oil exporters. Accordingly, oil prices declined quite significantly in the 2014-2015 period, but stabilized at generally lower levels in the course of 2016. The Company estimates that the moderate increase in oil prices in 2016 may have a negative effect on its production costs going forward, as well as on its sea and land transportation costs and the prices of raw material and intermediates that it purchases.

Natural gas, which has been one of the Company's energy sources since 2014, is an alternative energy source to oil, diesel and LPG (liquefied petroleum 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 may have an effect on the Company's energy costs.

Development of new crop protection technologies

The majority of seeds sold in the genetically modified seed market are seeds with characteristics designed, among other things, to protect the crop against non-selective herbicides (substances that are not designed to eliminate specific types of weeds and thus may also harm the crop), and against insects (together known as “Input Traits”). These characteristics may save farmers related expenses of purchasing several selective herbicides for crop protection or purchasing a number of different insecticides. Currently, the genetically modified seed market is expected to continue to grow at a slow pace relative to the multi-year level and especially in the markets in North and South America that are the main markets for such seeds.

The use of genetically modified seeds in a specific country affects the selection of crop protection products used by farmers. Accordingly, expansion of the use of genetically modified seeds directly influences supply and demand, and therefore the prices, of the various crop protection products. This effect often leads to price fluctuations of these products on the global level, and as such there is also an indirect effect on the supply and demand for crop protection products in other countries, even if they do not allow the use of genetically modified seeds.

Concurrently, in recent years, there has been an increase in the use of natural and/or biological substances that attack weeds, pests and diseases for crop protection. The Company believes that despite the increase in the use of these products, the demand for these products is still small compared to the use of chemical crop protection products.

Patent expiry and growth in volumes of off-patent products

In recent years, the market share of original patent-protected crop protection products has been consistently shrinking due to ongoing patent expiries and the reduced rate of introduction of new original products. The Company expects this trend to continue in the coming years. Consequently, this has created growth potential for off-patent focused companies developing new off-patent products to compete with the original products whose patents have expired. Nevertheless, the growth potential for off-patent products creates increased competition for market share, including on the part of research-based companies, and may even ultimately lead to the erosion of product prices.

The chemical and agrochemical industry in China

Since 2000, a chemicals industry has developed in China that the Company believes to be the largest in the world. Within this industry, an agrochemicals industry has also developed, including thousands of companies who have invested in manufacturing infrastructure, of which roughly half of their production capacity is currently aimed at 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, affect the structure of competition in the entire industry. However, price levels of the products manufactured in China have started to rise, in light of the trend of rising manufacturing costs in China, which stem from the increase in wage costs and other production inputs, including environmental costs, as well as from increased regulatory in China, including by way of limited granting of production permits.

Localized Factors

The agricultural market and severe weather conditions

Weather conditions during the agricultural season in each country where the Company operates directly impact the demand for its products.[12]

Regulatory changes

Registrations - The Company's core field of operation is subject to product registration requirements pursuant to the policy in each country of operation, with these registration processes being characteristic of the crop protection industry and also constituting a barrier to entry. Moreover, the Company is required, from time to time, to renew or modify such registrations by conducting new tests and studies, and also to comply with new regulatory requirements.[13]

Environmental protection and other quality standards - The production processes and manufacturing environment of the products in the Company's core area of operations are subject to strict and rigorous regulatory requirements in the environmental protection area which vary according to the policies of each country. In addition, use of the Company's products is subject to regulation by health, environmental protection and agriculture agencies in the various countries.[14]

Government policies

Governments often use subsidies and/or other types of governmental support as incentives to increase and/or reduce the development of the agricultural sector in that country. The nature of government policies and resulting extent of arable land in a given country affect the demand for, and prices of, the Company's products. In recent years, government subsidization in many countries in which the Company operates has been relatively high, which has had a positive impact on the profitability of farming, thereby indirectly increasing demand for the Company's products. To the best of the Company’s knowledge, the scope of government subsidization in different regions decreased in 2016 and is expected to decrease in the coming years.

In addition, since the Company operates globally, its export and import activities are subject, inter alia, to a variety of requirements and standards related to permits and to processes vis-à-vis the customs and port authorities in different countries.

[12] For further information see Note 1A(2) to the Financial Statements and Section 36 below, “Decline in scope of agricultural activities; Exceptional changes in weather.”
[13] For further information see Section 16 below and also Section 36 below, “Changes in legislation, standards and regulation for registration of the Company’s products.”
[14] For further information see Section 28 below.

World ports

Imports and exports of products and raw materials by multinationals in the Company's field of operations are heavily reliant on the international ports services.[15]

Monetary Policy and the Financial Market

The Company is exposed to both currency exchange rate volatility and consumer price index fluctuations.[16]

Note that the Company's business activities and results may be affected in the future by the above mentioned factors, either positively or negatively. The extent of such effects, if any, depends, inter alia, on the intensity of said events, their duration and the Company's ability to manage them. For further details on the risk factors relevant to the Company's operations. see Section 36 below.

The Company's assessments regarding demographic changes, economic growth, the rising standards of living, commodity prices and demands, raw material prices, effects of oil prices, developments in the industry and the different markets, developments in the genetically modified seeds market and their effect, rate of patent expiry and its effect on market share, scope of governmental subsidies, macro-economic, legislative and regulatory developments, changes in government policies, and their effects on Company results contains forward looking statements, which relies on information and data held by the Company, studies and other publications as detailed in this Report, as well as on the Company's own estimates at the reporting date of the effects of market trends on supply and demand for its products.

This information is inherently uncertain and depends, inter alia, 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 may thus not materialize should it become apparent that such data were incorrect or should other factors beyond the Company's control affect supply and demand.

[15] For further information see Section 36 below, "Disruptions in supply of raw materials and/or disruptions in shipping and port services."
[16] For information regarding foreign exchange rates volatility, see Section "Currency Risks" of the Board of Directors' Report under the title "Market Risks – Exposure and Risk Management." For information regarding volatility of the consumer prices index see the section "Exposure to CPI Indexation" of the Board of Directors' Report under the title "Market Risks – Exposure and Risk Management."

Part III - Description of the Company's Business

A.1. CROP PROTECTION PRODUCTS (AGROCHEMICALS)

7. GENERAL INFORMATION

The crop protection market fulfills a central role in meeting the increasing demand for food. Crop protection products assist in improving the quantity and quality of crop yields by protecting crops against the damaging and destructive effects of a variety of weeds, pests and disease. In the absence of these products, farmers may lose approximately 30%-70% of their crop yields (depending on the type of crop and geographic region).

Crop protection products are also used in non-agricultural fields ("**Consumer and Professional Solutions**"), in order to protect against weeds, pests and disease, inter alia, in roadworks, forests, lawns, parks, institutions, the wood and paint industry, facilities and private residential gardens.

Crop protection products include three main product groups: (1) herbicides, (2) insecticides, and (3) fungicides. In addition, the sector includes products for the treatment of seeds.

Furthermore, crop protection products in the global market are divided into two categories: (1) original products wherein the active ingredient is still patent-protected, developed by leading research-based companies in the field; and (2) off-patent products that are similar in their chemical composition and mode of action to the original product whose patent has expired. These products are manufactured both by off-patent companies, such as the Company, as well as by research-based companies.

Legislative restrictions, regulations and special constraints

For details of these respective aspects with regard to the Company's operations and the various restrictions, see Sections 16 and 29 below.

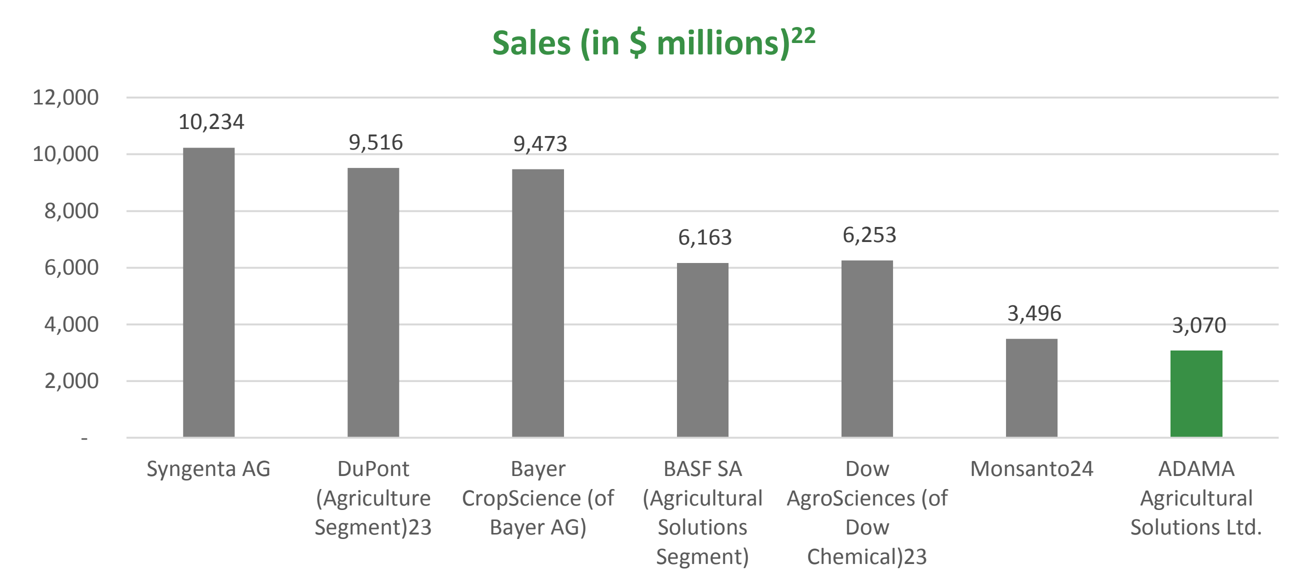
Volume and profitability trends and changes

Total global sales of the crop protection industry for both the agricultural and the non-agricultural markets is estimated at USD 56,520 million in 2016, a decrease from the USD 58,181 million in 2015. It is expected that, despite the decrease in total sales in the industry in 2015 and 2016, the overall size of the global crop protection industry for both the agricultural and non-agricultural markets, is expected to increase to approximately USD 59 billion by 2020.[17]

Over 70% of the international market for crop protection products is controlled by six large multinational research-based companies (RBCs) that develop, produce and sell the original products and patent the research rights in most of the world's countries (the "**Originator Companies**[18]"). A significant portion of the products sold by these Originator Companies are original products whose patents have, by now, expired.

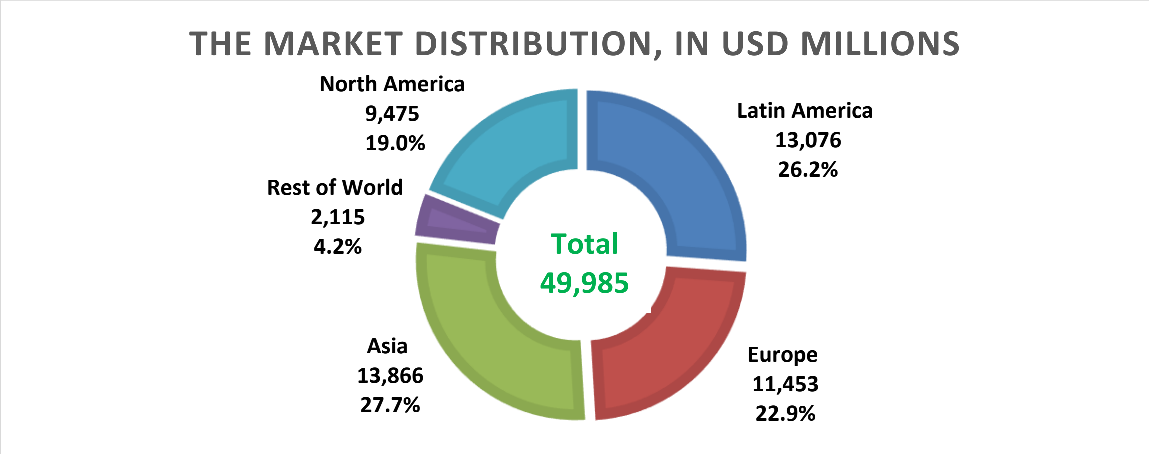
In the past two years a number of mergers and acquisitions between large companies in the sector have been announced, including a number of additional transactions that have yet to be completed, including the acquisition of Syngenta by ChemChina, which controls the Company. These transactions may have an impact on the profitability of the entire sector.[19]

The sales[20] of the leading companies in the crop protection segment for 2016:



[17] Based on preliminary estimates the Company received from Phillips McDougall in November 2016 and May 2016, respectively.
[18] Based on the published 2016 Financial Statements of these companies and the preliminary estimates the Company received from Phillips McDougall.
[19] For information as to the competition in the market of crop protection see section 14 below.
[20] Excluding sales of modified seeds.
[21] These data have been taken from the published 2016 Financial Statements of these companies. The Company believes that these turnover amounts also include sales executed between the companies enumerated in the table themselves.
[22] Including sales of modified seeds.
[23] The financial data are for the four quarters concluded on November 2016.

The market distribution and growth rates in the crop protection sector for the agricultural market alone, by geographic region (in current prices, in terms of sales to the distributor) for 2016 compared to 2015:[24]



	2016 vs 2015 (%)
North America	-1.3%
Latin America	-6.9%
Europe	-1.3%
Asia	-1.2%
Rest of world	-2.0%
TOTAL	**-2.4%**

The Company operates in both developed and emerging markets.[25] The Company has a particularly prominent presence in emerging markets, where it expects the growth rate generally to be higher than in developed markets. Long-term increases in standards of living in the developed countries in the Western world also increase demand for crop protection products in non-agricultural spheres (*Consumer and Professional Solutions*).

For further information regarding the trends that occurred in 2016 and their effects on the Company's results, see the Board of Directors' Report.

Technological changes

For information concerning the effect on the Company of the development of new technologies, including developments in the genetically modified seeds market, see Section 6 above.

[24] Estimates the Company received from Phillips McDougall in November 2016.
[25] As defined in the MSCI Developed Markets Index

Critical success factors

General:

- Reputation, expertise and accumulated knowledge in the sector in the various countries and among customers and suppliers;
- Financial strength and resilience combined with consistent growth, allowing the Company to realize a corporate development strategy including the potential for mergers and acquisitions with other companies in the sphere, and provide immediate response to attractive business opportunities so as to expand its product portfolio and the volume of its operations;
- Access to funding sources and reasonable funding terms allowing the Company to make investments and ensure positive ROI;

Development stage:

- Dedicated knowledge and technologies, financial investments, skilled manpower resources in the sphere and the required registration expertise to develop and utilize the designated product;
- Successful completion of off-patent product development such that its effectiveness and quality compared to the original product is proven, as well as timely market entry;
- Consistent and continued development of additional products, including unique formulations, based on the Company's accumulated technological expertise;
- Development of a wide and varied product portfolio;

Raw material procurement stage:

- Raw material availability and supply chain efficiency;
- Fitting raw material costs, prices, quality and quantities, and operational flexibility for meeting actual demand;
- Flexible procurement system, including infrastructures in China;

Production stage:

- Efficient production costs structure combined with appropriate and efficient global deployment;
- Obtaining regulatory approvals and permits for the product's commercial production and marketing in relevant markets;
- 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;
- Appropriate dedicated manufacturing facilities and efficient and well-controlled production operations, at minimal health risks to Company employees, while complying with the relevant operational quality and safety standards;

Commercial marketing stage:

- An efficient and broad commercial organization, allowing the Company to distribute its products to a maximum number of prospective customers, as well as entering into commercial agreements for production and marketing of products at competitive terms, with the aid of, inter alia, the Group Companies, thereby allowing the forging of close local relationships and development of new marketing niches in these and other countries;
- A global marketing and distribution network, including by means of the Group Companies, that offer an advantage over off-patent competitors active in only some of the Company's markets, enabling the Company to sell its products throughout the year in accordance with the seasons of each individual geographic region;
- Ability to utilize marketing and sales management knowledge, expertise and experience in target countries, thereby allowing the Company to enter markets at the right time and to secure a competitive edge;
- Stable and ongoing relationships with strategic customers which builds trust in the quality of the Company's products and its dependable supply, which allows the Company to reasonably forecast its estimated future sales volumes;
- A broad and diverse product portfolio, including unique products such as unique mixtures and formulations, for every agricultural season and crop, thereby providing a comprehensive response to farmer requirements;
- Expertise in registering its products in various countries, in a manner that hastens the penetration process of a new product into a market, thereby providing the Company with a marketing edge.

Entry and exit barriers

The crop protection sector is characterized by high entry barriers requiring capital and significant financial resources, together with relevant knowledge and expertise. These entry barriers include, inter alia, high development costs (particularly for Originator Companies), payments for use of knowledge for registration purposes, and significant investments in the establishment and maintenance of production facilities, together with extensive technological knowledge in the fields of the industrial production by chemical synthesis and formulation that are dependent on professional and skilled human resources or external consultants, significant marketing and distribution costs, compliance with strict regulatory requirements pursuant to the existing regulations in each country, a good reputation and strong customer loyalty.

Notwithstanding the above, in those markets where the regulatory requirements are relatively lenient, in a manner that positively influences the duration and costs of the regulatory processes, the entry barriers are lower, and thus allow smaller companies to become active in this sphere to a limited extent, while outsourcing aspects of their manufacturing.

The Company estimates that there are no material exit barriers in the crop protection market, apart for those related to future uses of fixed assets and dedicated facilities used by companies engaged in the industry, since, inter alia, the industry is not characterized by long-term customer relationships.

Substitute products

To the best of the Company's knowledge, no other service or product currently exists in this sector which is a significant real substitute for its products designed to protect plants against weeds, pests and disease, that are not of the same type of products produced by the Company or parallel original products. Nevertheless, some view genetically modified seeds and non-selective 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 attack weeds, insects and diseases constitute a potential substitute for the use of the Company’s products, but which currently are only commercialized in relatively modest volumes.

8. THE COMPANY’S PRODUCTS

Crop Protection Products

In recent years, the Company has been acting to further enhance its broad product portfolio, with an emphasis on offering more innovative and differentiated solutions that offer increased added value, and in so doing creating what the Company refers to as the “Hybrid Portfolio”. These innovative and differentiated solutions are typically based on off-patent molecules or active ingredients, particularly the more complex ones, on unique formulations and mixtures, and also, on a selective basis, even on innovative molecules or active ingredients, which the Company defends by registering patents and other intellectual property rights. In so doing, the Company is, over time, changing its portfolio mix by increasing the portion of innovative and differentiated products that in turn generate higher profit margins.

The broad range of crop protection products manufactured and sold by the Company are divided into three main categories (based on the active ingredient they contain):

Herbicides

During cultivation, crops are exposed to various weeds that grow in their environment and compete for water, light and nutrients. Herbicides are designed to prevent or stunt the development of such weeds in order to allow the cultivated crop to develop optimally throughout the different stages of its growth, and therefore to reach optimum yield. The herbicides sold by the Company are both selective (do not act on or harm the crop itself) and non-selective. The best-selling herbicides are those designed to protect soy, corn, cereals, rice and cotton. In 2015, herbicides constituted approximately

42% of the total global crop protection product market.[26]

Glyphosate, the world's most widely sold non-selective herbicide used for the basic treatment of many crops, no longer constitutes a key product in the Company's product portfolio. However, as it is nevertheless remains an important product that is still one of the Company's most sold products, the Company ensures that it maintains minimum stocks of Glyphosate.

Insecticides

Insecticides are designed to exterminate various types of insects and pests in a selective manner (without harming the crop itself). While the use of genetically modified seeds has the potential to reduce the need for some of the Company's insecticides, as indicated in Section 6 above, currently such seeds are used to a limited extent and primarily in non-edible crops. The best-selling insecticides are designed to protect fruits and vegetables, corn, cotton and soy. Currently, the Company's gross margins from sales of insecticides are higher than its gross margins from herbicide sales. In 2015, insecticides constituted approximately 28% of the total global crop protection product market.[26]

Fungicides

Fungicides are designed to combat various diseases and parasitical fungi. When weather conditions in the agricultural season are dry, the prevalence of crop diseases is much smaller, reducing demand for such products. Crops in which fungicides are used most frequently are cereals, fruit, vegetables, soy, grapevines and rice. Currently, the gross margins achieved from the Company's fungicide sales are higher than those from herbicide sales. In 2015, fungicides constituted approximately 27% of the total global crop protection product market.[26]

Other products

In addition, the Company produces and markets other crop-protection products, primarily substances applied to crops that are not herbicides, insecticides or fungicides, and also intermediates used to produce active ingredients for crop protection. The Company also develops and sells products for seed treatment and it uses its expertise to develop and adapt similar products for use in non-crop areas (*Consumer and Professional Solutions*) to protect against weeds, disease and pests in roadworks, forests, lawns, parks, institutions, the wood and paint industry, facilities and private residential gardens.

For information regarding the breakdown of the Company's revenues and profit by product groups, see Section 10 below.

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[26] As per the data provided to the Company by Phillips McDougall. As of the date of filing the report, the Company has yet to receive data regarding 2016; however it should be noted that in recent years, there was no significant change in the portion of each product group within the total crop protection product market.

Key Markets

The Company's primary operations are focused on Europe, North America, Latin America, Asia-Pacific and India, the Middle East and Africa, and in aggregate, the Company sells its products in approximately 100 countries worldwide. In recent years, the Company has expanded its presence in (i) the European market (including Eastern Europe), which represented approximately 34% of the Company’s total sales in 2016; (ii) the North-American market, which constitutes an important target for further growth and expansion of the Company’s operations, as well as (iii) the markets in India, Asia-Pacific and Africa, which are generally characterized by high growth rates and rising standards of living, as described in Sections 6 and 7 above. The Company is also continually strengthening its position in the important Latin American market, which is the market that demonstrated the highest growth in the industry in past five years (despite the 2015 crisis that continued into 2016), 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. In recent years, the Company has increased its presence in the Chinese market, which is the third largest crop protection market in the world and one of the fastest growing, through building its commercial and operational infrastructure in China. The Company believes that the Combination, if and when it is completed, will support the strengthening and expansion of its operations in the Chinese market.

For details on the Company’s crop protection product sales in its primary markets in the years 2015-2016, see the Board of Directors’ Report.

The Production Process

The production process of the active ingredients is executed through chemical reaction (synthesis) of raw materials and intermediates, with differing products requiring between one and several reaction stages. The Company’s portfolio includes over 300 active ingredients, of which a portion constituting the major contribution to the Company’s sales, are managed globally.

The Company also performs formulation, wherein active ingredients produced by the Company or purchased from third parties are adapted by means of reducing the concentration of the active ingredients and adding various additives, and sometimes by transforming the physical form of the active ingredient (including its liquefaction or solidification, as the case may be). The Company's portfolio includes approximately 1,350 different formulations

The Company's operations include: (i) sale of products which are both synthesized and formulated by the Company; (ii) executing various formulation activities on active ingredients purchased by the Company before selling them to third parties; and (iii) commercial activity, on a smaller scale, in purchasing end products and/or active ingredients from third parties and selling them "as is", without any manufacturing intervention (generally to complement the Company's product portfolio).

Approximately half of the Company’s production of active ingredients is produced in one of the Company's plants in Israel, while final formulation and packaging – which require less complex production facilities – are completed either 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. Outside Israel, the Company operates a number of active ingredients synthesis sites as well as a number of formulation and packaging facilities as detailed in Section 22 of the Report.

Currently, approximately 80% of the Company’s products are manufactured and/or formulated at the Company’s sites. The Company's production sites use active ingredients in its own activity (as inputs in the process of producing end products) and for sale to third parties. Currently, the annual sales of any particular product sold by the Company do not exceed 10% of total Company sales.

9. NEW PRODUCTS

The Company's strategy is to leverage its chemical capabilities and expand its product portfolio so as to create a diverse product portfolio intended to provide differentiated and simple solutions to farmers and to effectively fulfill market needs, penetrate new markets and reinforce its position in existing markets. In recent years, the Company has been striving to enhance its product portfolio, by developing more value-adding products and increasing the functionality and efficacy of the market’s most successful molecules through the development of new and unique mixtures and formulations. Accordingly, the Company is continually developing and registering new products alongside new mixtures and formulations of existing products.

In 2016, the Company continued investing in the development and manufacturing of new products, launched new active ingredients and formulations, and obtained 240 new registrations (excluding label extensions of registered products for new crops) for marketing its products. Currently, the Company’s research and development activities are aimed at the launching of more and more differentiated products.

10. PRODUCT REVENUE SEGMENTATION

Company revenues split by product groups (in USD millions):

2016		
Product Group	**Revenues[27]**	**%**
Herbicides	1,513	49.3%
Insecticides	724	23.6%
Fungicides	640	20.8%
Total crop protection	**2,877**	**93.7%**
Other operations	193	6.3%
Total	**3,070**	**100%**

2015		
Product Group	**Revenues**	**%**
Herbicides	1,539	50.2%
Insecticides	690	22.5%
Fungicides	655	21.4%
Total crop protection	**2,883**	**94.1%**
Other operations	180	5.9%
Total	**3,064**	**100.0%**

2014		
Product Group	**Revenues[28]**	**%**
Herbicides	1,618	50.2%
Insecticides	762	23.6%
Fungicides	649	20.2%
Total crop protection	**3,029**	**94.0%**
Other operations	193	6.0%
Total	**3,221**	**100.0%**

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 absence of particular diseases or pests affecting the crops.

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

[27] In 2016 there was no material change in the gross margin for each of the foregoing product groups compared with 2014.
[28] In 2016 there was no material change in the gross margin for each of the foregoing product groups compared with 2014.

11. CUSTOMERS

Characteristics and Nature of Business Relationship

The Company's customers are numerous and are distributed across many countries throughout the world, such that in some countries, sales are made to a relatively small number of customers. Generally, the Company's products are primarily 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, inter alia, to multinational companies and to other producers who manufacture end-use products based on active ingredients sourced from the Company.

Currently, the Company has no single customer whose purchases exceed 10% of its turnover, and the Company believes that it is not dependent on any single customer.

The vast majority of sales are made to regular customers, typically without long-term supply contracts, as is customary in the industry. In the majority of the countries, purchases are made without long-term advance orders, while in some areas they are made on the basis of (non-binding) rolling sales forecasts and actual orders. The Company's actual production is based on these forecasts.

The Company's sales prices to customers are determined by, among other things, comparing with equivalent products sold by the Company's competitors and by the quantity ordered, with discounts occasionally offered conditional 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 the Company has commercial subsidiaries are immediate and generally within a number of days of the order placement.

Supply Chain

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

In view of the expansion of the Company's activities and the acquisition and establishment of subsidiaries in different regions of the world, in most cases, the Group Companies carry out the role of formulator and/or importer, and occasionally also distributor and retailer.

In the past, farmers stored the inventory in their own warehouses, but this trend has changed and today most of the inventory is stored in the importers' warehouses (which in recent years are mainly Group Companies). The increasing competition in the crop protection sector in recent years has driven many companies in the sector to maintain sufficient inventories in order to respond more efficiently to sudden spikes in customer demand.

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 2016, see Note 29B(2) to the Financial Statements.

12. DISTRIBUTION AND MARKETING

Marketing and Distribution, and Supply Chain

The Company's marketing operations are global and designed to consistently increase profits and market share. The Company focuses on developing its global distribution network by means of geographically organized marketing and product management teams responsible for the development and marketing of the various products under their responsibility on an international level. The Company markets its products directly through local representation in all of the largest agricultural markets worldwide, including in China. The Company’s marketing operations are executed by means of local sales people and oriented toward the distributors, agricultural advisers and farmers.

In recent years, the Company has strengthened its marketing network, including by means of:

- The establishment and acquisition of distribution companies in different regions. The Company's strategy of enhancing its independent marketing and sales capabilities in its key markets is intended, over time, to reduce its dependence on external distributors in these markets, including by increasing proximity to and connection with farmers, and thus enabling the achieving of higher profit margins (which would otherwise be paid to distributors and other parties along the supply chain). Within this context and as part of the Company’s long term strategy, in December 2015 the Company entered into a collaboration agreement whereby it will incrementally become the exclusive distributor in China of the formulated agrochemical products of a number of agrochemical companies controlled by CNAC. This collaboration, which was later broadened to include also active ingredients, is expected to support the strengthening of the Company’s position in the domestic Chinese crop protection market by combining the sales of the Company’s products with those of the CNAC companies, and the establishment of a significant distribution platform in China, which commenced in the beginning of 2016;[29]

- Building and implementing the “farmer centric” market approach, which provides simple solutions meeting farmers’ needs and promoting the differentiation of its products under the global brand.
- Building a global network of crop management teams focused on agricultural crops in a cross-section of different crops, that analyze the market and facilitate the development of products, unique formulations and other digital services, while providing solutions for the needs of agricultural sectors while maintaining reciprocal communication and exchange of information;
- Developing a new “go to market” approach by cooperating with distribution teams with the aim of creating greater access to agricultural sectors;
- Building a consolidated global brand for the entire Group and its products – “Adama” – that was launched during 2014. In this context, the Company implemented a new global brand architecture, which simplifies hundreds of local brands and product names by dividing them into two main categories, “Advanced” and “Essentials,” which are characterized and differentiated by unique and innovative packaging that enhances identification of the brand. Together with the branding process the Company is developing smart packaging and labeling that will have unique characteristics aimed at simplifying use of the products.
- The Company is also developing digital technologies for simplifying and enhancing direct access to farmers (such as specific mobile phone applications for its commercial teams, farmers and distributors), and in so doing is further differentiating itself from its competitors.
- Integration of the marketing and product strategy teams into a unified management structure during 2016, with the aim of fostering a globally coordinated commercial approach.

In a small number of countries where the Company does not have subsidiaries, it operates (generally exclusive) networks of local agents and marketing channels in return for commission payments at rates generally ranging between 3% and 5% of sale value (paid after receipt of the customer payment). This activity is not material in scope to the Company. In some markets in which the Company operates, where centralized marketing channels may be prevalent, external distributors often will only distribute off-patent crop protection products from a limited number of manufacturers. Since the Company’s marketing network in its main markets is based on directly owned and controlled subsidiaries, the Company believes that it is not dependent on external marketing channels the loss of which could have a significant adverse impact on its operations. The Company has a broad and diverse customer base, and as a result it does not have any external distributor whose distribution volume of the Company's products exceeded 5% of the Company's sales in 2016. The Company estimates that, although the termination of an engagement with a single external distributor will not have a material adverse impact on it, should external distributors generally elect

[29] For further information regarding the cooperation agreement see the Immediate Report on December 6, 2015 (Ref. No. 2015-01-173175).

to sell competing products and not to distribute the Company's products, this could adversely affect its results in countries wherein the majority of commercialization activities are by means of external distributors.

The Company's marketing and sales expenses in the crop protection segment totaled approximately USD 526 million in 2016, constituting 18.3% of total crop protection sales for the year.

13. ORDER BACKLOG

Since the Company's products are sold on a current basis and over the short term, as customary in the field, rather than based on long-term contracts, it does not have a significant amount of order backlog in the crop protection segment. Currently, the Company’s forecasts are based on non-binding forecasts of annual order volume by its key customers.

14. COMPETITION

The crop protection market is controlled by six large multinational companies, five of which with annual turnovers exceeding approximately USD four billion in the crop protection product segment (excluding seeds activities). In the past three years, several mergers and acquisitions were consummated between some of the larger medium-sized companies in the industry, including FMC's acquisition of Cheminova; Platform's acquisition of Arysta, Agriphar and Chemtura's agrochemical operations; Huapont Nutrichem’s minority investment in Albaugh. In addition, in the last two years, a number of mergers and acquisitions have been announced (but not yet completed) among the largest players in the crop protection industry – the potential mergers between Dow and DuPont and between Bayer and Monsanto – which upon completion will reduce the number of multinational Originator Companies to four, as well as the acquisition of Syngenta by ChemChina, the controlling shareholder in the Company, all of which have yet to be completed. Nonetheless, the crop protection industry as a whole is relatively decentralized with a large number of local manufacturers competing in each country against the global multinational companies.[30] The Company believes that the entry barriers for the crop protection market are relatively high, while they do however vary from region to region.

The Company, to the best of its knowledge, is the world’s largest company (in sales terms) focused on off-patent active ingredients. The Company was ranked seventh by Phillips McDougall on its 2015 list of both Originator Companies and off-patent companies, with a global market share of approximately 5% in 2016, based on preliminary estimations made by Phillips McDougall regarding total sales in the crop protection industry in 2016.

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[30] See Section 36, under the heading "Operating in a competitive market."

The Company's competitors are multinational Originator Companies that continue producing and marketing their original products after the patent expiry, as well as other off-patent companies. In the Company's experience, in the majority of instances the Originator Company's market share in a particular product falls to approximately 60% – 70% within a number of years following the expiry of the relevant patent, leaving the remaining market share open to competition among off-patent companies, in addition to their competition with the Originator Company (which continues manufacturing the product and even leads its market prices and sales terms).

The Company competes with Originator Companies and other international off-patent companies in all the markets in which it operates, since these generally also have global marketing and distribution networks. In addition, there are several smaller Originator Companies that also create competition for the Company's products. As a rule, other off-patent companies that do not have international marketing and distribution networks compete with the Company locally in those geographical markets in which they operate.

In the last few years, some new emerging trends that may affect the nature of competition in this sector can be identified: (1) The market share of products whose patents have expired continues to rise relative to that of patented original products, primarily due to the fact that the rate of patent expiry exceeds that of new patent registration; (2) A trend of some off-patent companies expanding and becoming stronger (inter alia, as a result of corporate mergers and acquisitions as well as product acquisitions), which may lead to them competing with the Company in geographic markets which they have up to now neglected; (3) Smaller companies have begun operating, in limited scale, in certain markets with relatively lower entry barriers, as detailed in Section 7 above; (4) Development of the agrochemicals industry in China; (5) Price competition in certain markets by multinational Originator Companies and/or increasing the credit days to its customers; and (6) Mergers and Acquisitions among leading companies in the sector.

The Company's expertise in successfully launching new off-patent products, as soon as possible following the expiry of the patents of their original product, represents a crucial factor in maintaining the Company's position in the global crop protection market. Generally, the Company pilot tests the feasibility of manufacturing and marketing of a patented original product approximately 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 particular product as opposed to others. Moreover, the Company analyzes expected changes in the product's price and global market share against the share it may be able to capture as marketing begins. All these factors are considered, inter alia, in reference to market characteristics and the availability of competing products launched over the same period, developments in the genetically modified seeds market and their potential impact (positive or negative) on product launches, as well as the Company's potential technological ability to manufacture the product efficiently and economically.

The Company believes that it currently enjoys significant competitive advantages owing to, inter alia, the geographic deployment of its sales in more than 100 countries and the balanced distribution of its areas of operation, which increases its growth potential; the Company's capabilities in research and development, as well as in technology and chemistry, enabling it to develop and market new compounds, mixtures and applications for its products in a manner that provides a potential competitive edge over Originator Companies; its professional knowledge; strong agronomical capabilities; wide portfolio of unique products suited to the needs of the farmers; strong brand and reputation; financial stability and the availability of financial resources for building and upgrading production facilities; development and regulatory capabilities in various markets around the world (and the resulting ability to launch off-patent products soon after patent expiry); presence throughout the entire value chain (development, production, procurement, marketing, sales, distribution and registration) in a manner that sets the Company apart from the competing off-patent companies; tight quality assurance; strict observance of environmental standards; existence of a global marketing and distribution network and production and marketing collaborations with multinational companies; and the leading of the Company by a management with in-depth understanding of the crop protection product industry as well as the required know-how, skills and experience to contribute to the Company's growth and profitability, and positioning it in a leading position in the global market. These capabilities enable the Company to respond to the dynamic needs of farmers, changing weather conditions and changes in governmental policies and regulations.

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 believes that the combination of all the processes instituted by the Company and the potential of the Combination together with business integration in China, will enable the Company to capitalize on a differentiated business model that will contribute to the continuing strengthening of its competitive position and will give it a clear advantage over its competitors, cementing its unique position in the global market, in that it will become one of the few suppliers in the crop protection industry worldwide with a significant integrated commercial and operational foundation in China.

The Company's assessments with regard to the impact of competing the Combination and the business integration in China on its competitive position is forward looking information as defined in the Securities Law, which is based on the Company's subjective assessments and those of external entities and information relating to the crop protection industry in China. These assessments may change, inter alia, as a result of the date of completion of the Combination and the business integration and/or changes in the operating results of the Company or the competing companies, including as a result of the developments in the crop protection market, changes in demand for the Company products, and global macro-economic trends.

15. SEASONALITY AND WEATHER

Sales of crop protection products are directly influenced by the agricultural seasons, weather and crop cycles.[31] Below is a geographic segmentation of the Company's quarterly sales (in USD millions) and their proportion of the Company's sales in 2015 and 2016:

2016	Q1		Q2		Q3		Q4		Full year	
Europe	425	49.9%	279	34.5%	209	28.2%	129	19.3%	1,042	33.9%
North America	153	18.0%	186	23.1%	116	15.6%	149	22.3%	604	19.7%
Latin America	114	13.3%	159	19.7%	217	29.3%	250	37.4%	739	24.1%
Asia-Pacific	84	9.8%	85	10.5%	62	8.4%	61	9.2%	292	9.5%
India, Middle East and Africa	77	9.0%	99	12.3%	137	18.5%	79	11.9%	393	9.6%
Of which, Israel	*23*	*2.7%*	*28*	*3.5%*	*24*	*3.2%*	*23*	*3.4%*	*98*	*3.2%*
TOTAL	**853**	**100%**	**808**	**100%**	**741**	**100%**	**668**	**100%**	**3,070**	**100%**
Quarterly % of annual sales	**27.8%**		**26.3%**		**24.1%**		**21.8%**		**100%**	

2015	Q1		Q2		Q3		Q4		Full year	
Europe	457	52.7%	322	37.8%	205	29.5%	132	20.3%	1,116	36.4%
North America	138	16.0%	179	21.0%	109	15.7%	147	22.6%	573	18.7%
Latin America	124	14.3%	165	19.4%	209	30.0%	238	36.7%	736	24.0%
Asia-Pacific	78	9.0%	80	9.4%	59	8.4%	57	8.7%	273	8.9%
India, Middle East and Africa	70	8.0%	106	12.4%	114	16.4%	76	8.2%	366	8.9%
Of which, Israel	*23*	*2.6%*	*26*	*3.0%*	*23*	*3.2%*	*23*	*3.6%*	*94*	*3.1%*
TOTAL	**867**	**100%**	**851**	**100%**	**696**	**100%**	**650**	**100%**	**3,064**	**100%**
Quarterly % of annual sales	**28.3%**		**27.8%**		**22.7%**		**21.2%**		**100%**	

[31] See Note 1A(2) to the Financial Statements and Section 36 of the Report titled "Decline in scope of agricultural activities; exceptional weather conditions changes"

16. INNOVATION, DEVELOPMENT, RESEARCH AND REGISTRATION

The Company's Innovation, Development, Research and Registration division (IDR) manages and coordinates all the research and product development activities in the Company, including chemical research and development, product development and registration, as well as the innovative products and novel agricultural technologies. The IDR division is responsible for the development and maintenance of the Company's diverse and increasingly differentiated product portfolio (known as the "Hybrid Portfolio").

The Offering Committee is responsible for prioritizing the Company's products (both existing and those under development); it approves new projects as well as the maintenance of existing products with the objective of creating a clear and committed focus and product management strategy.

In general, the Company, as an off-patent product manufacturer, develops production processes and registration data for molecules present in the original product. Development and registration of off-patent products offer a significant saving in relation to the development costs of the original products required from Originator Companies, which involve significant resources and a long period of time in order to invent or discover the appropriate active ingredients and suitable molecules, and to successfully complete the development of the product. By focusing on off-patent product development, which requires less resources and time, the Company has been able to develop a broad and diverse offering of largely off-patent products at competitive prices. Nonetheless, to introduce a new off-patent product to the market still requires considerable investment in development and registration, particularly in view of the increasing regulatory requirements globally, and the development of, and increasing competition in, the off-patent products market.

The Company currently employs approximately 500 employees in the fields of innovation, development, research and registration, most of whom have academic qualifications.

Chemical R&D and Development

The Company prioritizes its research and development efforts with the aim of maximizing the return on its investment. The Company's primary development and registration activities focus on the chemical-engineering development of production processes for active ingredients and new off-patent products, biological and agronomical tests designed to meet regulatory requirements, development of registration dossiers for the active ingredients and formulations that make up its registration portfolio in the various regions, development of mixtures and of innovative and unique formulations of existing products, as well as streamlining of production processes. The IDR division also operates in cooperation with the production teams in scientific and technological development of existing production processes, emphasizing quality improvement, efficiency, safety, environmental protection as well as production cost reduction.

The Company has also developed several innovative substances, based on molecules acquired from external sources after a screening process proving their effectiveness. The Company develops the product's biological uses and registers them in the target countries, as well as engages in chemical development of the production process.

Currently, the Company operates chemical research and development centers in Israel, India and Brazil, and in 2016 commenced operations of a chemical research and development center in China. In addition to chemical development, the Company conducts development activities for registration purposes through external contractors in Israel and other countries, including China. Such development efforts may on occasion integrate knowledge exclusively owned by the Company, knowledge jointly developed with the subcontractor, or knowledge exclusively owned by the subcontractor.

Currently, the Company operates several analytical labs in Israel, China, India, U.S.A. and Brazil, which inter alia conduct Quality Assurance (QA) tests for its various products, and a portion of these also conduct tests for registration purposes. Adama Makhteshim and Adama Agan possess the standards certificates from the Israel Laboratory Certification Authority, attesting to the high quality of working procedures in their research and development divisions' analytical labs (GLP – Good Laboratory Practice) and the registration laboratory in Brazil received GLP certification from the Laboratory Certifying Authority in Brazil, allowing it to conduct chemical studies for registration purposes.

In 2016 the amounts recognized as research and development expenses (excluding registration costs) totaled approximately USD 33 million, which constituted approximately 1.1% of the Company's consolidated revenues. Research and development expenses are not recognized as intangible assets.

The Company expects that in the twelve months following the date of this Report, research and development expenses will amount to USD 43 million, subject to adherence to its work plan.

Currently, the Company has financed its registration and development investments by means of its own funding, bank and non-bank funding, and in the past, non-material grants from the Innovation Authority (formerly the Chief Scientist) in the Israeli Ministry of Economy.

See Note 19B to the Company's Financial Reports for details on development grants.

Registration

The materials and products marketed by the Company require, at various stages of their production and marketing, registration in every country where the Company intends to market them. The Company has seven development and registration centers, located in Europe, Israel, Latin America, Brazil, U.S.A. and Asia. The Company has gained registration expertise in over 100 countries. For this purpose, the Company employs approximately 190 experienced professionals in the registration of its products around the world. The majority of these hold academic degrees – researchers, engineers and technicians in the fields of chemistry, agronomy, biology and other life sciences. In addition, the Company utilizes the services of external contractors for the development of registration data.

Crop protection products are sold worldwide under the supervision of state authorities in each country (generally the Ministries of Agriculture, Health and Environment), with such registration proceedings characteristic of the crop protection industry, and constituting a barrier to entry into the industry. Obtaining a registration requires meeting health, safety and environmental standards. Registration requirements change from time to time and tend to become more stringent over time in various countries. As a result, registration costs rise and preparation of registration dossiers becomes more time consuming. In some countries, registrations have no time limit, however development of further registration data is required every several years. In some countries, registrations are limited to periods ranging from 7-15 years and are required to be renewed, with additional tests and data required in order to do so. All or a portion of the registrations may be revoked should new data fail to meet the updated required criteria. The cost of registration and the time required for obtaining a registration, or amending it, as well as the know-how required for dealing with the regulatory and political environment behind registration requirements, vary by country, and they may last for several years. Likewise, the Company is required to make modifications in order to fully meet the specific registration requirements of a particular country for the sale of the product in that country. In order to comply with these requirements, the Company continuously examines the compliance of its products with the registration requirements in the various countries where its products are sold and it works to amend and modify them, as required. Within this framework, the Company continuously submits applications for the modification of registrations of products to the registration authorities around the world. Some of these requests were approved and some are being examined by the authorities, with these examination processes possibly lasting several years.[32]

[32] For additional information on the licensing requirements applicable to the Company and the related risks, also see Section 36 of the Report, under "Legislative, standards and regulatory changes in the product licensing sphere."

Generally, the EU, U.S.A., Japan and Brazil have the most stringent regulatory standards. Other countries are gradually adjusting own requirements to reach the standards of these advanced countries.

For information regarding new registrations obtained in 2016, see Section 9 above.

Registration costs are typically several hundreds of thousands of US dollars per product, and in countries such as the U.S.A., the EU and Japan, they may even reach several million USD per product.

In 2016, the Company's registrations expenses were USD 97 million, including depreciation, which constituted approximately 3.2% of the Company's annual revenues.

Registration in the United States

The registration process in the U.S.A includes federal registration by the Environmental Protection Agency (EPA) for the active ingredient and chemical formulations, which are the end products for sale. Moreover, several states require special permits and licenses for the various preparations and configurations of the active ingredients already registered at the federal level, based on the criteria of the individual state.

There are two primary methods for obtaining federal registrations in the U.S.A.:

- For products containing an innovative active ingredient, the registration applicant is required to submit a complete portfolio which includes all the relevant data and research findings in order to obtain the registration. Preparing such a portfolio generally takes approximately 6-7 years, and the EPA review in this type of process takes a further 2-4 years.
- Following a registration period of 10 years, citing all the existing protected data of another company's active ingredient (Cite All), and demonstrating that the generic active ingredient is chemically similar to the registered active ingredient in that state. In this method, off-patent companies are required to compensate the originating company holding the original registration with an agreed amount which is a function of the data's value, the cost of registering the original product, the number of existing registrations and compensation for the time saved by reducing the registration procedure. In the event of a dispute between the off-patent company and the original registration holder as to 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 constituting the basis for the registration is open to the public, and from this time on there is no liability for compensation.

As part of the EPA's additional re-registration requirements, 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, therefore international companies tend to cooperate with it in this process.

Registration in Europe

All new ingredients intended for use in EU countries undergo a rigorous registration process comprised of two main stages. The first stage enables the inclusion of the active ingredient in the list of ingredients permitted for use in EU countries. In the second stage, the final product has to be registered for its various uses in the EU countries in which the product will be marketed. Current regulation is based on a hazard-based cut-off criteria approach that allows the rejection of registration applications based on their potential hazard and not based on the risk from actual exposure to the active ingredient, in contrast to the risk-based approach adopted throughout most of the world, which allows the adoption of measures based on scientific findings so as to achieve the desired protection level.

With regard to new registrations and registration renewals in Europe, the Company collaborates with several other companies to jointly develop the data and information required, when it is commercially prudent to do so, so as to reduce the costs, labor and risks inherent to this process.

The Company believes that owing to the stringent approach of the EU and its associated institutions in recent years, the Company’s product portfolio, along with those of competitors across the entire industry, may be influenced in the coming years by refusals to renew registrations and/or the rescinding of registrations as a result of the removal of certain active ingredients from the list of ingredients permitted for use in the EU.

The Company's estimates regarding the effects of the various regulatory requirements on its product portfolio constitutes forward-looking statements as defined in the Securities Law, which is based on current regulatory trends and the Company's experience. These estimates may not materialize or may be realized in a different manner, inter alia, due to factors beyond the Company's control such as crop protection market developments, regulatory, economic, political, social and other changes, as well as changes in demand for its products.

Registration in Brazil

The registration procedure for off-patent active ingredients in Brazil is based on the similarity of its chemical properties to those of an active ingredient available in the market. Generally, if the registration applicant proves chemical identity to the existing product and includes the chemical data and additional registration work on the active ingredient and the chemical formulation, including efficacy and residues studies, it may be granted a registration following a review process of four to five years, due to rigorous review by the Health Ministry (Anvisa) and the Ministry of the Environment (IBAMA), and as a result of the present portfolio overload owing to the large volume of ingredients registration requests.

17. INTANGIBLE ASSETS AND INTELLECTUAL PROPERTY

Most of the Company's crop protection products (both in absolute volume and in relative sales terms) are off-patent products. Nevertheless, the Company has a relatively broad portfolio of patents, trademarks and registrations protecting its intellectual property rights and production processes. Consequently, the Company has 18 patent families that protect innovative materials and approximately 41 more patent families, relating to both off-patent and innovative materials, that protect processes, formulations, uses and unique mixtures. The Company also relies on trademark registration to secure its reputation for the products it manufactures and markets. Currently, the Company owns over 8,290 active trademarks. In addition, the Company also has several exclusive territorial licenses for various additional substances.

For information on patents and intangible assets of Lycored, see Section 19 of the Report.

The Company has an intellectual property department within its legal department responsible for protecting the Company’s intellectual property through the registering of patents on the Company's developments and the trademarking of its products, as well as by taking action to revoke invalid patents of third parties.[33]

The Company acts to safeguard and protect its unregistered trade secrets and other intellectual property through confidentiality clauses, differential authorization, and other means.

In accordance with the generally accepted accounting principles, the amounts recognized as the Company's intangible assets in the Financial Statements of December 31, 2016 (including subsidiary goodwill) totaled approximately USD 692 million.

18. RAW MATERIALS AND SUPPLIERS

The Company procures a large variety of raw materials, which may not be uniformly characterized, together with complementary raw materials required to produce the finished products and/or their formulations.

The shelf lives of most of the raw materials are generally several years, and they remain stable over these 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 as a result of aging are negligible.

[33] For further information, see also section 36 of the Report, under "Intellectual property rights of the Company and of third-parties."

The most significant element of the Company's cost of sales is the cost of raw materials used in its industrial activities, which is primarily influenced by global changes in the supply of raw materials, and, to a certain extent, extreme fluctuations in international oil prices.[34] Similarly, the cost of purchasing finished products for marketing to third parties is also significant.

In 2016, the costs of raw materials, packaging and labels amounted to approximately USD 965 million. This cost constituted approximately 68.9% of the Company's total production costs in this segment (excluding finished products), which amount to approximately USD 1,400 million.

The Company purchases its raw materials from various suppliers, primarily in China, Europe, the U.S.A., and South America. The Company's supplier network has not changed significantly over the past few years, but nevertheless, there has been a gradual increase in the volumes procured from various suppliers in China (without a material reduction in the quantities bought from the Company's other suppliers) due to the wide range of products and competitive prices offered by these suppliers, together with the improved quality of the products that are examined by the Company through the performance of product quality testing in China.

Currently, the Company believes that it is not dependent on any material supplier.[35]

[34] For further information with regard to oil price fluctuations and the possible influence on the Company results see Section 6 of the Report, under "Significant fluctuations in raw material costs and global energy prices."
[35] For further information regarding supplier credit, see section 25 of the Report.

A.2. OTHER ACTIVITIES

In addition to crop protection, the Company's primary field of operation, it is also active in various other fields outside of crop protection. The Company's aggregate revenues from, and investments in, these other activities do not exceed 10% of its total consolidated revenues and investments. Currently, the Company has operations in the following other activities: 1) dietary supplements, food color, texture and flavor enhancement ingredients, and food fortification ingredients; (2) fragrance products; (3) industrial products and (4) additional products.

In these other activities, the Company leverages its knowledge, experience and chemical and industrial capabilities. In view of the highly diverse nature of these other activities and products, and since they do not represent core Company activities and they are limited in scope, they are reviewed and analyzed separately, to an extent commensurate with their share of the Company's results.

19. DIETARY SUPPLEMENTS, COLOR, TEXTURE AND TASTE ENHANCEMENT INGREDIENTS AND FOOD FORTIFICATION INGREDIENTS

The Company holds 100% of Lycored Ltd. ("**Lycored**") which engages primarily in developing, manufacturing and marketing dietary supplements ("**DS**"), special ingredients for the color, texture and taste enhancement of food, and food fortification ingredients (the "**Supplements**"), primarily for non-Israeli markets. The food fortification ingredients are ingredients added to food in the industrial manufacturing process that give the final product nutritional or health value attributes, and are marketed as single components and/or mixtures for food fortification and the DS industry.

Lycored holds development, production, marketing and distribution infrastructures. The Lycored plants are located in Israel (in Be'er-Sheba and Yavneh), the U.S.A., England, China and Ukraine.

Products

Lycopene

One of Lycored's unique products is natural lycopene produced from tomatoes. Within this framework, Lycored has developed a unique and innovative process for producing natural lycopene (the carotenoid that gives the tomato its red color), which is ascribed by some to have properties for protecting the human body against degenerative and malignant diseases. In order to produce lycopene, Lycored has developed unique tomato strains (primarily intended for industrial applications) with particularly high lycopene content. In addition, Lycored has developed technological capabilities for extracting, separating and concentrating the products resulting from tomato processing and adapting them to market requirements.

Beta-carotene

Lycored produces and markets beta-carotene produced by fermentation. Additionally, Lycored possesses technological abilities to extract and separate products resulting from fermentation and the production of a variety of products, primarily for the DS and food industries.

Lutein

Lycored also operates in the development, formulation and marketing of lutein-based products primarily for the DS and food industries.

In addition, Lycored engages in several associated activities: (1) providing formulating services for active ingredients in the DS market; (2) providing coating services to active ingredients and preparing mixtures, such as vitamins, minerals and other natural materials for food fortification.

Lycored's gross margins are not materially different to those of the Company's in the crop protection segment.

Market Structure, Recent Developments and Competition

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. These factors require the industry players to maintain technological innovation, responsiveness to the requirements of customers, the ability to meet high quality standards, alongside with proving the effectiveness of the marketed products. For these reasons, this industry is characterized by consolidation, and as a result the reduced competitiveness of small companies. Nevertheless, companies with unique products and a reputation, such as Lycored, have managed to solidify their position despite the aforementioned trend.

The DS industry is exposed to competition that has increased considerably in recent years from manufacturers marketing raw materials and also, recently, formulated materials. In addition, Lycored’s products in the DS field compete with other products that are based on natural ingredients with health properties. Other competitors are the natural lutein producer such as Kemin Industries, Inc., formulators such as DSM Nutritional Products and manufacturers of vitamin and mineral mixtures such as Glanbia and DSM.

Changes in Volume and Profitability

In 2016 Lycored's sales to customers outside the group totaled approximately USD 94 million, compared to USD 85 million in 2015. The improvement in the results primarily resulted from a renewed focusing of Lycored’s business strategy, accompanied by the launch of a new brand, with the objective of broadening the potential market share of its products versus competing with alternate products. Currently, Lycored's market share is not material in each of its product groups.

Critical Success Factors

The Company estimates that the main success factors in Lycored's operations are: (a) technological capability, innovation and leading the field; (b) responsiveness to the changing requirements of the food and nutrition industry, and ever-changing consumer preferences; (c) maintaining and reinforcing its relationships with regular clients by providing optimal marketing support and customer service; (d) global marketing deployment which enables the formation of tight relationships and the building of a reputation as a reliable manufacturer; (e) activities in the natural products field and increasing the range of “green” products that address the increasing consumer need for natural and vegetarian products.

Barriers to Entry

As a company active in the Supplements arena, Lycored is required to obtain and maintain various permits and licenses, as well as to meet a large number of standards, including quality standards, required by customers in the field in various countries. In addition, companies who operate in this field require knowledge, specialist technologies together with vast experience on several levels, inter alia, scientific development capacities, scientific and clinical proof of the effectiveness of the active ingredients they market, raw material extraction technologies and storage techniques, expertise in chemistry and advanced technologies for producing the relevant product applications. In turn, these require equity, financial abilities and reputation, since establishing a position in the Supplements area requires a lengthy period of time. For the manufacture, marketing and distribution of DS, proven technological knowledge and extensive experience are required, together with the capabilities to extract, separate, stabilize and fully utilize the various products obtained from the production processes.

Customers

Lycored's customers are primarily industrial companies, including those producing and selling end products to food chains and stores, and industrial companies who formulate and package ingredients supplied by Lycored for dietary supplements and private label products.

Marketing and Distribution

Currently, Lycored primarily sells its products in North America, Europe, Japan, Korea and other countries in the Far East. Sales are executed through specific, current orders received shortly before required supply date. Lycored's estimates are based on non-binding forecasts of annual order volumes from key customers. Over the years, Lycored has developed its own marketing and distribution arms, as well as customer and technical support services in the markets where it is active. Lycored occasionally utilizes local agents.

R&D

Lycored's main R&D activities are conducted by internal sources and primarily in Lycored's labs, and in research facilities with which Lycored has engaged in annual agreements. The research focuses on cultivation of strains of tomatoes, advanced formulation capabilities, isolation of active ingredients, food coloring and clinical research to examine the potential health benefits of the Company's products.

Regulatory Restrictions, Registrations and Permits

Production and marketing of dietary supplements and food additive ingredients are generally subject to the national health agencies and the registration and quality requirements. Lycored has received FDA approval for the use of natural lycopene as a food coloring for the U.S. food industry, in addition to permits to distribute the product in Europe and Japan. Receipt of this FDA approval is of great significance for the Company, since the authorities in the US have not approved the use of synthetic lycopene as food coloring.

In Israel, activities in this field are subject to the Public Health (Food) (Dietary Supplements) Regulations, 5761-2001, which establishes permitted supplements, their measures and amounts. Most of the vitamins and minerals imported by Lycored require import licenses from the Ministry of Health.

Raw Materials and Suppliers

The raw materials used in Lycored's products are tomatoes, marigold flowers, algae, vitamins, minerals and amino acids. Consequently, its primary suppliers in this field are farmers, hence their supply is also dependent on factors affecting the agricultural industry. Moreover, Lycored has contracted with a seed company for the supply of special tomato strains, as well as with growers in Israel to whom it supplies the seeds and growing instructions for the tomatoes. In addition, Lycored purchases active ingredients, vitamins and minerals from companies in the west and in East Asia.

In addition to growing and processing tomatoes in Israel, Lycored processes tomatoes in California in a local tomato plant, and the processed product is imported to Israel for extraction in the Be'er-Sheba plant.

Intellectual Property

All of Lycored's products are the result of original independent development. Lycored holds 28 registered (or in advance registration stages) patent families related to production and formulation processes or the compositions and properties of active ingredients Lycored develops. Lycored also owns several brands that are registered as trademarks.

20. AROMA PRODUCTS FOR THE COSMETICS AND FLAVORS & FRAGRANCES (F&F) INDUSTRIES

The Company indirectly holds 100% of the shares of Agan Aroma and Fine Chemicals, Ltd. ("**Agan Aroma**"), which is primarily involved in the development, manufacture and marketing of chemicals and synthetic 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, and recently has begun selling branded fragrance products to end customers. The great majority of fragrance products are designated for export. Agan Aroma owns a number of fragrance products used to produce scent extracts. Agan Aroma's products comprise the raw materials included in the product. The fragrance products manufactured by the Company's subsidiaries are off-patent products.

Agan Aroma's activity focuses on manufacturing of chemicals, synthetically, based on organic synthesis of fragrances for the fragrance industry in its dedicated facilities in Ashdod. Most of the raw materials of the fragrance products are chemicals with a high-level cleaning rating.

The Company cooperates with a Swiss company to manufacture and market fragrance and flavor materials in its Agan plant. In addition, the Company in collaboration with the Swiss Company developed a unique process for manufacturing a fragrance and flavor product whereby a manufacturing facility was built at the Makhteshim site in Neot-Hovav. However, as a result of an inability to further produce by means of this manufacturing process, it has been decided to close this operation.

Structure and Recent Developments

The fragrance 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, primarily in China and India, which led to price declines and a significant decrease in Agan Aroma's market share during 2012-2013. A recovery began in 2014 which continued during 2016, as seen in the increase in Agan Aroma's sales and its improved profit margins. Activity in this area requires innovation, expertise and advanced R&D processes, as well as the technological knowledge required for sophisticated production, low-cost manufacturing capabilities, optimal deployment and management of an international sales network, and initial capital for investment in complex production facilities.

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

Customers

Approximately 20% of Agan Aroma's customers are multinational companies that are responsible for approximately 70% of its sales volumes. The remaining sales are to medium and small-scale companies. Agan Aroma supplies most of the leading companies in the fragrance industry who between them have an aggregate market share of approximately 75% of global fragrance activity. Its major customers in this area include multinational corporations such as Firmenich, Givaudan, Symrise, Takasago, Mane and Robertet. Fragrance-compounds are usually developed in accordance with customer requirements, requiring long-term strategic relationships with the client, as well as collaboration in development and individual product customization.

Marketing

The majority of the sales are based on long-term contracts and orders, with the remainder arising from 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 primarily based on direct sales (including through other Company subsidiaries) to end customers and sales through a company jointly held (50%) by Agan Aroma (with regard to joint company products alone).

Competition

The fragrance products industry is characterized by extreme competition. Agan Aroma's primary competitors include leading F&F multinationals with production capabilities in this field, such as IFF, leading chemical companies such as BASF SE and other companies in Eastern Asia and China. Nonetheless, the entry of manufacturers from China and India into the market with products of improved quality led to a significant reduction in prices, which led to a significant decrease in the profitability of these products. Due to the aforementioned processes, Agan Aroma is examining the option of entering new markets in which its advantages may be realized and may yield growth and improved margins.

R&D

Agan Aroma focuses on development and improvement of manufacturing processes, application of technologies appropriate for cleaning the chemicals, as well as R&D activities designed for quality control and the compliance of the company’s products to global standards.

Regulatory Restrictions, Registrations and Permits

Agan Aroma products are being increasingly subjected to strict health and safety standards. Customers require producers to provide certificates demonstrating that their F&F products meet the relevant regulatory standards and legal requirements.

Raw Materials and Suppliers

In order to maintain high quality and availability, manufactures in the sector such as Agan Aroma require long-term relationships with suppliers. Agan Aroma's primary raw material suppliers are chemical suppliers based abroad. Currently, Agan Aroma is not dependent on any single supplier. Finished products in the F&F sphere may be stored for a period of several months.

Turnover and Profitability Developments

The group's sales of Agan Aroma's products to customers outside the group amounted to approximately USD 45 million in 2016 compared to approximately USD 42 million in 2015.

21. INDUSTRIAL PRODUCTS

The Company manufactures and markets industrial products, which are primarily by-products of its crop protection production processes, and on occasion raw materials, as follows:

- Hydrogen peroxide, used mainly in the production of detergents for the paper and chemical industries
- Electrolysis products, sold by the Company to industrial companies primarily in Israel
- CO_2 and hydrogen for industrial uses, primarily in the food industry

The Company's industrial products operations include the manufacturing of chemicals, as well as the import and marketing of industrial chemicals in Israel. Its industrial and chemical capabilities enable it to manufacture these products. It must be noted that a portion of the manufacturing activity is conducted in the Company's regular facilities, while others are carried out in separate facilities.

Industrial products sales to customers outside the group in 2016 totaled approximately USD 52 million, compared to approximately USD 50 million in 2015.

Customers

Since this area of activity involves basic chemicals, the variety and type of customers that are in need for these products are wide. These primarily include industrial companies, including in spheres such as food, energy, textiles, plastics, construction and chemistry. As stated, the majority of the Company's customers in this sphere are Israeli. Industrial chemical products are marketed by means of dedicated distribution agreements or on an order basis, as the case may be.

Competition

The Company controls about half of the Israeli industrial chemicals market. Its primary competitors in Israel include importers and local manufactures, such as Fertilizers and Chemicals, Ltd., Maxima Air Separation Center Ltd., Depotchem, Ltd. and Chimcol Chemicals Ltd.

Raw Materials and Suppliers

The majority of the raw material inputs in this field derive from the Company's crop protection product activity. Since the majority of industrial chemicals are raw materials manufactured by the Company or by-products of manufacturing processes of the Company's products, inventory periods are short, usually no more than a few weeks.

B. ISSUES RELEVANT TO THE ENTIRE GROUP

The following items are presented with respect to the entire Group, since they are common to its overall activities.

22. FIXED ASSETS, REAL ESTATE AND FACILITIES

Company's Plants and Facilities

The Company's fixed assets are primarily the plants in which the Company conducts the manufacture, research, development, formulation and packaging of its products as further described in this Section.

With the expansion of the Company's businesses in China and completion of the creation of its operational and commercial infrastructure in China, it is the Company's intention to conduct its global manufacturing operations through two global centers, in China and in Israel.

Description of the Company's material plants and facilities:

Location	Owned / Lease	Purpose	Remarks
Airport City, Israel	Leased	Offices	The Company engaged in a rental agreement for a total area of 5,700 m^2 (at a cost immaterial to the Company) in a building located at Airport City, in which the Group's head office is located, including the Company's management and headquarters. Under the rental agreement, the term of the rental terminates in 2022, however the Company has an option to reduce this term, pursuant to the conditions of the agreement.
Neot Hovav, Israel	Leased	Manufacturing, packaging, research and development	Production of the active ingredients used in the manufacture of insecticides and fungicides. A manufacturing facility for a product in the fragrance field is located on the land (see Section 20 above). The plant also serves for the production of industrial products (see Section 21 above). For further information regarding the land, also see Note 9B(1) to the Financial Statements.
Beersheba, Israel	Leased	Formulation, packaging, research and development	Formulation and packaging of insecticides and fungicides which are manufactured in Neot Hovav plant; formulation and packaging of products manufactured by third parties sold by the Company. Lycored's facility is located on part of the land, which Lycored purchased from Makhteshim (area of 17,200 m^2). For further information regarding the land, also see Note 9B(1) to the Financial Statements.
Ashdod, Israel	Owned/ leased	Manufacturing, formulation, packaging, research and development	Manufacturing of the active ingredients used in the manufacture of herbicides. A manufacturing facility for a product in the fragrance field is located on the land (see Section 20 above). The Company owns a logistics center and effluent purification facility, which are located nearby the plant. For further information regarding the land, also see Note 9B(1) to the Financial Statements.

Location	Owned / Lease	Purpose	Remarks
Londrina, Brazil	Owned	Manufacturing, formulation, packaging, research and development, offices	Real estate of approximately 241 dunam (constructed area of approximately 36,000 m^2)
Taquari, Brazil	Owned	Production	Real estate of approximately 492 dunam (constructed area of approximately 68,000 m^2)

The Company owns additional manufacturing facilities in Poland, Mexico and Columbia, which currently produce a limited range of products in a relatively small volume compared to the Group's overall operations, as well as additional facilities in other regions in which it operates worldwide, including in the U.S.A., Columbia, Spain, Italy, Greece, Korea, Mexico and India. These facilities are designed mainly for the formulation and packaging of products and ingredients produced at the plants in Israel, however their operations currently are not significant in relation to the overall scope of the Group's operations. In addition, the Company is currently completing the establishment of a new formulation and packaging center in China.

Similarly, the Group has agreements with various companies worldwide for the provision of external formulation and packaging services at their facilities.

Equipment

The primary equipment in the Company's facilities includes active ingredient production lines. The size, constituent materials and number of units of the equipment differ from one facility to another. The Company’s facilities include the following items:

- Revolving machine tools – such as pumps, reactors and compressors of various types
- Static equipment and pipelines – such as distillation columns, containers and cooling towers
- Electricity and control – such as computerized control systems
- Civil engineering and iron or concrete constructions

As at December 31, 2016, the depreciated cost of facilities and equipment totaled approximately USD 651 million.

Investments in Production Facilities

The Company acts continuously to expand its manufacturing capacity, primarily by expanding existing synthesis, formulation and packaging facilities, by establishing new manufacturing facilities, operating manufacturing facilities owned by acquired companies, expanding its R&D infrastructures and extensive investments in various environmental projects.

In 2016, the Company invested a total sum of approximately USD 65 million in facilities and equipment. The Company intends to continue expanding its manufacturing capacities by investing in manufacturing facilities, as and to the extent required, subject to various applicable legal restrictions and requirements.[36]

The balance of the depreciated cost of fixed assets in the Company's consolidated Financial Statements as of December 31, 2016, less investment grants, totals approximately USD 804 million (for further information see Note 9 to the Financial Statements.)

23. PRODUCTION CAPACITY

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

Generally, the Company's manufacturing plants operate 24 hours a day, in shifts, aside from self-initiated stops for periodic maintenance work, during which the Company primarily sells inventoried products. Currently, the average number of actual production stops due to such maintenance work, as well as malfunctions, holidays and other such events is thirty (30) days annually.

The Company's manufacturing sites house two types of facilities: (1) Dedicated facilities designed to produce a single product or product family; and (2) Multi-purpose facilities – comprising over half the Company's facilities – where several different kinds of products may be manufactured. The latter provide the Company with manufacturing flexibility and enable it to prepare for the manufacturing of new products, subject to maintaining and ensuring quality standards.

The Company believes 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 approximately 75%-80% of total capacity. Nevertheless, the majority of its formulation facilities operate on a seasonal basis, and therefore periodically the facilities operate at higher outputs (exceeding 90% of total capacity). As the demand for products manufactured in these plants increases, the Company will consider expanding them or alternatively purchasing the same materials from other suppliers. In the Company's estimate, expanding a manufacturing facility may require between six (6) to eighteen (18) months following regulatory approval. Facility expansion costs vary with the nature of each facility and extent of expansion required.

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[36] For enumeration of the Company's investments in environmental facilities within the three years prior to the Report date, see Section 28 of the Report.
For further details regarding investment grants as a result of the purchase of fixed assets serving as the Company's plants as per the Law for the Encouragement of Capital Investments, 5719-1959, see Notes 9E and 17 to the Financial Statements.

This Section includes forward-looking statements, as defined in the Securities law, based on subjective Company estimates as to the output of its manufacturing *facilities, facility expansion timeframes, and the availability of its existing locations and facilities. Such estimates may not necessarily materialize due, inter alia, to the risk factors described in Section 36 below as well as to failure to complete facility expansion on schedule owing to dependence on subcontractors, and machinery and equipment wear and tear.*

24. HUMAN CAPITAL

At December 31, 2016, the Group employed 4,955 employees.[37]

	December 31, 2016	December 31, 2015
Manufacturing	1,954	1,946
R&D	220	232
Sales and Registration	2,334	2,236
Management & Administration	447	450
TOTAL	**4,955**	**4,864**

	December 31, 2016	December 31, 2015
Israel	1,299	1,298
Latin America	1,137	1,139
Europe	1,043	1,043
India, Middle East and Africa (excluding Israel)	662	670
North America	405	391
Asia Pacific	409	323
TOTAL	**4,955**	**4,864**

The increase in the number of employees is due mainly to the intake of marketing and sales personnel in distribution company in China.

At the Report date, approximately 37% of the Company's total workforce is employed under a collective agreement.

[37] Excluding employees of companies which are treated according to the book value method.

Labor Relations and Employment Agreements:[38]

Adama Makhteshim

From time to time, Adama Makhteshim enters into special collective agreements for fixed periods with the Company's Workers Council (who are not employed under personal contracts) and with the New General Federation of Labor – Negev - Be'er-Sheba District, that regulate, inter alia, the terms and salary increases as well as associated benefits.

Currently, work relations between Adama Makhteshim's management and employees are in order.

Adama Agan

Labor relations in Adama Agan are governed by a special collective agreement signed in 1973 on behalf of the employees (who are not employed under personal contracts) by the Ashdod Workers' Council. From then on, Adama Agan and the New General Federation of Labor - Ashdod District and the Workers' Council enter into special collective agreements, usually for periods of two years at a time, which update different topics included in the historical agreement and introduce new arrangements.

Currently, work relations between Adama Agan's management and employees are in order.

Adama Brazil

The employment conditions of the employees of the Group's Company in Brazil, Adama Brasil S.A. ("**Adama Brazil**"), are subject to federal legislation relating to employment (CLT), which include demands regarding labor relations that all private companies in Brazil are obligated to meet.

Currently, Adama Brazil complies with all these regulations.

The employment terms of the employees of Adama Brazil are governed by a collective agreement which is renewed every of two years between Adama Brazil and the labor union. Currently, Adama Brazil's labor relations are in order and, to the best of the Company's knowledge, no significant labor disputes have been arisen in recent years. Adama Brazil's CEO and senior management are employed in accordance with the Brazilian Corporation Act.

Adama India

The employment terms of the employees of Adama India comply with the labor and welfare laws in India, and the regulations prescribed by the relevant authorities. Adama India does not have a labor union and currently, labor relations are in order.

[38] The description is given in regards to the Company's key subsidiaries, in which the majority of the Company's employees are employed

Training, 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 gratuity allocation for employees who do not serve as officers, management and intermediate level, in reference to both annual gratuity grants and long-term compensation programs. These criteria are subject to the framework of an allocation budget which is approved annually as part of the Company's employment plan. The extent of the gratuity grant, should there be such, is a function of employee performance and Company results.

Officers and Senior Management of the Company

The Company's senior management team comprises 7 members, employed in its offices in Israel and abroad. The agreements with the senior officers contain provisions regarding prior notice, non-competition (for periods of 4-12 months following termination of employment), confidentiality of information and a portion of the agreements contain provisions regarding assignment of intellectual property rights.[39]

Pursuant to the provisions of Section 267A of the Companies Law, the Company adopted a policy for the terms of office and employment of officers and senior managers who are not officers ("**the Remuneration Policy**").[40]

Long Term Incentive Plans

In connection and in light of the advancing of the combination with Sanonda through which the Company will achieve its group flotation aim, on March 30, 2017 the Board of Directors approved the cancelation of the option plan (and its supplement plan) and the options and rights granted according to them against a payment of compensation to the grantees, all subject to the closing of the Sanonda combination transaction and the approval of the grantees.[41] Additionally, and as part of the Company policy to award long term incentives every two years, in August 2016 the Company adopted a long term incentive plan for employees and officers of the Company and its subsidiaries.

[39] For information regarding the terms of employment of the senior officers in the company, see the Board of Directors' Report, Chapter D of this report and Note 28 to the Financial Statements.
[40] For information regarding the extension and amendment of the Remuneration Policy see the immediate report of January 22, 2017 (Ref. No 2017-01-007357).
[41] For information, see Note 21D of the Financial Statements.

Indemnification, Insurance and Exemption for Officers

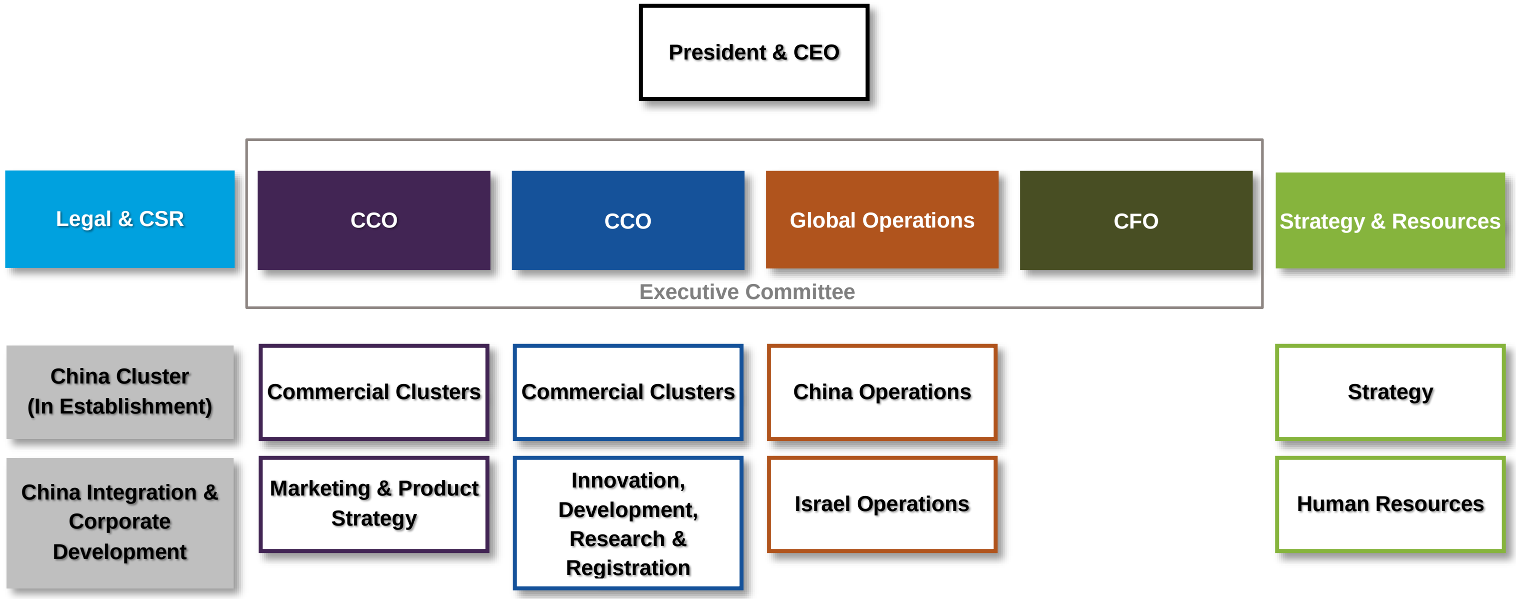
The Company executed an insurance policy for the directors and officers, and also entered into commitments for indemnifying and exempting its officers.[42]

Currently, the Company estimates that it is not dependent on any one individual employee.

For information regarding the Company's obligations on the termination of employment, see Note 18 to the Financial Statements.

[42] For information regarding the terms of the insurance for officers and the writs of indemnification and exemption, see Note 19A of the Financial Statements.

The Company's Organizational Structure:



25. WORKING CAPITAL

The Working Capital of the Company in 2016:

Working capital balance (million USD)	Current ratio	Quick ratio
1,233	1.93	1.15

Customer Credit

Generally, the Company follows a customer credit control procedure which establishes conditions for providing customer credit limits, as well as the procedures for collection follow-up. The Company generally offers its customers credit of between several months and one year, such that a separate liability is managed for each customer by individual profile (i.e. previous transactions between the Company and the customer and the relationship, customer collaterals, insurance the Company received for the customer, if any, etc.), its specific requirements and the type of business relationship. For additional information regarding this procedure see Note 29B to the Financial Statements.

The credit period extended to customers varies and is a function of the competition in each of the Company's markets, the types of crops in the region in question, the number of parties involved in the supply chain, and other such factors that may affect the credit period at any given time. In certain regions, primarily South America, the credit period is long (compared, for example, to that for West European customers), and sometimes, inter alia, due to difficult crop seasons or the economic conditions in the respective country, the Company may find it difficult to collect its debts, possibly prolonging the collection period for up to several years. This risk also exists in emerging countries where the Company may be less familiar with its customers, their collaterals may be of questionable quality and there may be no certainty as to the existence of customer insurance coverage.[43]

The Company extends credit periods to its customers according to the credit terms common in each respective market. Accordingly, the increase in Company sales in developing countries where the length of credit periods is greater, has led to, and may continue to involve, an increase in the total credit period extended by the Company. Furthermore, in view of the challenging agricultural market conditions in recent years, the large Originator Companies have begun increasing the credit periods offered to customers, which have compelled and will continue to compel the Company to also increase the credit periods it extends to its customers in certain regions.

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[43] For information in this regard see also Note 29B(2) to the Financial Statements in reference to provisions for doubtful debts.

The average customer credit days extended in the three years preceding the Report date[44]:

	2016	2015	2014
Average customer credit days	126	128	145

Crop protection sales are directly dependent on the agricultural 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 the average credit periods. Countries in the northern hemisphere are characterized by similar timing of agricultural seasons, with these countries generally having their highest sales in the first half of the calendar year, whereas the agricultural season is the opposite in the southern hemisphere (except for Australia), where most sales occur in the second half of the year.

The customer credit period in the northern hemisphere countries is generally lower than the Company average, while the customer credit period in southern hemisphere countries is generally higher than the Company average. Sales in Brazil, which accounted for approximately 15% of the Company's sales in 2016, occur mainly in the third and fourth quarters, and collections are made primarily in the second quarter of the subsequent year.

The Company's trade receivables balance at December 31, 2016 totaled approximately USD 821 million. For additional information see Note 4 to the Financial Statements.

The Company's bad debt expenses totaled approximately USD 13 million in 2016.

Receivables Financing Facility

The Company has undertaken ongoing customer debt securitization whereby a foreign company (not owned by the Company) which is funded by international financial institutions will purchase certain of the Company subsidiaries' customer debts (the **"Receivables Financing Facility"**).[45] During 2016, the Company engaged in an additional receivables financing facility for customer debt securitization of a subsidiary of the Company.

Inventory and Raw Material Policy

Owing to the seasonal nature of the Company's sales, the relative distance of the production plants from its various markets and the high importance the Company ascribes to the quality of its customer service, the Company usually follows a flexible inventory policy with regard to both raw materials

[44] The data refer to the annual average (rather than the number of credit days as of the end of the reporting period). The average calculation includes current and non-current customers and in 2015 and 2016 includes a deferred promissory note for the sale of customer debts. The decrease in the number of customer credit days in 2015 was due to the fact that as of the first quarter of 2015 the debt balance in the Receivables Financing Facility is not included in the balance sheet.

[45] For information regarding the Receivables Financing Facility, including the credit thereof, its general terms, period, and maximum limit of the credit facility as well as with regard to the new receivables financing facility, see Note 4 to the Financial Statements, and Notes 20D and 20E to the Financial Statements regarding the restrictions applicable to the Company resulting from the Receivables Financing Facility.

and finished goods.

The Company's production plan is based on a forecast of periodic (seasonal) orders, which is updated on a continual basis, predominantly according to updated forecasts as well as actual orders. Under this plan, the Company generally 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, in order to reduce funding requirements and maximize efficiency, the Company endeavors, to the extent possible, to take delivery of the raw materials in close proximity to the planned production deadlines. The Company usually stores an inventory of raw materials in line with such forecasts in its plants. The shelf lives of most raw materials are several years as they remain stable over the 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 ascribes great importance to managing its current inventory efficiently and to curtailing 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 its different phases.

Average inventory and inventory periods in the three years prior to the Report date is as follows:[46]

	2016	2015	2014
Average inventory ($million)	1,106	1,209	1,239
Inventory days (relative to historical sales)	198	211	206

The Company evaluates the need for recording inventory impairment provisions. Total current inventory as at December 31, 2016 was approximately USD 1,035 million, a decrease of approximately USD 114 million compared with approximately USD 1,149 million in 2015.

Supplier Credit

Generally, the Company receives supplier credit of 30 to 180 days. The Company continuously endeavors to increase the credit period it receives from various suppliers.

The average trade payables and average supplier credit days in the three years prior to the Report date:[47]

	2016	2015	2014
Average trade payables ($millions)	516	589	628
Supplier credit days	110	112	114

[46] A non-material adjustment of the comparative figures of 2014 was executed; the average inventory calculation includes current and non-current inventory.
[47] Excluding suppliers of fixed assets.

26. FINANCING AND CREDIT

The Company finances its business activities by means of its equity as well as credit from external sources. The primary external financing is by means of long term bonds issued by the Company, the balance of which on December 31, 2016, was approximately USD 1,069 million, which is after the full repayment of the Company's D series bonds on November 30, 2016.[48]

The Company has additional sources of external funding from: (1) long-term bank credit, the balance of which as of December 31, 2016 (including current maturities) was approximately USD 186 million, and under the terms of which the Company has undertaken to comply with certain financial covenants; (2) short-term bank credit, the balance of which as of December 31, 2016 (excluding current maturities) was approximately USD 108 million; and (3) supplier credit.

The debt balance within the receivables financing facility agreements in the amount of approximately USD 251 million as of the end of 2016 is not included in the balance sheet.

By contrast, as of December 31, 2016, the Company possessed cash liquidity and cash-equivalent balances amounting to approximately USD 475 million. In addition to the aforementioned, as of December 31, 2016 the Company possesses unused set bank credit lines of approximately USD 330 million.

Long-Term Loans

The average extent of credit in 2016 for long-term loans amounted to USD 231 million.

The average interest rate and long-term bank loan amounts, split according to the primary financing currency, for 2016:

Long-term Bank Loans (including current maturities)			
	Weighted interest rate on 31.12.2016 (%)	Effective interest rate (%)	December 31, 2016 (USD thousand)
USD	4.85%	4.94%	184,862
Brazilian Real	5.56%	5.68%	759
Other currencies	6.72%	6.89%	712
Total			186,333

In the period commencing January 1, 2017 until the publication date of the Report, the Company did not take out new long-term bank loans.

48 For information regarding the full redemption of the Company bonds (D series) see the immediate report on December 1, 2016 (Ref. 2016-01-085086).

Short-Term Loans and Variable Interest Credit

The average extent of credit in 2016 for short-term loans amounted to USD 140 million.

The average interest rate and extent of short-term bank loans distributed according to the primary financing currency, for 2016:

Short-term Bank Credit			
	Weighted interest rate 31.12.2016 (%)	Effective interest rate (%)	December 31, 2016 USD thousand
Overdraft:			
USD	2.50%	2.53%	1,254
GBP	2.25%	2.28%	580
ILS	4.06%	4.14%	1,961
Other currencies	9.25%	9.69%	66
Total			**3,861**
Short-term credit:			
USD	7.50%	7.79%	54,972
Euro	0.40%	0.40%	1,403
INR	8.85%	9.26%	30,684
Other currencies	11.08%	11.72%	16,931
Total			**103,990**

In the period commencing January 1, 2017 until the publication date of the Report, the Company accepted new short-term bank credit in the amount of approximately USD 100 million, which as at the date of publication of the Report has been paid in full.

Company Bonds

The Company's primary external source of financing is the long-term bonds it has issued. The Company does not have commitments to meet financial covenants in respect of such bonds. For information regarding the bonds issued by the Company, see Note 15 to the Financial Statements and the appendix to the Board of Directors' Report. It is noted that on November 30, 2016, the Company completed the full repayment of the D series bonds.

Financing Restrictions

Restrictions by virtue of long-term bank credit documents

The financing documents for the long-term bank credit assumed by the Company and its consolidated subsidiaries ("**Finance Documents**") include undertakings by the Company to maintain certain financial ratios ("**Financial Covenants**"), and restrictions relating to changes in control.[49]

[49] For information, see Note 20 to the Financial Statements.

The primary Finance Documents between the Company and its consolidated subsidiaries and the financing corporations contain Cross Default clauses, whereby the relevant bank will be allowed to call the debts owed to it for immediate payment, under those instances wherein an event has occurred that entitles another financing party to call the debts of the Company and/or its consolidated subsidiaries for immediate repayment, in full or part, provided that the amount of the debts and obligations of the Company and/or consolidated subsidiaries toward that financing party exceed a certain minimum prescribed in the various financing documents.

Restrictions by virtue of the Receivables Financing Facility

The Receivables Financing Facility (including its updates) includes undertakings by the Company to comply with Financial Covenants.[50]

In addition to the above, the Company has undertaken, within the framework of the Finance Documents, to meet further terms that, in the current opinion of the Company, do not significantly restrict its operations.

As per the Finance Documents and Receivables Financing Facility, the Company's compliance with the various Financial Covenants is assessed on a quarterly basis, and across the four quarters preceding the assessment, as the case may be.

As of December 31, 2016 and to the best of the Company's current knowledge, the Company complies with all its Financial Covenants and restrictions stipulated by the Finance Documents and the Receivables Financing Facility. Notwithstanding the aforesaid, a deterioration in the Company's results due to the occurrence of an unforeseen event beyond the Company’s control or non-materialization of the Company’s forecasts may cause the Company to be in non-compliance with the Financial Covenants prescribed in the Finance Documents or Receivables Financing Facility.

The Company Bonds and Credit Rating

See the appendix to the Board of Directors' Report.

[50] For information regarding the Receivables Financing Facility and the Financial Covenants included therein, see Note 4 and 20 to the Financial Statements.

Variable Interest Credit

The range of stated interest rates in 2016, and the interest rate for variable-interest loans proximate to the publication date of the Report:

Type of Credit	Currency	Credit amount at December 31, 2016 (thousand USD)	Variation Mechanism	Interest Rates proximate to Report publication date	Interest Range in 2016
Long Term Loan	USD	44,500	3 M Libor	0.998	0.612 - 0.998
Long Term Loan	USD	80,489	6 M Libor	1.318	0.842 - 1.323
Long Term Loan	COP	712	DTF	6.860	5.320 - 7.590
Overdraft	ILS	1,961	ILS	0.100	0.075 – 0.110
Overdraft	USD	1,254	USD	0.998	0.612 - 0.998
Overdraft	GBP	580	GBP	0.367	0.362 - 0.593
Short Term Credit	USD	54,972	USD	0.998	0.612 - 0.998
Short Term Credit	EUR	1,403	EUR	-0.335	0.128 - (-0.337)
Short Term Credit	INR	30,684	INR	6.250	6.080 - 7.400
Short Term Credit	TRL	6,819	TRL	9.664	8.580 - 11.400
Short Term Credit	UHA	5,848	UHA	15.250	14.570 - 21.580
Short Term Credit	CNY	4,000	CNY	3.273	2.781 - 3.265
Short Term Credit & Overdraft	Others	330	DTF	6.860	5.320 – 7.590

27. TAXATION

Tax Laws Applicable to the Company

The Group develops, purchases, manufactures and markets its products through many companies worldwide. Approximately 97% of the Group's sales in 2016 occurred in international markets outside of Israel and therefore, the Group operates through approximately 60 subsidiaries, with each of the Group companies being independent and fulfilling a different role and contribution to the Group's operations, and they are assessed according to the tax laws in their specific localities, as described below.

It is noted that the content of this section is an extremely concise description based on tax laws existent at the Report date, 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), 5721-1961 (the **"Ordinance"** or the **"Income Tax Ordinance"**) and its regulations. The Israeli tax base is territorial and personal, thus applicable to companies defined as Israeli residents as per the provisions of the Income Tax Ordinance and to non-Israeli residents who have income in Israel.

Pursuant to Section 1 of the Tax Ordinance, a Company is deemed an Israeli 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, 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 form in this section.

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

As stated, the majority of the Company's sales occur 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 the respective countries' tax laws.

A portion of the foreign subsidiaries were founded by the Company, while others have been acquired during the many years over which it has become a multinational concern, with the great majority of its commercial and marketing operations being conducted overseas.

Israeli taxation of foreign income

Income in Israel deriving from dividends distributed by foreign companies abroad is taxable in Israel, less the amount of the tax paid overseas, including by means of an indirect credit, subject to the provisions of the Ordinance.

Transfer prices

As per Section 85a of the Income Tax Ordinance and the Income Tax Regulations (Market Terms Determination), 5767-2006, ("**Transfer Price Regulations**"), 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 in accordance with market conditions and be taxed accordingly. The Transfer Price Regulations apply to various cross-border transactions, including the various stages of product manufacture to its sale. 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 conditions” 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. As per Regulation 2(a), so as to determine whether a cross-border transaction is indeed a “market conditions” transaction, 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 cross-border transaction will be seen to be a "market conditions" transaction if the said study's findings do not exceed the range determined in the Regulation.

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 around the world in the group's operations, thus reflecting the market price that would have been determined for these services or products were they to be provided to non-group members.

As stated, the Company develops, purchases, produces and markets its products through multiple subsidiaries worldwide. Each of these subsidiaries which is assessed for tax purposes in the respective regions worldwide plays a part in the overall network of the Company's international business operations (sometimes within the same product) – manufacturing, knowledge maintenance and development, as well as procurement, logistics, marketing and sales of the different products. Accordingly, a portion of the Group members hold intangible assets, other act as manufacturing contractors, other manage the procurement, other serve as logistics centers, others as regional headquarters and others as marketing companies.

Accordingly, the pre-tax income is distributed 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, affect the amounts of income accrued and assessed for taxation purposes in each country, and this may indeed have a material effect on the Group taxation and results. See also Section 36, the Group Risk Factors.

As per the tax laws in countries wherein deferred taxes are recognized, there is, generally, 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).

Effective Tax Rate

As per the Financial Statements as of December 31, 2016 and Note 17 thereto, in 2016, the Company's pre-tax income amounted to approximately USD 187 million, with the anticipated tax expenses calculated as per the statutory tax rate totaling approximately USD 47 million. However, actual tax expenses for the consolidated company, according to said Note 17, amounted to approximately USD 23 million.

To the best of the Company's knowledge, the statutory corporate tax rates in effect on December 31, 2016 were approximately 43% in Italy, approximately 25% in Spain, approximately 33% in France, approximately 38.4% in the US; approximately 32% in Germany, approximately 33% in India, approximately 34% in Brazil, in other central Latin American countries the rates vary between 25% and 35%. In other countries where the Group operates, the tax rates 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 totaling approximately USD 530 million as of balance sheet date (resulting primarily from operations in Israel and South America), can be realized over a period of several years. The Company’s deferred tax asset for accrued losses totaling approximately USD 44 million, according to the Company's estimate of a high likelihood for the realization of the losses regarding which it has a deferred tax asset in the coming years. The (consolidated) effective tax rate in 2016 was 12%.

A portion of the Company's surpluses result from income of Approved Enterprises in Israel (see Note 17 to the Financial Statements) and of its foreign subsidiaries. Distributing these surpluses could, under certain conditions, create a tax liability at distribution. Since the Group's policy is to use the majority of the operational surpluses to expand the Group’s operations, and as stated in Note 3N to the Financial Statement, when calculating the deferred taxes, those taxes that may have been levied had investments in the consolidated companies 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 a dividend distribution among Group companies. This additional tax was also not taken into account when calculating the deferred taxes in the Financial Statements, due to the policy of not allocating dividends if this entails a material increase in tax. At the time of the Report, the Company does not have information about the extent of liability, if any, for said dividend distributions, but based on its preliminary estimate, should the Company be required to distribute said surpluses (contrary to its aforementioned policy and as a function of the amounts involved), this liability may 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.

Tax Assessments

For details, see Note 17I to the Financial Statements.

International Taxation - BEPS

The Base Erosion and Profit Shifting Project (BEPS) is an international project promoted by the OECD together with the G20 forum with the aim of managing international tax planning by global companies who transfer their profits to territories with beneficial taxation regimes.

Within the framework of BEPS, base fundamental principles were established with the objective of preventing the grant of inappropriate tax benefits while emphasizing the preference for the fundamental approach as opposed to the formal approach, simultaneously ensuring the taxation of the profits in the jurisdiction wherein the financial activity of the corporation and value creation transpired.

The BEPS action program comprises 15 operative recommendations divided into 3 categories: consistency, content and transparency, particularly regarding the submission of various reports to the relevant authorities.

Israel has begun the procedure of adopting the BEPS instructions by means of a temporary order proposed law amending the Income Tax Ordinance (No. 238) 5777-2017.

The Company continues its planning for the anticipated changes and is examining the required adjustments. At this stage the Company is incapable of assessing whether the said changes will influence its future taxation results.

28. ENVIRONMENTAL RISKS AND REGULATION

The Company is exposed to various environmental risks as a result of its activities, including with regard to atmospheric emissions, storage and use of hazardous materials, soil and water pollution, creation of industrial sewage, and others. Therefore, the Company's activities are subject to extensive environmental regulation in the different countries where it has operations. In recent years, the requirements of the environmental laws in force (or being advanced in the legislative process) have become more stringent, as has the supervision and enforcement of these requirements. The Company expects this trend to continue in the coming years.

The Company holds, as required by law, various permits and licenses, such as business licenses, toxic permits, air emission permits and permits to discharge effluents into the sea. To the best of the Company's knowledge, the Company's environmental permits and licenses are all currently valid and in force.

For additional information on the risks related to environmental regulation imposed on the Company, see Section 36, "Legislation, standards, regulation and environmental, health and safety exposure".

Israel

Among the primary environmental laws governing the Company's activities are, inter alia, the Abatement of Nuisances Law, 5721-1961; Business Licensing Law, 5728-1968; Water Law, 5719-1959, Prevention of Sea Pollution from Land-Based Sources Law, 5748-1988 ("**Prevention of Sea Pollution from Land-Based Sources Law**"); Hazardous Materials Law, 5753-1993; Clean Air Law, 5768-2008 ("**Clean Air Law**"), and the respective regulations.

The Company continually examines the implications of the environmental laws, taking actions to prevent or mitigate the environmental risks and to reduce the environmental effects that may result from its activities, and investing extensive resources to fulfill those legal provisions that are, and are anticipated to, affect it.

Air quality

The Company's plants are subject to atmospheric emissions regulations, whether by virtue of the stipulations provided in the business licenses or under the Clean Air Law. The Company's plants subject to the Clean Air Law possess emission permits valid until 2023.

The Company invests vast resources on an ongoing basis to minimize and prevent environmental consequences of its operations on air quality and hence has invested substantial amounts in its plants as part of an overall project aimed at minimizing and preventing potential emissions into the air.

Sewage and discharge to the sea

The Prevention of Sea Pollution from Land-Based Sources Law requires obtaining a permit from the Ministry of Environmental Protection to discharge waste or sewage to the sea from land-based sources. The Adama Agan plant holds such a permit, valid through June 2021, the terms of which are becoming 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 discharging pollutants to the sea.

Soil and ground water

Hazardous materials are stored and utilized in the Company's plants, together with infrastructures and facilities containing fuels and hazardous materials. The Company takes actions to prevent and treat soil and water pollution by these materials.

The Company’s Israel plants conduct various soil surveys, risk surveys and tests with regard to treatment of the soil or ground water at the plants, according to the instructions of the Ministry of Environmental Protection and the Water Authority.

As part of the future planning of the Company, the Company intends to relocate the formulation activities carried out in the Be’er-Sheba plant to the Neot-Hovav plant in the coming years.

Environmental Investments

	Million USD		
	2014	2015	2016
Total investment in environmental facilities, approx.	40	21	13
Current costs (before depreciation), approx.	47	41	38

The Company intends to continue investing in environmental protection, to the extent required and beyond this, whether on its own volition or in compliance with contractual commitments, regulatory or legal standards relating to environmental protection, so as to realize its best available technology policy. According to its current operating plan, the Company currently expects environmental costs in each of the years 2017-2019 to total approximately USD 60 million (this is solely an estimation that assumes increased maintenance of new facilities, maintenance and other costs).

According to the Company’s analysis, the primary use of the environmental costs that it incurred in 2016 was for the investment in the prevention and mitigation of future environmental damage.

The Company’s estimates concerning the amount of environmental-related investments constitutes forward-looking statements based on the Company's budget and operating plans. The Company’s estimates regarding the amount of projected environmental investment 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 resulting from realization of the Company's risk assessments.

Brazil

Adama Brazil – the Group’s subsidiary in Brazil – operates two main plants: the larger one, is near Taquari, and the other is in Londrina, both in southern Brazil. To the best of the Company's knowledge, as of the Report date, no environmental permits or licenses held by Adama Brazil have been revoked.

Adama Brazil invests in safety and ecological facilities in its two plants, further conducting independent environmental tests for the ensuring of its compliance with its licenses, tests of the surrounding underground water sources and monitoring atmospheric emissions by means of advanced technologies. Periodic testing of the atmospheric emissions and water sources are performed to prove that Adama Brazil meets the requirements set forth by the state Ministry of Environment.

As part of its policy of ecological process improvement, Adama Brazil also invests in remediation, changes in production processes, establishment of sewage facilities, as well as in byproduct storage and recycling. Adama Brazil is also a member of an organization comprising a group of plants that take voluntary action to treat and dispose of empty used crop protection packaging.

Company Policy

The Company attributes great importance to protecting the environment, out of a sense of responsibility to society and the environment and strives to meet the relevant regulatory requirements and to even go beyond mere compliance, engaging in constant dialogue with stakeholders, including the authorities and the community. Adama Makhteshim and Adama Agan are certified under Environmental Management Regulations (ISO 14001) and Industrial Safety and Hygiene Management (OHSAS 18001). The Company has appointed designated employees 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. The Company believes, based on the counsel of its insurance consultants, that the scope of insurance coverage for such events is appropriate.

The information concerning expected investments, future requirements of authorities, implications of legislation, completion and relocation of facilities and deadlines expected to be met as detailed in this Section constitutes forward-looking statements as defined in the Securities Law 5728-1968, and thus may not materialize, whether in whole or in part, or may materialize in a manner different than expected by the Company, as it essentially relies on Company estimates and expectations, based on past experience and subjective assessments. These assessments may change, in whole or in part, from time to time, inter alia due to developments in the Company's area of operations and regulatory changes regarding environmental matters. There is therefore no certainty that the Company's intentions will be realized or its strategy implemented.

29. RESTRICTIONS AND REGULATORY ARRANGEMENTS

As an integral part of the Company's business activities, it is subject to certain legal and regulatory controls. Following is a summary of the legal and regulatory restrictions and arrangements relevant to the Company's operations:

- **Registering active ingredients, products and dietary supplements –** The Company's operations involve the production and marketing of active ingredients and crop protection chemical substances. Producing and marketing these products and materials generally require undergoing a statutory registration process. See Section 16 above for details.
- **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 28 above for details.
- **Crop protection laws –** The Company's products manufactured or sold in Israel must be registered according to the Crop Protection Law, 5716-1956, and its related regulations; the purpose of the registration requirement of the Company's products is to protect public health and the environment from potential adverse effects of certain substances contained in crop protection products.
- **Business licenses –** All Company plants require business licenses in their respective locations.
- **Quality control –** The Adama Makhteshim and Adama Agan plants in Israel and the Adama Brazil plants in Brazil qualify for the ISO 9002 quality control standard, which specifies uniform production process standards, as well as overseeing all ancillary processes. Moreover, Adama Makhteshim and Adama Agan qualify for the Occupational Health and Safety Standard (OHSAS 18001), which is similar to the Israeli ISO 14001 standard. As of October 2001, Adama Brazil has qualified for standard 14 of the International ISO 14001.
- **The Law for the Encouragement of Capital Investments** - The provisions of the Law for the Encouragement of Capital Investments and its related regulations, as well as approvals granted

for the Company's various investments. For further information, see note 17 of the Financial Statements.

- **The Israel Land Authority –** Approximately 90% of Israel's real estate is owned by the government of the State of Israel (by means of the Israel Land Authority). 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 regulations regarding change of land designation and land usage rights. Accordingly, the Group may be required to bear certain payments to the ILA.
- **Amendment 17 to the Companies Law** - The provisions of the amendment are applicable to the Company as a "debentures company."

30. MATERIAL AGREEMENTS

- See Section 25 of the Report for information regarding the Receivables Financing Facility for the securitization of customer receivables.
- See Section 26 of the Report for information regarding the Company's debentures.

31. COLLABORATION AGREEMENTS

- The Company has a large number of collaboration agreements with leading multinational companies for the development of product registration data and their submission to regulatory authorities.
- The Company is party to a commercial collaboration agreement with Sanonda. Under this agreement, the Company and Sanonda will collaborate on crop protection production, distribution, marketing and technologies, including the global distribution of Sanonda products by the Company, the establishment of a distribution platform for selling products of the Company and of Sanonda in the Chinese domestic market, and sharing knowledge to improve and develop processes and technologies. Subsequently, and as part of the realization of the Company's strategy, the Company has further entered into a number of commercial collaboration agreements with various CNAC-controlled companies, including Sanonda, whereby the Company will, gradually and on completion of the Combination, become the exclusive distributor in China of formulated crop protection products and active ingredients of these companies, and the exclusive agent for certain of these companies outside of China.

32. CORPORATE GOVERNANCE

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

Code of Conduct

The Company adopted a code of conduct binding on all Company employees in Israel and abroad. The code of conduct is designed to provide simple and easily applicable guidelines for the Company and its employees' required behavior. Inter alia, 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.

Internal Enforcement Programs

- The Company adopted an internal enforcement plan in the sphere of company and securities law that comprises several procedures outlining the norms applicable to all the officials operating in the Group and constituting a guidance tool for the Group's officers and employees during their ongoing employment.
- The Company adopted an enforcement program regarding Anti-Bribery and Anti-Corruption, which is in the process of implementation and integration in the Group companies.
- The Company adopted an Anti-Trust enforcement plan, in order to integrate these laws in Company's processes.

Negligible Transactions and Classification Criteria

For information regarding the negligible transactions procedure, see Note 28A to the Financial Statements.

Criteria for Classification of Transactions with an Interested Party as Extraordinary Transactions and Criteria for Approval of Transactions with a Controlling Shareholder

On March 28, 2017, the Audit Committee approved the criteria for the classification of transactions with interested parties and the criteria for the classification and approval of transactions with a controlling shareholder.

Corporate Responsibility Report

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

33. LEGAL PROCEEDINGS

For information about the pending material legal proceedings and material legal proceedings which have concluded as of the date of the Report, see Note 19 to the Financial Statements.

34. THE COMPANY'S GROWTH STRATEGY

The Company strives to be a global leader in the Crop Protection industry, and intends to achieve this aim by execution of the following strategies:

- **Utilize the Company's Differentiated Offering to Strengthen and Grow its Market Position.** The Company intends to continue to drive the growth of its business through effective commercialization of differentiated, high quality products that meet farmers' needs efficiently. To that end, the Company will leverage its extensive R&D and registration capabilities to continue to provide unique yet simple solutions to farmers. In addition, the Company adds value by enhancing the functionality and efficacy of the industry's most successful and commercially proven molecules, by developing new and unique mixtures and formulations. These new products are designed to provide farmers with better solutions to the challenges they face, including unresolved pest and weed problems, increasing resistance and insufficient pest control related to the use of genetically modified seeds.

  Aiming to provide distinct benefit to farmers and enhance the sustainability of the business, in addition to the ongoing efforts to expand existing product registrations to additional crops and regions, a key portion of the Company's strategy involves the deliberate shift of its product offering towards more innovative and value-added solutions. Such solutions include higher-margin, higher-value complex off-patent products, unique mixtures and formulations as well as innovative, novel products that are protected by patents and other intellectual property rights. As evidence of this effort, the Company has significantly increased the proportion of unique mixtures and formulations in its R&D pipeline over the last several years. Over the coming years, as this shift in the pipeline towards more differentiated and innovative solutions starts to be reflected in the Company's commercial offering, it is expected to be a significant driver of growth, both in revenues and in profitability.

- **Bridge China and the World.** The Company is striving to become a leading global crop protection company in China, both commercially and operationally, and in so doing, to drive its global growth in the future.

  China is currently the third largest, and one of the fastest growing, agricultural markets in the world. Furthermore, the Company believes that over time, China has the potential to grow into the world's largest crop protection market. Also, as the Chinese domestic market is highly fragmented, with limited penetration by the global chemical companies, the Company believes that there is a unique opportunity for it to capitalize on the significant untapped potential of the Chinese market. Moreover, in recent decades, China has become the leading manufacturing center for the global crop protection industry – from the sourcing of raw materials and chemical intermediates to the synthesizing of active ingredients and the formulation of finished products.

The Company intends to utilize its position in China and its relationship with ChemChina to increase its presence in China, where it is already building additional infrastructure. The Company is working towards commercial collaboration with a number of ChemChina-controlled companies in the Crop Protection and related fields in China. Following the Combination and the aforementioned commercial collaborations, the Company believes that it will have an operational infrastructure and commercial foundation upon which to build a leading Chinese domestic distribution network, thereby becoming one of the only global crop protection providers with significant integrated commercial and operational infrastructure both within and outside of China. The Company expects to drive significant demand for its products by launching new and advanced active ingredients and intermediates with higher R&D content.

Through the establishment of a significant operational presence in China and the combination with Sanonda, the Company intends to achieve cost savings and improved margins and efficiencies through backward integration of manufacturing and formulation together with global supply chain and logistics capabilities. In particular, the Company's global R&D efforts will be supported by a new R&D center in Nanjing to service the Company's expanded product development needs and enable the introduction of advanced technologies into China and globally. In addition, the advanced formulation center in Jiangsu Province currently in the advanced stages of construction will serve as a platform to introduce cost-advantaged crop protection solutions into China and globally.

The Company expects that its unique positioning and profile in China, including the relationship with ChemChina, should establish it as a partner of choice for companies outside China seeking to access its domestic market, as well as for Chinese companies looking to expand their global footprint. In addition to the Combination and the commercial collaboration, the Company is assessing strategic joint ventures and selected acquisitions to further bolster its commercial and operational platform in China.

- **Continue to Strengthen Position in Emerging Markets**. In addition to developing its China platform, the Company maintains strong and leading positions in key emerging agricultural markets such as Latin America, India, Asia and Eastern Europe, with over half of its sales achieved in these markets. Over the last several years, in order to establish direct market access and distribution capabilities in these markets, the Company has successfully integrated acquisitions in Mexico, Colombia, Chile, Poland, Serbia, the Czech Republic, Slovakia, and South Korea. Similarly, the Company has implemented a direct go-to-market strategy in many high-growth markets including India, Indonesia, Vietnam and South Africa, leveraging a direct sales force and driving demand at the retail and farmer level. The Company intends to continue to invest in its growth in the key emerging markets with high growth potential. The Company's strong global platform and leading commercial infrastructure in such markets will allow it to capitalize on worldwide growth opportunities, and continue to drive its profitable growth.

- **Grow Revenues and Increase Profitability.** The Company believes that it has the capacity and operational leverage to increase profitability through focused execution of its strategy within the framework of prudent working capital management. The Company expects to grow revenues and margins over time as it shifts to a more differentiated, higher-margin product portfolio and continues to strengthen its product pipeline with significantly more higher-value products, unique mixtures and formulations, as well as innovative and novel products. Similarly, the Company intends to drive revenue growth through increased penetration of high-growth markets such as China, Brazil, India, Russia, Ukraine and Mexico. The Company believes that its investment in developing a manufacturing footprint in China will lower costs, improve manufacturing efficiency and distribution logistics and reduce inventory requirements in many markets worldwide.

  In recent years, the Company has focused on growing and improving its business, infrastructure and brand. Other than investments with respect to further development of its China operations, the Company believes that its existing global infrastructure is largely of sufficient scale to support higher revenues, allowing it to enjoy economies of scale and continually improve profitability over time.

- **Continue to Capitalize on the Global Portfolio Integration and Rebranding Initiative**. As part of the Company's efforts to "Create Simplicity in Agriculture", considerable investments have been made to integrate the business across the globe, streamlining sales and distribution efforts under the new "Adama" brand. In connection with this unified global brand, a new brand architecture has been implemented simplifying hundreds of local brands and product names by migrating to two distinct product umbrellas, "Advanced" and "Essentials," which are further characterized and differentiated through innovative and unique packaging, enhancing the recognition of the Adama brand. Through these initiatives, the Company is simplifying its offering and improving its market positioning.

  Over the longer term, the Company aims to increasingly offer digital solutions that will enhance direct communication and interaction with distributors and farmers globally. The Company believes that the farmer-centric approach, while building on a modern, global brand and utilizing cutting-edge technology, will provide a strong foundation for its continued profitable growth.

- **Opportunistically Pursue Acquisitions to Enhance Market Access and Strengthen the Product Portfolio.** Throughout its history, the Company has successfully completed and integrated several add-on acquisitions across the globe. The Company intends to continue to pursue bolt-on acquisitions, in-licensing agreements and joint ventures that offer attractive opportunities to enhance its market access and position, as well as strengthen and further differentiate its product portfolio. The Company plans to focus these efforts largely in high-growth geographies, particularly in emerging markets where it aims to gain market share, as well as in gaining access to select sources of innovation. The Company has a strong track record of integrating acquisitions and believes that future acquisitions will play an important role in continuing to make the Company a leader in the crop protection industry.

The strategy and objectives detailed in this Section are based on the Company's management's assessments 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. Hence, 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, inter alia, 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 will be successfully 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.

35. EVENTS OR MATTERS DEVIATING FROM THE REGULAR COURSE OF BUSINESS

None.

36. RISK FACTORS

The Company believes that it is exposed to several major risk factors, resulting from its economic environment, the industry and the Company's unique characteristics, as follows (the order below does not indicate priority):

Macroeconomic Risk Factors

Exchange rate fluctuations

For information see the "Currency Risks" Section in the Board of Directors' Report under the heading "Market Risks – Exposure and Risk Management."

Exposure to Interest rate, CPI and NIS exchange rate fluctuations

For information see the "Exposure to Linkage to Consumer Price Index" and "Interest Risks" Sections in the Board of Directors' Report under the heading "Market Risks – Exposure and Risk Management."

Business operations in emerging markets

The Company conducts business – mainly product sales and raw material procurement – inter alia, in emerging markets such as Latin America (particularly in Brazil, the largest market, country wise, in which the Company operates), Eastern Europe, South East Asia and Africa. The Company's activity in emerging markets is exposed to risks typical of those markets, including: political and regulatory instability; volatile exchange rates; economic and fiscal instability and frequent revisions of economic legislation; relatively high inflation and interest rates; terrorism or war; restrictions on import and trade; differing business cultures; uncertainty as to the ability to enforce contractual and intellectual property rights; foreign currency controls; governmental price controls; restrictions on the withdrawal of money from the country; barter deals and potential entry of international competitors and accelerated consolidations by large-scale competitors in these markets. Developments in these regions may have a significant effect on the Company's operations. Distress to the economies of these markets could impair the ability of the Company's customers to purchase its products or the ability to market them at international market prices, as well as harm the Company's ability to collect customer debts, in a way that could have a significant adverse effect on the Company's operating results.

The Group’s operations in multiple regions allows for the diversification of such risks and for the reduction of its dependency on particular economies. In addition, changes in registration requirements or customers' preferences in developed western countries, which may limit the use of raw materials purchased from emerging economies, may require redeployment of the Company's procurement organization, which might negatively affect its profitability for a certain period.

Industry Risk Factors

Operating in a competitive market

The crop protection products industry is highly competitive. Currently, approximately 70% of the industry's global market is shared by six leading Originator Companies, which are based in Europe or North America, these being Monsanto, DuPont, Dow, Bayer, BASF and Syngenta, which develop, manufacture and market both patent-protected as well as off-patent products. The Company competes with the original products with the aim of maintaining and increasing its market share. In view of the scope of operations of the Originator Companies and their market share, the Company's ability, as a company focused primarily on off-patent active ingredients, to effectively compete with them involves continuous efforts and significant investments in the development and timely registration of new products, ongoing marketing and sales of existing products, and maintaining accessibility to external distributors (which are often only permitted to distribute a limited number of similar products). The Originator Companies possess resources enabling them to compete aggressively, in the short-to-medium term, on price and profit margins, so as to protect their market share. Loss of market share or inability to acquire additional market share from the Originator Companies can affect the Company's position in the market and adversely affect its financial results.

Similarly, the Company also competes in the more decentralized off-patent market, with other off-patent companies and smaller-scale Originator Companies, which have significantly grown in number in recent years and are materially changing the face of the crop protection products industry, the majority of whom as yet have not deployed global distribution networks, and are only active locally. These companies price their products aggressively and at times have lower profit margins than the Company, which may harm the volume of the Company's sales and product prices. The Company's ability to maintain its revenues and profitability from a specific product in the long term is affected by the number of companies producing and selling comparable off-patent products and the time of their entrance to the relevant market.

Any delay in developing or obtaining registrations for products and/or delayed penetration into markets and/or growth of competitors that focus on off-patent active ingredients (whether by the expansion of their product portfolio, granting registrations to other manufacturers (including manufacturers in China and India) to operate in additional markets, transforming their distribution network to a global scale or increasing the competition for distribution access), and/or difficulty in purchasing low cost raw materials, may harm the Company’s sales volumes in this sector, affect its global position and lead to price erosion. For further information about competition in the Company’s main area of activity, see Section 14 of the Report.

Decline in scope of agricultural activities; exceptional changes in weather conditions

The scope of agricultural activities may be negatively affected by many exogenous factors, such as extreme weather conditions, natural disasters, a significant decrease in agricultural commodity prices, government policies and the economic condition of farmers. A decline in the scope of agricultural activities necessarily would cause a decline in the demand for the Company’s products, erosion of its prices and collection difficulties, which may have a significant adverse effect on the Company's results. Extreme weather conditions as well as damages caused by nature have an impact on the demand for the Company's products. The Company believes that, should a number of such bad seasons occur in succession, without favorable seasons in the interim, its results may sustain significant harm.

Environmental, health and safety legislation, standards, regulation and exposure

Many aspects of the Company's operations are strictly regulated, including in relation to 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 involve hazardous materials, as defined in the Hazardous Materials Law, 5753-1993. Defective storage or handling of hazardous materials may cause harm to human life or to the environment in which the Company operates. The regulatory requirements regarding the environment, health and safety could, inter alia, include soil and groundwater clean-up requirements; as well as restrictions on the volume and type of emissions the Company is permitted to release into the air, water and soil.

The regulatory requirements applicable to the Company vary from product to product and from market to market, and tend to become stricter with time. In recent years, both government authorities and environmental protection organizations have been applying growing pressure, including through investigations and indictments as well as increasingly stricter legislative proposals and class action suits related to companies and products that may potentially pollute the environment. Compliance with the foregoing legislative and regulatory requirements and protection against such legal actions requires the Company to spend considerable financial resources (both in terms of substantial ongoing costs and in terms of material one-time investments) as well as human resources in order to meet mandatory environmental standards. In some instances, this may result in delaying the introduction of products into new markets or in adverse effects on the Company's profitability.

In addition, the toughening, material alteration or revocation of environmental licenses or permits, or their stipulations, or the inability to obtain such licenses and permits, may significantly affect the Company's ability to operate its production plants, which in turn may have a material adverse effect on the financial and business results of the Company. The Company may be required to bear significant civil liability (including due to class actions) or criminal liability (including high penalties and/or high compensation payments and/or costs of environmental monitoring and rehabilitation), resulting from violation of environmental, health and safety regulations, while some of the existing legislation may impose obligations on the Company for strict liability, regardless of proof of negligence or malice.

While the Company invests material sums in adapting its facilities and in constructing special facilities in accordance with environmental requirements, it is currently unable to assess with any certainty whether these investments (current and future) and their outcomes may satisfy or meet future requirements, should these be significantly increased or adjusted. In addition, the Company is unable to predict with any certainty the extent of future costs and investments it may incur so as to meet the requirements of the environmental authorities in Israel or in other countries in which it operates since, inter alia, the Company is unable to estimate the extent of potential pollutions, their length, the extent of the measures required to be taken by the Company in handling them, the division of responsibility among other parties and the amounts recoverable from third parties.

Furthermore, the Company may be the target of bodily injury claims and property damage claims caused by exposure to hazardous materials, which are predominantly covered under the Company's insurance policies.

For information with respect to legal procedures regarding environmental, health and safety issues see Note 19 to the Financial Statements.

Legislative, standard and regulatory changes in product registration

The majority of the substances and products marketed by the Company require registration at various stages of their development, production, import, utilization and marketing, and are also subject to strict regulatory supervision by the regulatory authorities in each country. Compliance with the registration requirements that vary from country to country and which are becoming more stringent with time, involves significant time and costs, and rigorous compliance with individual registration requirements for each product. Noncompliance with these regulatory requirements might materially adversely affect the scope of the Company’s expenses, cost structure and profit margins, as well as penetration of its products in the relevant market, and may even lead to suspension of sales of the relevant product, and recall of those products already sold, or to legal action. Moreover, to the extent new regulatory requirements are imposed on existing registered products (requiring additional investment or leading to the existing registration's revocation) and/or the Company is required to compensate another company for its use of the latter's product registration data, these might amount to significant sums, considerably increasing the Company's costs and adversely affecting its results and reputation. Nevertheless, the Company believes that, in countries where the Company maintains a competitive edge, any toughening of registration requirements may actually increase this edge, since this will make it difficult for its competitors to penetrate the same market, whereas in countries in which the Company possesses a small market share, if any, such toughening may make further penetration of the Company's products into that market more difficult. See Section 16 for further information on product registration.

Product liability

Product and producer liability present a risk factor to the Company. Regardless of their prospects or actual results, product liability lawsuits might involve considerable costs as well as tarnish the Company's reputation, thus impacting its profits. The Company has a third-party and defective product liability insurance cover of up to USD 350 million in aggregate annual damages. However, there is no certainty that the scope of insurance cover is sufficient. Any future product liability lawsuit or series of lawsuits could materially affect the Company’s operations and results, should the Company lose the lawsuit or should its insurance cover not suffice or apply in a particular instance. In addition, while currently the Company has not encountered any difficulty renewing such insurance policy, it is possible that it will encounter future 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

The Company’s growth and profit margins are affected, inter alia, by the extent of its success in developing differentiated products and obtaining registrations for them, so as to enable it to gain market share at the expense of its competitors. Usually, being the first to launch a certain off-patent product affords the Company continuing advantage, even after other competitors penetrate the same market. Thus, the Company's revenues and profit margins from a certain product could be materially affected by its ability to launch such product ahead of the launch of a comparable product by its competitors.

Should new products fail to meet registration requirements in the different countries or should it take a long period of time to obtain such registrations, 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 prior to other competitors is important for successful market penetration. Furthermore, successful market penetration involves, inter alia, product diversification in order to suit each market's changing needs. Therefore, if the Company fails to adapt its product mix by developing new products and obtaining the required regulatory approvals, its future ability to penetrate that market and to maintain its existing market share could be 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 the relevant market, the Company’s results and margins.

Intellectual property rights of the Company and of third parties

The Company's ability to develop off-patent products is dependent, inter alia, on its ability to oppose patents of an Originator Company or other third parties, or to develop products that do not otherwise infringe intellectual property rights in a manner that may involve significant legal and other costs. Originator Companies tend to vigorously defend their products and may attempt to delay the launch of competing off-patent products by registering patents on slightly different versions of products for which the original patent protection is about to expire or has expired, with the aim of competing against the off-patent versions of the original product. The Originator Companies may also change the branding and marketing method of their products. Such actions may increase the Company's costs and the risk it entails, and harm or even prevent its ability to launch new products.

The Company is also exposed to legal claims that its products or production processes infringe on third-party intellectual property rights. Such claims may involve time, costs, substantial damages and management resources, impair the value of the Company's brands and its sales and adversely affect its results. To the best of the Company’s current knowledge, such lawsuits that were concluded involved non-material amounts.

Furthermore, the Company protects its brands and trade secrets with patents, trademarks and other methods of intellectual property protection, however these protective means may not be sufficient for safeguarding its intellectual property. Any unlawful or other unauthorized use of the Company's intellectual property rights could adversely affect the value of its intellectual property and goodwill. In addition, the Company may be required to take legal action involving financial costs and resources to safeguard its intellectual property rights.

Fluctuations in raw material inputs and prices, and in sales costs

For information see the "Risks of Raw Material Prices" Section in the Board of Directors' Report under the heading “Market Risks – Exposure and Risk Management.”

Exposure due to recent developments in the genetically modified seeds market

Any further significant development in the market of genetically modified seeds for agricultural crops, including as a result of regulatory changes in certain countries currently prohibiting the use of genetically modified seeds, 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 that would be widely used (substituting for traditional products), will affect demand for crop protection products, requiring the Company to respond by adapting its product portfolio to the new demand structure. Consequently, to the extent that the Company fails to adapt its product mix accordingly, this may reduce demand for its products, erode their sales price and necessarily affect the Company’s results and market share.

Nevertheless, the fact that the Company itself markets Glyphosate acts to mitigate this exposure (albeit only in terms of marketing margins).

Operational risks

The Company’s operations, including its manufacturing activities, rely, inter alia, on state-of-the-art computer systems. The Company continually invests in upgrading and protecting these systems. Any unexpected failure of these systems, as well as the integration of new systems, could involve substantial costs and adversely affect the Company's operations until completion of the repair or integration. The potential occurrence of a substantial failure that cannot be repaired within a reasonable time frame may also affect the Company's operations and its results. Currently, the Company has a property and loss-of-profit insurance policy in the scope of up to USD 1.4 billion in aggregate annual damages.

Unique Risk Factors

Raw material supply and/or shipping and port services disruptions

Lack of raw materials or other inputs utilized in the manufacture of Company products may prevent the Company from supplying its products or significantly increase production costs. Moreover, the Company imports raw materials to its production facilities in Israel and/or abroad, from where it exports the products to its subsidiaries abroad for formulation and/or commercialization purposes. Disruptions in the supply of raw materials from regular suppliers may adversely affect operations until an alternative supplier is engaged. If any of the Company's suppliers are unable to supply raw materials for a prolonged period, including due to ongoing disruptions and/or prolonged strikes and/or infrastructure defects in the operating of a relevant port, and the Company is unable to engage with an alternative supplier at similar terms and in accordance with product registration requirements, this may adversely affect the Company's results, significantly affect its ability to obtain raw materials in general, or obtain them at reasonable prices, as well as limit its ability to supply products and/or meet customer supply deadlines. These might negatively affect the Company, its finances 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 at times utilize air freight.

Failed mergers and acquisitions; difficulties in integrating acquired operations

The Company's strategy includes growth through mergers, acquisitions, investments and collaborations designed, in a calculated manner, to expand its product portfolio and deepen its presence in certain geographical markets. Such acquisitions and investments require substantial management resources and may involve risks, including inability to recognize business opportunities or to close deals at acceptable commercial terms (or at all); difficulties in realizing the expected benefits from acquisitions and investments; and restrictions on the ability to finance the transactions due to the terms of existing Company debt.

Transactions for the sale of assets in which the Company may engage, may also involve risks, including risk that such transactions will yield lower returns than expected (or even losses); subjecting the Company to contractual indemnification obligations; and generating substantial tax liabilities.

Growth through mergers and acquisitions requires assimilation of acquired operations and their effective integration in the Group, including realization of certain forecasts, profitability, market conditions and competition.

It is possible that problems may arise in the integration of the acquired operation, owing, inter alia, to difficulty in collaboration between organizations in different geographical locations; assimilation of joint systems and controls; integration of employees with different cultural and business backgrounds; integrating a different organizational culture and legal and accounting systems; unexpected integration costs (including technical, legal and operational costs); unexpected expenses and liabilities, including with regard to permits, registrations, financial expenses and costs related to the environment, health and safety; 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 successfully implement the above and/or non-realization of the said forecasts may result in not achieving the additional value forecasted, 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 concentration in limited plants

A large portion of the Company's production operations is concentrated in a small number of locations. Natural disasters, hostilities, labor disputes, substantial operational malfunction or any other material damage might significantly affect Company operations, as a result of the difficulty, the time and investment required for relocating the production operation or any other activity.

International taxation

Over 95% of the Company's sales are in markets outside Israel, through its consolidated subsidiaries worldwide, which 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 individual companies are assessed in accordance with the tax laws effective in each respective location. The Group's effective tax rate could be significantly affected by different classification or attribution of the proceeds for the value components of each of the companies in the Group in the various countries; changes in the characteristics (including regarding the location of control and management) of these companies; changes in the breakdown of the Company's profits into regions where differing tax rates apply; changes in statutory tax rates and other legislative changes; changes in assessment of the Company's deferred tax assets or deferred tax liabilities; changes in determining the areas in which the Company is taxed; and potential changes in the Company's organizational structure.

Changes in tax regulations and the manner of their implementation, including with regard to the implementation of BEPS, may lead to a substantial increase in the Company's applicable tax rates and have a material adverse effect on its financial state, results and cash flows.

For further information and for enumeration description of the tax laws applicable to the Company, see Section 27 of the Report. The Company's Financial Statements do not include a material provision for exposure for international taxation, as stated above, based on professional counsel it has received.

Risks arising from the Company's debt

The Company finances its business operations by means of its own equity and loans from external sources (primarily debentures and bank credit). The Company's main source for servicing the debt and its operating expenses is by means of the profits from the Group companies' operations. Restrictions applying to the Group companies regarding distribution of dividends to the Company, or the tax rate applicable on these dividends, may affect the Company's ability to finance its operations and service its debt.

In addition, the Company's Finance Documents require it to meet certain Financial Covenants, as detailed in Note 20 of the Financial Statements. Failure to meet these covenants due to an exogenous event or non-materialization of Company forecasts, and insofar as the financing parties refuse to extend or update these Financial Covenants as per the Company's capabilities, may lead the financing parties to demand the immediate payment of these liabilities (or part thereof).

Exposure to customer credit risks

The Company's sales to customers in Israel and abroad usually involve customer credit as is customary in each market. A portion of these credit lines are insured, while the remainder are exposed to risk, particularly during economic slowdowns in the relevant markets. The Group's aggregate credit, however, is diversified among many customers in multiple countries, mitigating this risk. In addition, in certain regions, particularly in South America, credit days are particularly long (compared to those extended to customers in regions such as Europe), and on occasion, inter alia, owing to agricultural seasons or economic downturns in those countries, the Company may encounter difficulty in collection of customer debts, with the collection period being extended over several years.

Generally, such issues arise more often in developing countries where the Company is less familiar with its customers, the collaterals are of doubtful value and the insurance cover of these customers is likely to be limited. For additional information, see the explanations of the Board of Directors Report and the Company Financial Statements. Credit default by any of the customers may negatively impact the Company's cash flow and financial results.

The Company's working capital and cash flow needs

Similar to other companies operating in the crop protection industry, the Company has substantial cash flow and working capital requirements in the ordinary course of operations. In view of the Company's growth and considering its primary growth regions, the Company's broad product portfolio and the Company's investments in manufacturing infrastructures, the Company has significant financing and investment needs. The Company acts continually to improve the state and management of its working capital. While currently the Company is in compliance with all its Financial Covenants, significant deterioration of its operating results may in the future lead the Company to fail to comply with its Financial Covenants and fail to meet its financial needs. As a result, the Company's ability to meet its goals and growth plans, and its ability to meet its financial obligations, may be harmed.

Risks of the business integration and operations in China

The Company believes that it may be exposed to several unique risks relating to the business combination and operations in China, the primary of these being:

- **Chinese economic, political and social environment and governmental policies** - the business environment in China is different from the business environment in western countries, inter alia owing to the country's political structure, extent of government intervention, growth rates, foreign currency controls and the manner of resource allocation. The Chinese government adopts various measures for the encouragement of economic growth and the allocation of resources, some of which may in the future adversely affect the results of the Company's operations in China.

- **Legislation, standards and regulations changes in China** - Companies in China are subject to extensive regulation, including with regard to registration, production, distribution, pricing, taxation, import and export, environmental matters, health and safety. Historically, the chemical industry in China was subject to preferential government policy, however it is not certain that this policy will remain unchanged, or that the legal and economic environment (including with regard to required registrations and permits) that affects the Company's operations in China and the industry, will remain unchanged.
- **Foreign currency controls** - the Company may be required, for the purposes of its operations, to convert income received from its operations in China from RMB to other currencies. According to the law in China, certain foreign currency transactions, including payment of foreign currency denominated liabilities, are subject to the requirements of the State Administration for Foreign Exchange.

The Company's assessment of risk factors and degree of their influence (should they be realized) on the Company's operations:

Risk Factor	Extent of impact on Company overall operations		
	High	Medium	Low
Macro risks			
Exchange rate fluctuations	+		
Interest rate, CPI and NIS exchange rate fluctuations		+	
Business operations in emerging markets	+		
Industry risks			
Activities in competitive markets		+	
Decline in scope of agricultural activities; extraordinary changes in weather conditions	+		
Legislation, standards and regulatory changes with regard to environment, health and safety	+		
Legislation, standards and regulatory changes with regard to product licensing		+	
Product liability	+		
Successful market penetration and product diversification		+	
IP rights of the Company and of third-parties			+
Fluctuations in raw material inputs and prices, and in costs of sales	+		
Developments in the genetically modified seeds market		+	
Operational risks		+	
Unique risks			
Disruptions in raw material supply, shipping & port services		+	
Failed M&As; difficulties in integrating acquired operations		+	
Production concentrated in limited plants	+		
International taxation		+	
Risks arising from the Company's debt	+		
Exposure to customer credit risks		+	
Working capital requirements and cash flow	+		
Risks resulting from the business combination and operations in China		+	

Chapter B

Board of Directors Report for Year Ended December 31, 2016

Board of Directors' Report for the Quarter and the Year Ended December 31, 2016

Adama is one of the world's leading crop protection companies. We strive to Create Simplicity in Agriculture – offering farmers effective products and services that simplify their lives and help them grow. With one of the most comprehensive and diversified portfolios of differentiated, quality products, our 5,000-strong team reaches farmers in over 100 countries, provides solutions to control weeds, insects and disease, and improve crop yields.

Adjusted financial highlights – full year and fourth quarter 2016

Adama concludes year of record results: crosses **$1 billion** gross profit and **$500 million** EBITDA

Sales growth and significant increases in all profit and profitability metrics, in both the quarter and in the full year, driving best ever operating cash flow generation of more than half a billion.

Increased 2016 sales of $3,070 million:

- Up 3.2% in constant currencies and 0.2% in USD terms
- Q4 sales of $668 million, up 2.8% in USD terms
- Launches of new, differentiated products drive strong 6.0% full year and 7.3% Q4 volume growth of an improved portfolio

All-time record high gross profit, in both the full year and Q4:

- Gross profit for the year up 7.3% to an all-time record high of $1,040 million, with gross margin up 2.3 percentage points to 33.9%
- Q4 gross profit up 9.0% also to an all-time record high of $213 million, with gross margin up 1.9 percentage points to 31.9%

14.7% growth in operating income:

- Operating income for the year up 14.7% to $347 million, with operating margin up 1.4 percentage points to 11.3%
- Q4 operating income up 11.3% to $34 million, with operating margin up 0.4 percentage points to 5.1%

46.8% growth in net income:

- Net income for the year up 46.8% to $183 million, with net income margin up 1.9 percentage points to 6.0%
- Q4 seasonal net loss of $8 million, a 60.5% improvement over last year

All-time record EBITDA:

- EBITDA in the year up 10.6% to an all-time record high of $524 million, with EBITDA margin up 1.6 percentage points to 17.1%
- Q4 EBITDA up 2.4% to $78 million, with an EBITDA margin of 11.7%

Strongest ever cash flow generation:

- Highest ever operating cash flow of reported $502 million, an increase of $395 million over last year
- Highest ever free cash flow of reported $311 million, an increase of $398 million over last year
- Reduction of $133 million in inventory over the year

Significantly lowered leverage:

- Reduced balance sheet net debt of $899 million, $285 million below last year
- Net debt / EBITDA ratio of 1.7x, the lowest in a decade

Third straight year of sector leading performance

Combination with Sanonda overwhelmingly approved by its public shareholders

Summary of developments in the sector and in the Company's activities

- **The Company's record results in 2016 markedly outperformed the sector**– continued deeper market penetration, launches of new and differentiated products, as well as significant volume growth of an improved portfolio mix, together with reduction of manufacturing and procurement costs, saw the Company continue to deliver a leading performance compared to the sector, against the backdrop of challenging market conditions.
- **Continued subdued demand for crop-protection products** – despite a moderate increase in the prices of some agricultural commodities in 2016, their prices have generally remained at lower levels, in line with those seen in recent years. This price environment continued to negatively affect farmers' profitability, which, when coupled with relatively high inventory levels in the distribution channels, led to continued sluggish demand for crop-protection products.

  Despite these challenging market conditions, the Company's sales volumes increased markedly in the quarter and the year, driven by, among other factors, the launch of new and differentiated products as well as the expansion of the Company's marketing activities in both existing and new markets.
- **The average exchange rate of the US dollar against most currencies was stronger in 2016 as compared to 2015** – resulting in a lower US dollar value of the Company's sales, as well as those of the entire sector, during 2016.
- The improvement in the Company's performance would have been even more notable, considering the Company benefited less in 2016 from currency hedging as compared to the prior year.
- **Reduction of manufacturing, procurement and other input costs in the fourth quarter and the full year as a result of efficiencies and the weak global economic conditions**– mainly reduction of costs of operations, costs of raw materials and intermediates, as well as transportation and energy costs.

  Higher raw material, energy and transportation prices seen towards the end of the fourth quarter may be sustained into 2017 and impact manufacturing costs. In addition, similarly to last year, the Company expects that the continued strengthening of the US dollar, together with lingering high levels of inventory in distribution channels in Europe following a soft 2016 season, will impact performance, especially in the first half of 2017.
- **Adama – Sanonda combination and flotation**- within the framework of advancing the integration in China and the formation of the Company's commercial and manufacturing infrastructure there, on March 27, 2017, following the approval of the Board of Directors of Hubei Sanonda Co. Ltd. (**"Sanonda"**) and the approval of the State-owned Assets Supervision and Administration Commission (SASAC), the general shareholders meeting of Sanonda approved the transaction whereby Sanonda will acquire the entire share

capital of the Company, in return for assigning new shares of Sanonda to CNAC (the **"Combination"**). On March 28, 2017 the Combination documents were submitted to the China Securities Regulatory Commission (CSRC). The Combination is intended to be completed during the course of the first half of 2017, pursuant to the receipt of the necessary approvals, including the approval of the CSRC. Upon completion of the Combination, shares of the combined group will trade on the Shenzhen stock exchange.

- **Corporate activity of companies in the sector**– in the last two years the agrochemical industry has seen the announcement of a number of significant transactions, which are subject to antitrust review in various jurisdictions, including the pending acquisition of Syngenta AG by the ChemChina group (the **"Transaction"**).

In connection with the Transaction, the Company reviews ways through which it can assist in obtaining the respective regulatory approvals, particularly in the US and Europe, in the context of developing its business. The Company is working with the respective parties, to prepare and enter into agreements so that in the event the Transaction is completed, and following such completion, the Company will divest a number of its products while receiving products of similar nature and economic value, from the post-transaction ChemChina group, such that, notwithstanding the scope of each of the transfers, their combined impact on the Company's business is immaterial.[1]

The Company's assessments regarding the projected effects on the Company's results in 2017 as well as its assessments regarding the products to be divested and received in connection with the Transaction and their characteristics, the timing of reaching agreements and their corporate approval by the Company and their combined impact on the Company's business, are forward-looking statements, as defined in the Securities Law, 1968. These assessments may not be realized, or be realized in a different manner than the Company estimates, inter alia, due to factors that are not in the Company's control, amongst which, are developments in the crop protection market, changes in demand for the Company's products, in currencies and in oil prices, and other macroeconomic trends as well as decisions of regulatory authorities.

[1] See the immediate report of February 5, 2017 (reference No. 2017-01-010690

Results of Operations – Adjusted Income Statement

Income Statement for the Quarter

	Q4 2016 $m	Q4 2015 $m	Change $m	% Change CER	% Change USD
Revenues	**668**	**650**	**18**	**-0.1%**	**+2.8%**
Gross profit	213	195	18		+9.0%
% of revenue	31.9%	30.0%			
Operating expenses	179	165	14		
Operating income (EBIT)	**34**	**30**	**4**		**+11.3%**
% of revenue	5.1%	4.7%			
Financing expenses, net	29	40	-11		
Net income before taxes	1	-12	13		
Net income	**-8**	**-20**	**12**		**+60.5%**
% of revenue	-1.2%	-3.1%			
EBITDA	**78**	**76**	**2**		**+2.4%**
% of revenue	11.7%	11.7%			

Income Statement for the year

	2016 $m	2015 $m	Change $m	% Change CER	% Change USD
Revenues	**3,070**	**3,064**	**6**	**+3.2%**	**+0.2%**
Gross profit	1,040	970	70		+7.3%
% of revenue	33.9%	31.6%			
Operating expenses	693	667	26		
Operating income (EBIT)	**347**	**303**	**44**		**+14.7%**
% of revenue	11.3%	9.9%			
Financing expenses, net	135	133	2		
Net income before taxes	208	168	40		
Net income	**183**	**124**	**59**		**+46.8%**
% of revenue	6.0%	4.1%			
EBITDA	**524**	**474**	**50**		**+10.6%**
% of revenue	17.1%	15.5%			

Income Statement items adjusted in the above tables, as presented in the financial statements (in USD million)[2]:

For the fourth quarter of 2016: Gross profit 206 (30.9%), operating expenses 178 (26.7%), operating income (EBIT) 28 (4.2%), net finance expenses 35 (5.2%), loss before taxes 23 (3.4%), net loss 32 (4.8%) and EBITDA 73 (11.0%); For the fourth quarter of 2015: operating expenses 167 (25.7%), operating income (EBIT) 28 (4.3%), loss before taxes 15 (2.3%), net loss 23 (3.5%) and EBITDA 74 (11.3%).

For 2016: Gross profit 1,033 (33.7%), operating expenses 689 (22.4%), operating profit (EBIT) 344 (11.2%), net finance expenses 140 (4.6%), profit before taxes 187 (6.1%), net profit 162 (5.3%) and EBITDA 523 (17.0%); For 2015: operating expenses 669 (21.9%), operating profit (EBIT) 300 (9.8%), net finance expenses 140 (4.6%), profit before taxes 159 (5.2%), net profit 110 (3.6%) and EBITDA 472 (15.4%)

[2] The income statement items for 2016 presented in the above tables include adjustments for: in light of the Company's expected combination with Sanonda in lieu of its formerly planned IPO, a release in the amount of approximately $18 million in connection with the options and rights allotted by virtue of the employee option plan from 2014 (the net adjustment in Q4 amounted to approximately $14 million due to the cancelation of an adjustment made in Q1 2016) alongside with a provision for compensation to employees who hold such options and rights (**Grantees**), in the amount of approximately $12 million, as well as a provision of approximately $8 million for a one-time Sanonda transaction-related award to employees who are not Grantees subject to the closing of the transaction; write-down of a minor plant value in the U.S. due to relocation in the amount of approximately $1 million; and a non-cash write-off of a joint venture production facility for a non-core product, developed in 2009, in the amounts of approximately $13 million asset and $5 million loan write-off.

Analysis of the Company's Adjusted Results

Sales

Sales in the fourth quarter were in line with the corresponding quarter last year and increased by 3.2% over the full year, in constant currency terms. This increase was driven by notable volume growth, due to the launching of new and differentiated products, with volumes up by 7.3% in the fourth quarter and 6.0% in the year, despite the continuing challenging market conditions. This robust volume growth was partly offset by the passing on of a portion of the significant reduction in cost of sales into lower selling prices in a number of markets.

In US dollar terms, sales in the fourth quarter increased by 2.8%, affected by the appreciation in the value of several currencies against the US dollar, in particular the Brazilian Real, which was somewhat offset by the lower contribution of currency hedging, as compared to the corresponding quarter last year.

Over the full year, the overall depreciation in the value of most currencies against the US dollar, together with the lower contribution of currency hedging in comparison to last year, brought the 3.2% increase in constant currency terms down to an increase of 0.2% in US dollar terms.

Revenues split by region

Fourth quarter sales distribution:

	Q4 2016 $m	Q4 2015 $m	Estimated % change in CER	% Change in $
Europe	129	132	-0.2%	-2.4%
North America	149	147	+1.4%	+1.4%
Latin America	250	238	-4.7%	+4.8%
Asia Pacific	61	57	+8.7%	+8.3%
India, Middle East and Africa	79	76	+5.0%	+4.2%
Of which, Israel	23	23	-2.7%	-1.5%
Total	**668**	**650**	**-0.1%**	**+2.8%**

Full year sales distribution:

	2016 $m	2015 $m	Estimated % change in CER	% Change in $
Europe	1,042	1,116	-0.7%	-6.7%
North America	604	573	+5.9%	+5.5%
Latin America	739	736	+0.4%	+0.5%
Asia Pacific	292	273	+10.1%	+6.9%
India, Middle East and Africa	393	366	+11.4%	+7.5%
Of which, Israel	98	94	+2.1%	+3.6%
Total	**3,070**	**3,064**	**+3.2%**	**+0.2%**

[2] The Income Statement items for 2015 presented in the above tables include adjustments for: a revaluation of $7 million in the first and second quarters of 2015 of options on debentures issued by the Company in the first quarter of 2015; a capital gain of approximately $10 million in the first quarter of 2015 from the sale of intellectual property; a $6 million provision due to a tax-related event from 1985 and expenses of $12 million due to the early retirement of employees under an agreement from 2010.
For an analysis of the differences between the adjusted income statement items and the income statement items reported in the financial statements, see Appendix A.

Noteworthy trends and developments in the various geographies affecting the Company's activities

The information included in the shaded boxes provides additional information about developments and events that affected the Company's operations during the quarter and the year in a non-material manner.

Europe

Sales in Europe were lower by 0.2% in the fourth quarter and by 0.7% over the full year in constant currency terms, compared with the corresponding periods last year, reflecting the impact of the especially cold weather conditions in the first half of the year, as well as the passing on to the customers of a portion of the significant reduction in cost of sales. These trends were largely offset by the increase in volumes sold of higher margin products.

In US dollar terms, reflecting the weaker exchange rates against the US dollar during the fourth quarter and the full year as compared with the corresponding periods last year, and the lower contribution of currency hedging primarily during the first half of the year, sales in Europe were lower by 2.4% in the quarter and by 6.7% over the full year period.

- In a year characterized by challenging weather conditions, the poor harvest in western Europe and the ongoing subdued agricultural market environment, we outperformed the majority of European markets, and continued to introduce new and differentiated products.
- Strong demand registered for our herbicides in Eastern European oilseed rape as well as cereals. We saw particularly good performance from our portfolio of autumn cereal herbicides, including CODIX®, a broad-spectrum unique mixture herbicide, and TRINITY®, a unique mixture of three active ingredients for weed control in cereals, as well as from HEROLD®, a differentiated broad-spectrum herbicide for winter wheat and winter barley.
- The fourth quarter also saw demand in advance of the coming season for RACER®, a leading sunflower herbicide, OPTIMUS®, a plant growth regulator in cereals and MAVRIK®, a unique broad-spectrum insecticide.
- We delivered a notable performance in Ukraine, where we help farmers by providing financial solutions that assist in achieving greater stability and predictability in volatile soft commodity and currency markets.

North America

Sales in North America increased by 1.4% in the fourth quarter and 5.9% over the full year in constant currency terms, compared with the corresponding periods last year. This increase in sales resulted from a significant volume increase of higher margin products, which was partially offset by the passing on to the customers of a portion of the significant reduction in cost of sales.

In US dollar terms, sales increased by 1.4% in the fourth quarter and 5.5% over the full year compared with the corresponding periods last year.

- In the fourth quarter, which is seasonally the smallest of the year, we continued to progress the development of our portfolio, obtaining a number of new registrations for products which are expected to be launched during the 2017 season in the US market, such as CORMORAN, a unique mixture insecticide for apples and pears.
- We saw robust growth in crop protection over the course of the year in the US and Canada. We continue to improve the quality of our business, transforming our product mix towards more differentiated, higher value-added products and driving our share growth by focusing on key customers and crops, while reducing local formulation costs.
- We continue to expand our sourcing of products from Sanonda and Anpon for the US market, and are now preparing to launch ACEPHATE 97, in addition to the currently marketed PARAZONE® and ETHEPHON.
- Our Consumer and Professional Solutions business continued to perform well, with further growth in the fourth quarter rounding out a gratifying year. We launched our proprietary nematicide Nimitz® Pro G, in a unique formulation for golf courses.

Noteworthy trends and developments in the various regions affecting the Company's activities

Latin America

Sales in Latin America were lower by 4.7% in the fourth quarter, yet increased by 0.4% over the full year in constant currency terms, compared with the corresponding periods last year. The slight growth over the year resulted from an increase in the volumes sold of higher margin products which was partially offset by the passing on to customers of a portion of the significant reduction in cost of sales. The decline in sales in the quarter resulted from the lower selling prices, which were partially offset by an increase in the volumes sold of higher margin products.

In US dollar terms, sales increased by 4.8% in the fourth quarter compared with the corresponding quarter last year, reflecting the impact of the appreciation of local currencies, primarily the Brazilian Real, against the US dollar. Full year sales increased by 0.5% in US dollar terms in comparison to last year.

The Company's results in Brazil, both in the fourth quarter and over the full year, were particularly noteworthy, when considered against the overall decline of the Brazilian agrochemical market. The Company saw robust sales growth in the country, complemented by an improved portfolio mix.

Tight credit conditions in Brazil as well as other countries in the region continue to restrain the pace of collection, and the Company continues its policy of aligning its sales with customers' demonstrated ability to meet their credit terms on an ongoing basis.

- The fourth quarter saw good performance from a number of key products in Brazil, among them the unique mixture insecticide GALIL®, as well as from our nascent biostimulants portfolio, among which is ExpertGrow®, a triple action high-efficiency biostimulant.
- In 2016 we fully implemented our SOMAR distribution program in Brazil, which supports our distributors and strengthens customer intimacy while promoting sales of our key products.
- Despite the overall decline in sales in the region over the fourth quarter, we saw growth in our business in Argentina, Ecuador, Chile, Colombia and Costa Rica, in the face of ongoing challenging agricultural market conditions.
- BREVIS™, our innovative, proprietary solution that promotes growth of bigger and more uniform fruit, performed well in Chile, while NIMITZ™, our proprietary nematicide, showed good results in Mexico.

Asia Pacific

Sales in Asia-Pacific grew significantly in constant currency terms, registering an 8.7% increase in the fourth quarter and a 10.1% increase over the year, compared with the corresponding periods last year. This robust performance was driven by significant volume growth over the course of the year, most notably in Australia and New Zealand, as well as in the quarter, particularly in parts of south-east Asia. This growth was achieved despite adverse weather conditions in several countries during the first nine months of the year, including floods in Australia and Vietnam and severe drought in the Philippines, as well as high inventories in the distribution channel due to the slow recovery from the severe drought in markets such as Thailand. The strong volume growth was partly offset by lower selling prices as a result of the passing on to the customers of a portion of the significant reduction in cost of sales.

In US dollar terms, sales increased by 8.3% in the fourth quarter and by 6.9% over the year, compared to the corresponding periods. These results are especially noteworthy in light of the lower contribution of currency hedging compared to last year, and of the net depreciation of local currencies, particularly the Australian dollar.

- 40 new products were launched in the region throughout the year, of which eight in the fourth quarter, among them SKOPE®, a unique mixture for insect control in cotton and CORMORAN™, a proprietary mixture for control of chewing and sucking pests in apples and pears, both in Australia, and PLETHORA®, a differentiated insecticide for fruit in South Korea, as well as BREVIS®, now registered for apples in New Zealand.
- In Australia, we successfully launched the Adama Reef Aware app, a digital decision support tool for sugarcane farmers, which has played an important role in the strong performance of our new differentiated sugarcane herbicide, the BOBCAT® i-MAXX™.
- In China, the fourth quarter saw a ramp up of our commercial activities, with the launch of the ADAMA brand in a series of distinctive events attended by customers and business partners, alongside significant progress in the expansion of our product portfolio. These efforts saw a strong sales performance in the fourth quarter and over the full year.

Noteworthy trends and developments in the various regions affecting the Company's activities

India, Middle East and Africa

Sales in the region increased significantly, with 5.0% growth in the fourth quarter and 11.4% growth over the full year in constant currency terms, compared with the corresponding periods last year. This strong performance was driven by robust volume growth, primarily in India, as a result of the launch of new and differentiated products, and was achieved despite challenging weather conditions.

In US dollar terms, sales in the region increased by 4.2% in the fourth quarter and by 7.5% over the full year compared with the corresponding periods last year, and despite the depreciation of currencies such as the Indian Rupee, the South African Rand, and the Turkish Lira.

- Our robust performance in India in the fourth quarter was supported by the continued improvement of our portfolio mix, with the launch of TAMAR®, a differentiated herbicide, in sugar cane.
- We continue to grow well in Turkey, a market in which we benefit from a strong sugar beet portfolio and the positive momentum achieved since our 2015 launch in the country.

We continue to realize our strategy, including the enhancement of our go-to-market approach and our global commercial network with an emphasis on increasing customer proximity and strengthening the quality of our business, the continual differentiation of our product portfolio, the strengthening of our global brand and the achieving of our commercial and operational objectives in China.

Marketing and Product Strategy

- Following the combination of the Marketing and Product Strategy functions in early 2016, a new organizational structure was established to support the implementation of our commercial and product approach and ensure alignment of all demand-creation functions.
- The new structure is focused on sustaining product lifecycles and facilitating the use of portfolio strategy as a compass for product development.

Innovation, Development, Research and Registration (IDR)

- The IDR function adopted a new structure that will serve to align our R&D strategy with the development of future growth engines.
- We expanded our R&D infrastructure significantly in 2016, with the launch of our advanced R&D Center in Nanjing, China, and the build-up of our new global R&D center in Neot Hovav, Israel.
- A number of key senior leaders have joined us, particularly in research and regulatory affairs, bringing significant additional skill and experience into the team.

Operations

- Reduction of production and procurement costs contributed significantly to the achievement of our all-time record high gross profit and marked gross margin gains.
- Tight alignment of our supply and demand generation units, coupled with consistent focus on inventory health, yielded a marked decrease in inventory days, without impacting our ability to fulfill significantly increased sales volumes on time.
- As part of the ongoing development of our production facilities in Israel, a new Low Rate Herbicide production plant was commissioned at our Ashdod site. Production at our Neot Hovav site was expanded to take on additional advanced products and formulations.

Build-up and integration in China

We continue to realize our goals in China, especially the establishment of our commercial and operational activities:

- **Commercial:** During 2016 we cemented the infrastructure of our commercial operations: launching our brand in a series of designated events, recruiting and training additional sales teams, defining our go-to-market approach and establishing our leadership group. These efforts started yielding pleasing results, with sales significantly increasing over the year.
- **Operational:** We are nearing completion of the construction of our new, state-of-the-art global formulation and packaging center in Huai'An, which is expected to launch within the next few months. Our R&D center in Nanjing, launched in 2015, has further expanded its activity, adding team members as well as more advanced products to its pipeline. These centers are to form a launch-pad for our offering both in China and globally.
- **Integration:** Ahead of our pending combination with Sanonda, we continued to progress our integration with selected CNAC entities. On the domestic distribution side, sales teams from Adama and the CNAC entities worked together, and with effect from 2017, these teams are fully integrated. In addition, Adama's global commercial network expanded its sourcing of active ingredients from the CNAC entities, with such sourcing more than doubling during the year.

Gross profit

Gross profit increased considerably, up by 9.0% in the fourth quarter and by 7.3% to an all-time record high of $1,040 million in the full year, compared to the corresponding periods. Gross margins also increased strongly, both in the quarter and over the year, with gross margin up 1.9 percentage points in the quarter to 31.9%, and up 2.3 percentage points to 33.9% over the year.

This increase resulted from a combination of the strong volume growth, an improvement in product mix towards a more differentiated offering, and the significant reduction of production and procurement costs. These factors were partially offset by the passing on of a portion of these reduced costs into lower selling prices in some markets, as well as by the negative impact of the depreciation of most currencies against the US dollar over the year, and the lower contribution of currency hedging activities compared to the corresponding periods last year.

Operating expenses

Total operating expenses in the fourth quarter amounted to $179 million (26.8% of sales) and $693 million (22.6% of sales) over the year, compared to $165 million (25.4% of sales) and $667 million (21.8% of sales), respectively, in the corresponding periods last year.

Within the total operating expenses, Sales and Marketing expenses in the fourth quarter and the full year period amounted to $144 million (21.6% of sales) and $552 million (18.0% of sales), respectively, compared to $130 million (19.9% of sales) and $534 million (17.4% of sales), respectively, in the corresponding periods last year. The increase in sales and marketing expenses resulted primarily from an increase in variable expenses as a result of the sales volume growth, from higher variable remuneration accruals in the quarter and over the year, and from an increase in marketing expenses during the quarter.

Within such total operating expenses, General and Administrative expenses in the fourth quarter and the full year period amounted to $26 million (3.9% of sales) and $114 million (3.7% of sales), respectively, compared to $27 million (4.1% of sales) and $103 million (3.3% of sales), respectively, in the corresponding periods last year. The increase in the annual expense resulted primarily from a modest increase of provisions for doubtful debts and higher variable remuneration accruals.

Research and Development expenses in the fourth quarter and the full year period amounted to $9 million (1.4% of sales) and $33 million (1.1% of sales), respectively, compared to $7 million (1.2% of sales) and $30 million (1.0% of sales), respectively, in the corresponding periods last year. Operating expenses in the full year period were offset by income of $6 million in the first quarter related to the granting of an intellectual property license.

Financing expenses

Financing expenses decreased in the fourth quarter, compared to the corresponding quarter last year, primarily due to a decrease in costs of currency hedging on receivables, as a result of lower currency volatility in the quarter as well as due to a decrease in the total amount of the Company's financial debt.

Financing expenses slightly increased over the year, compared to the corresponding period, as a result of higher costs of currency hedging on receivables, primarily due to the increased volatility of the Brazilian Real during the year, which was partially offset by lower interest costs due to the decrease in the Company's financial debt.

Taxation

Tax expenses in the fourth quarter amounted to $9 million, compared to $8 million in the corresponding quarter last year, resulting primarily from an increase in profit before tax.

Tax expenses for the year amounted to $23 million, compared to $44 million in the corresponding period last year. This was primarily due to the strengthening of the Brazilian Real against the US dollar over the year, which created tax income due to a non-cash revaluation of tax assets, while the weakening of the Brazilian Real against the US dollar in the prior year had caused an increase in tax expenses due to a non-cash devaluation of tax assets.

Revenues by operating segment

Fourth quarter sales split by operating segment

	Q4 2016 $m	%	Q4 2015 $m	%	Change $m	Change %
Crop protection (Agro)	622	93.1	605	93.0	+17	+2.8
Other (Non-Agro)	46	6.9	45	7.0	+1	+2.4
Total	**668**	**100.0**	**650**	**100.0**	**+18**	**+2.8**

Full year sales split by operating segment

	2016 $m	%	2015 $m	%	Change $m	Change %
Crop protection (Agro)	2,877	93.7	2,884	94.1	-7	-0.2
Other (Non-Agro)	193	6.3	180	5.9	+13	+6.9
Total	**3,070**	**100.0**	**3,064**	**100.0**	**+6**	**+0.2**

Financial Condition and Liquidity[3,4]

Cash flow and investment in fixed assets

Operating cash flow in the fourth quarter amounted to $141 million. Adjusting for reduction in receivables due to a new receivables financing facility, operating cash flow in the quarter amounted to $83 million, an increase of $69 million over the operating cash flow of $14 million in the corresponding quarter last year.

Operating cash flow in the full year period amounted to $502 million. Adjusting for the aforementioned reduction in receivables, operating cash flow in the full year amounted to $444 million, an increase of $337 million over the operating cash flow of $107 million last year. Adjusting for the effect of the reduction in receivables, of the main receivables facility, as if the receivables had been removed from the Company's balance sheet on January 1, 2015, the operating cash flow in the corresponding period last year would have amounted to $206 million[3].

The improvement in operating cash flow in the quarter and the full year was driven by a significant improvement in both net profit and working capital, which was primarily due to reduction in inventories, an improved collection and a reduction in the procurement as well as reduction of costs.

The Company's investments in the fourth quarter and in the full year period amounted to $63 million and $191 million, respectively, compared to $54 million and $193 million in the corresponding periods last year. These investments included primarily investments in product registrations, intangible and fixed assets. Investments in fixed assets in the fourth quarter and the full year amounted, net of investment grants, to $32 million and $93 million, respectively, compared to $24 million and $117 million in the corresponding periods last year.

In the fourth quarter the Company generated free cash flow of $78 million. Adjusting for the reduction in receivables of the new receivables financing facility, free cash flow amounted to $19 million, an increase of $59 million compared to negative free cash flow of $40 million in the corresponding quarter last year.

Free cash flow over the year amounted to $311 million. Adjusting for the reduction in receivables of the new receivables financing facility, free cash flow amounted to $253 million, an increase of $339 million compared to negative free cash flow of $86 million last year. Adjusting for the effect of the reduction in receivables in 2015 of the main receivables facility, the free cash flow in the prior year would have amounted to $12 million.

Current assets

Total current assets at the end of 2016 amounted to $2,561 million compared to $2,627 million as at the end of 2015.

Cash, current liabilities and long-term loans

The Company's total financial liabilities, including bank credit and debentures, amounted to $1,364 million as at December 31, 2016 (of which 13.1% was short term), compared to $1,554 million (of which 20.8% was short term) as at December 31, 2015.

The Company's balances of cash and short-term investments as at December 31, 2016 amounted to $480 million, compared to $400 million as at December 31, 2015.

The Company's net debt, including credit, the impact of hedging transactions attributed to debt, and net of cash and short-term investments, amounted to $899 million as at December 31, 2016, compared to $1,184 million at the end of December 2015. The Company distributed dividends of approximately $18 million during 2016 and of $100 million during the fourth quarter of 2015[5].

3 Due to the changes made to the Receivables Financing Facility in the first quarter of 2015, as specified in Note 4 to the Company's consolidated financial statements as at December 31, 2016, the receivables and short term credit related to the Receivables Financing Facility were removed from the balance sheet at the end of the first quarter of 2015, without affecting the cash flow for that year.

4 The cash balance received within the framework of the Receivables Financing Facility (as well as the new Receivables Financing Facility added in 2016) amounted to $251 million as at December 31, 2016 and $192 million as at December 31, 2015.

5 On September 15, 2016, the Company declared a dividend of approximately $40.3 million. Of this amount, a total of approximately $18.5 million has been paid as of the date of the report. For further details regarding the dividend, including the deferred dividend, see Section 4 of Chapter A of the Periodic Report.

Shareholders' equity

The Company declared a dividend of approximately $40 million during the year and distributed a dividend in the amount of $100 million in the fourth quarter of 2015. The Company's shareholders' equity as at December 31, 2016 amounted to $1,654 million compared to $1,567 million as of December 31, 2015. Equity as a proportion of total assets was 38.6% as at December 31, 2016 and 36.2% as of December 31, 2015.

The Company's issued and paid-up share capital for 2016 is 137,990,881 ordinary shares of NIS 3.12 par value each.

Financial ratios

As at December 31:	2016	2015
Ratio of current assets to current liabilities (current ratio)	1.93	1.87
Ratio of current assets, excluding inventory, to current liabilities (quick ratio)	1.15	1.05
Ratio of financial liabilities to total assets, gross	31.8%	35.9%
Ratio of financial liabilities to total equity, gross	82.4%	99.2%

Financing sources

The Company finances its business operations from its own equity and external funding sources[6].

Warning signs

In view of the consolidated financial structure of the Group, and based on the financial data recorded in the Company's consolidated financial statements as reviewed by the Company's management, the Board of Directors determined that the fact that the Company's separate reports indicate an ongoing negative cash flow from operating activities does not point to a liquidity issue, and accordingly, as at the report date, there are no Warning Signs in the Company.

The primary considerations supporting the resolution of the Board of Directors include, inter alia: the Company's consolidated financial statements reflect a positive level of working capital and continued positive cash flow from operating activities, with such positive working capital, which includes, at the reporting date, a cash balance of approximately $475 million, being the principal source for the repayment of the Company's liabilities; Based on the structure of the Group operations, Adama Makhteshim and Adama Agan, are the principal manufacturers of the Group's products sold by the Group's marketing companies, such that a continuous liability of the marketing companies towards these manufacturing companies is created. These current liabilities form the primary source for repayment of the loans issued to Adama Makhteshim and Adama Agan by the Company, which were issued on the basis of and at identical terms to those of the debentures, including the repayment date.

[6] For details, see Section 26, Credit Financing, and Section 25, under the titles "Receivables Credit" and "Payables Credit" of Chapter A to the Periodic Report.

Market risks – exposure and risk management

The Company conducts its business in various currencies. Due to its activities, the Company is exposed to market risks, primarily exchange rate fluctuations, partial adjustment of the prices of products to reflect the prices of raw materials, changes in the level of the CPI, and changes in the LIBOR interest rate. The Company's Board of Directors has approved the use of accepted financial instruments for hedging against exposure to exchange rate fluctuations and a rise in the CPI. The Company effects these transactions only through banks and stock exchanges which must comply with capital adequacy requirements or maintain a level of collateral based on various scenarios.[7]

The exchange rate fluctuations of the currencies during the quarter and the year impact various sections of the Company's financial statements.[8] The net impact of the changes in currency exchange rates in the period after the date of the financial statements on the balance sheet exposure is not material, due to the high rate of balance sheet hedging carried out by the Company.

The Company's CFO, Mr. Aviram Lahav, is responsible for the Company's market risk management.[9]

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 correlation between them. 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 reports its consolidated financial statements in US dollars, which is its 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 selling currency against the purchasing currency impact the Company's results. In the Company's assessment, the Group's most significant exposures are to the Euro, the Israeli Shekel and the Brazilian Real. The Company has lesser exposures to other currencies. The strengthening of the US dollar against the other currencies in which the Company operates reduces the scope of the Company's dollar sales and vice versa.

On an annual perspective, 34% of the Company's sales are to the European market 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 commonly accepted financial instruments to hedge most of its substantial net balance sheet exposure to any

7 For details relating to credit risk and liquidity risk, see Note 29 to the consolidated financial statements of the Company for 2016.
8 For details of exchange rates of the main currencies in which the Company is active compared to the dollar and details of the Libor rate, refer to Appendix 4.
9 For information about his education, qualifications and business experience, see section 26A in Chapter D of this period report.

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, exchange rate volatility might impact the Company's results and profitability. As of the date of approval of the financial statements, the Company has hedged most of its balance sheet exposure for 2017 as it is on the date of publication of this report.

In addition, as the Company's product sales depend directly on the cyclical nature of the agricultural seasons, 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 most exposed to the Euro, the Polish Zloty and the British Pound. In the southern hemisphere, the seasons are opposite and most of the local sales are carried out during the second half of the year. During these months, most of the Company's exposure pertains to the Brazilian Real. 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.[10]

Exposure to CPI

The main portion of the debentures issued by the Company is linked to the Israel Consumer Price Index (CPI) and therefore an increase in the CPI might 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, through CPI hedging transactions.

Risk in raw material prices

Approximately 75% of the cost of the Company's sales derives from raw material costs. Hence, significant increases or decreases in raw material cost affect the cost of goods sold, which is generally expressed a number of months following such cost fluctuation. Most of the Company's raw materials are distant derivatives of oil prices and therefore, extreme increase or decrease in oil prices may affect the costs of raw materials, yet only partially.

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 costs of raw materials.

As at the date of approval of the financial statements, the Company has not engaged in any hedging transactions against increases in oil and other raw material costs.

Interest rate risks

The Company is exposed to changes in the US dollar LIBOR interest rate as the Company has dollar denominated liabilities, 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 has not carried out hedging for such exposure, since US dollar interest rates have been relatively stable.

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 Company's 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.

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10 For more information, see Note 29 to the Company's financial statements for 2016.

A summary of sensitivity tests carried out by the Company for changes in exchange rates for balance-sheet balances, net of instruments for hedging such balances (in thousands of US dollars) is as follows:[11]

US Dollar/NIS	Profit (loss) from changes		Base Asset	Profit (loss) from changes	
	+10%	+5%		-5%	-10%
Exchange rate	4.230	4.037	3.845	3.653	3.461
Total	**15,573**	**5,133**	**(18,191)**	**(5,576)**	**(20,111)**

Euro/US Dollar	Profit (loss) from changes		Base Asset	Profit (loss) from changes	
	+10%	+5%		-5%	-10%
Exchange rate	0.947	0.999	1.052	1.104	1.157
Total	**4,492**	**2,267**	**(3,868)**	**(2,277)**	**(4,556)**

US Dollar/Brazilian	Profit (loss) from changes		Base Asset	Profit (loss) from changes	
	+10%	+5%		-5%	-10%
Exchange rate	3.585	3.422	3.259	3.096	2.933
Total	**(1,479)**	**(323)**	**(2,577)**	**(258)**	**(465)**

GBP/US Dollar	Profit (loss) from changes		Base Asset	Profit (loss) from changes	
	+10%	+5%		-5%	-10%
Exchange rate	1.106	1.167	1.229	1.290	1.352
Total	**138**	**69**	**(2,474)**	**(69)**	**(138)**

US Dollar/Polish Zloty	Profit (loss) from changes		Base Asset	Profit (loss) from changes	
	+10%	+5%		-5%	-10%
Exchange rate	4.597	4.388	4.179	3.970	3.761
Total	**268**	**152**	**(3,884)**	**(152)**	**(268)**

US Dollar/South African Rand	Profit (loss) from changes		Base Asset	Profit (loss) from changes	
	+10%	+5%		-5%	-10%
Exchange rate	15.092	14.406	13.720	13.034	12.348
Total	**(502)**	**(215)**	**3,849**	**215**	**502**

[11] For sensitivity test tables see Appendix C to this report.

Corporate Governance

Directors with accounting and financial expertise

As of the date of publication of this report, there are four directors in the Company approved by the Board of Directors as having accounting and financial expertise: Mr. Gustavo Traiber (external director), Ms. Dalit Braun (external director), Mr. Jiashu Cheng (independent director), and Mr. Lu Xiaobao (director).[12]

Independent directors

The Company's Articles of Association do not contain provisions concerning the number of independent directors.

[12] In accordance with the Board of Director's decision, the minimum number of directors with accounting and financial expertise in the company is two. For additional details about the aforementioned directors, see Regulation 26 in Chapter D of this Periodic Report.

The Internal Auditor

- Mr. Yehoshua Hazenfratz, CPA, serves as internal auditor of the Company.
- To the best of the Company's knowledge, based on the declaration of the internal auditor, the internal auditor complies with the corresponding legal provisions.[13]
- To 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.
- To the best of the Company's management's knowledge, and 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 a conflict of interest with his position as internal auditor of 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, in which he is a partner. 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.
- Mr. Yehoshua Hazenfratz was appointed to serve as the Company's internal auditor at the recommendation of the Company's Audit Committee, and the Company's Board of Directors resolution of November 2007[14] . In the Company's Audit Committee and Board of Directors meetings, Mr. Hazenfratz was appointed as the internal auditor after his qualifications and experience were examined. 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.
- The person within the organization who is in charge of the internal auditor is the CFO.
- 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 plans are prepared by the internal auditor of the Company, in coordination with, and with the approval of, the Board of Directors, under the supervision of the CEO, and approved by the Board of Directors 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 audit work plan is adapted to the developments and findings of the audit. Changes in the work plan are contingent upon the approval of the Board of Directors.
- The internal audit 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, or by the internal auditor.
- 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 material transactions are examined and approved.[15] 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.
- The internal auditor also serves as the internal auditor of the Group companies in Israel, ADAMA Makhteshim and ADAMA Agan. The auditing of the Group outside Israel is carried out by the accounting

[13] The internal auditor complies with the provisions of Section 146 to the Companies Law and with the provisions of Section 8 to the Internal Audit Law.

[14] Pursuant to the provisions of Amendment No. 17 to the Companies Law, 1999 entering into effect, in February 2012, the Company's Board of Directors approved the continuation of Mr. Hazenfratz's service as internal auditor of the Company.

[15] As the term is defined in Section 5 to the fourth amendment to the Securities Regulations (Periodic and Immediate Reports), 1970.

firm Deloitte. Following the appointment of the accounting firm Deloitte as the Independent Auditor of the Company as of the third quarter of 2017, the Company is working to appoint another party who will perform the audit in the group companies out-side of Israel.

- Material investees of the Company are audited according to a multi-year audit plan that includes a range of auditing topics, once every several years for each investee.
- 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 2016, the number of internal audit work hours at the Company and its subsidiaries totaled to approximately 3,883 hours. The scope of the work is set according to the needs of the audit plan and is not limited by the Company.

	Work hours
Internal audit in the Company and its investees	3,883
Internal audit in the Company's investees	1,859
Internal audit of operations in Israel	2,699
Internal audit of operations outside of Israel	1,184

The scope of the auditing work hours in the Company and its investees 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.

- 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.
- The internal auditor of the Company has free access, after coordination, 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 outside Israel, the internal auditor examines whether audits have been conducted in each subsidiary and whether there is a work plan for the following year, based on reports the internal auditor receives from the auditors of the relevant companies.
- At the meetings of the Audit Committee in 2016 and up to the date of this report, the internal audit reports which were submitted in writing to the Chairman of the Audit Committee and to the Company's CEO were discussed.[16]
- 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 and fulfill the Company's internal audit goals.
- The remuneration paid to the internal auditor 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 does not 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 determines the number of work hours for the additional tasks. In 2016 the internal auditor's remuneration for his work in Israel amounted to approximately $141 thousand. The total payment for audit activities

16 On January 13, 2016, the Audit Committee discussed two reports, one of which was issued at the end of December 2015, and the other in January 2016; On January 17, 2016 the Audit Committee discussed a report issued in January 2016; On March 29, 2016, the Audit Committee discussed a report issued in March 2016; On May 4, 2016 the Audit Committee discussed a report issued in January 2016, continuing its discussion on January 13, 2016; On May 24, 2016, the Audit Committee discussed a report issued in January 2016 continuing its discussion on January 17, 2016; On November 2, 2016, the Audit Committee discussed a report issued in September 2016; On January 2, 2017, the Audit Committee discussed a report issued in December 2016; On January 15, 2017, the Audit Committee discussed a report issued in December 2016; On February 6, 2017, the Audit Committee discussed a report issued in December 2016 and on February 14, 2017 the Audit Committee discussed a report issued in January 2017.

outside of Israel amounted to approximately $209 thousand. The Company estimates that since the remuneration is based on working hours, such remuneration does not affect the professional considerations of the internal auditor.

Donations

The Company sees contribution and assistance to the community in Israel and in the countries in which it operates as an integral component of its activities. This contribution and assistance to the community in Israel, particularly in the south of the country and in communities close to the locations of the Company's plants, and worldwide with regard to communities in the vicinity of its sites of operation, constitute a key tier in the Company's vision and objectives. The Company recognizes that business leadership goes together with social-value leadership.

Social responsibility, involvement with, and contribution to, the community are strategic goals that constitute an integral part of the Company's work plan, which allocates substantial financial resources towards this goal annually. Community activities are carried out also with the involvement of Company employees at all levels, while assimilating social responsibility and environmental protection.

The Company focuses on activities for the benefit of the community in education and in a variety of excellence programs, as well as on bridging gaps and strengthening at-risk populations. The Company

places special emphasis on the promotion of education in subjects like chemistry, agriculture and sustainability, which are fields that align with the core of the Company's business activities, as well as on investments connected to health, culture, art, sport, heritage and welfare.

In 2016 the Company donated an amount of approximately $ 1.6 million, of which approximately $ 1.2 million in Israel.

Company's Auditor

The primary auditors of the Company and its investee companies are the accounting firm Somekh Chaikin of the KPMG group ("KPMG").

The fees paid to KPMG in 2016 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 $832.1 thousand (for 19.0 thousand work hours), compared to $950.3 thousand (for 20.6 thousand hours) in 2015. KPMG did not provide other services to the Company in Israel during 2016.

Fees paid to KPMG in 2016 for auditing services outside of Israel amounted to $2,452 thousand (for 29.0 thousand working hours), compared to $2,522 thousand (for 30.0 thousand hours) in 2015.

KPMG did not provide other services for the Company outside of Israel during 2016.

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 approves the auditors' fees.

It is noted that the accounting firm of Brightman, Almagor, Zohar & Co. of the Deloitte group was appointed as the auditor of the Company as of the third quarter of 2017.

[17] For details about the education and experience of the Committee members, see Regulation 26 to Chapter D to the Periodic Report.

[18] Other than the Committee members, the meeting was attended by the following senior officers: the General Counsel, the CFO, and the Company Controller.

Securities repurchase

The Company did not repurchase any Company securities in 2016.

For information concerning linkage balances, see Note 29 to the Company's financial statements for 2016.
For information about the debentures held by the public at the reporting date, see Appendix B.

The Company's Board of Directors and management express their gratitude to the Company's management and employees, and thank them for their significant contribution, willingness, and ability to successfully cope with the challenges the Company faced in 2016.

Yang Xingqiang	**Chen Lichtenstein**	**Aviram Lahav**
Chairman of the Board	President & CEO	CFO

March 30, 2017

Appendix

Appendix A – Analysis of the Gaps between the Adjusted Income Statement Items and the Income Statement Items in the Financial Statements

	Adjusted		Adjustments		Reported	
$m	Q4 2016	Q4 2015	Q4 2016	Q4 2015	Q4 2016	Q4 2015
Revenues	668	650	-	-	668	650
Gross profit	213	195	-6.8	-	206	195
Operating expenses	179	165	-0.6	2.4	178	167
Operating income (EBIT)	34	30	-6.1	-2.4	28	28
Finance expenses, net	29	40	5.3	-	35	40
Pretax income	1	-12	-24.0	-2.4	-23	-15
Net income	-8	-20	-24.0	-2.4	-32	-23
EBITDA	78	76	-4.7	-2.4	73	74

	Adjusted		Adjustments		Reported	
$m	2016	2015	2016	2015	2016	2015
Revenues	3,070	3,064	-	-	3,070	3,064
Gross profit	1,040	970	-6.6	-	1,033	970
Operating expenses	693	667	-3.8	2.4	689	670
Operating income (EBIT)	347	303	-2.8	-2.4	344	300
Finance expenses, net	135	133	5.3	6.5	140	140
Pretax income	208	168	-20.6	-8.9	187	159
Net income	183	124	-20.6	-14.5	162	110
EBITDA	524	474	-1.4	-2.4	523	472

The adjusted Income Statement items for 2016 include adjustments for: in light of the Company's expected combination with Sanonda in lieu of its formerly planned IPO, a release in the amount of approximately $18 million in connection with the options and rights allotted by virtue of the employee option plan from 2014 (the net adjustment in Q4 amounted to approximately $14 million due to the cancelation of an adjustment made in Q1 2016) alongside with a provision for compensation to employees who hold such options and rights (Grantees), in the amount of approximately $12 million, as well as a provision of approximately $8 million for a one-time Sanonda transaction-related award to employees who are not Grantees subject to the closing of the transaction; non cash write-down of a minor plant value in the U.S. due to relocation in the amount of approximately $1 million; and a non-cash write-off of a joint venture production facility for a non-core product, developed in 2009, in the amounts of approximately $13 million asset and $5 million loan write-off.

The adjusted Income Statement items for 2015 include adjustments for: a revaluation of $7 million in the first and second quarters of 2015 of options on debentures issued by the Company in the first quarter of 2015; a capital gain of approximately $10 million in the first quarter of 2015 from the sale of intellectual property; a $6 million provision due to a tax-related event from 1985 and expenses of $12 million due to the early retirement of employees under an agreement from 2010.

Appendix B – Details of the Company's Debentures as at the end of the reported Year

Series	Date of issue	Rating	Total par value on date of issue (in NIS millions)	Type of interest	Nominal interest rate	Effective interest rate at reporting date	Market value on December 31, 2016 (in NIS millions)
Series B	Dec. 06	iIAA- (6)	1,650	CPI-linked annual interest	5.15%	4.3%	4,512.9 (7)
	Jan. 12		514				
	Jan. 13		600				
	Feb. 15		533				
	Feb-May 15		267				

Series	Dates of interest payments	Dates of principal payments	Linkage basis	Nominal par value at December 31, 2016 (in NIS millions)	CPI-linked nominal par value at December 31, 2015 (in NIS millions)	Carrying value of debenture balances at December 31, 2016 (in USD millions)	Carrying value of interest payable on December 31, 2016 (in USD millions)	Fair value at December 31, 2016 (in USD millions)
Series B	Twice a year on May 31 and Nov. 30 of each of the years 2006-2036	Nov. 30 of each of the years 2020- 2036	CPI for October 2006	3,483.1 (7)	4,149.9 (7)	1,069.2 (7)	4.6 (7)	1,173.7 (7)

It is noted that on November 30, 2016, the Company executed full repayment of the Series D bonds.

(1) As of January 3, 2017, the trustee for debentures (Series B) is Mishmeret trust company Ltd., 48 Menachem Begin Road, Tel Aviv (Tel: 03-6374351[17]; Fax: 03-6374344). Contact person: Rami Sebti, C.P.A. VP, E-mail: Ramis@mtrust.co.il. The replacing of the trustee for debentures (Series B) was done due to decision of the Board of Aurora Fidelity Trust Company Ltd. to cease its operation in the field of debenture trustee (for details see the Company's immediate report of January 4, 2017 (Ref. 2017-01-001357).

Series B is considered a material liability of the Company.

(2) At the date of the report, the Company was in compliance with all the terms and undertakings under the Deed of Trust, and no conditions existed giving rise to a cause of action for immediate repayment of the debentures.

(3) On January 9, 2013 the Company issued, in a private placement by way of series expansion, NIS 600,000,000 par value of debentures (Series B). For details, see the Company's immediate reports of January 6 and 8, 2013 (Refs. 2013-01-004971 and 2013-01-008559).

(4) 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). For more details, see the Company's immediate report of January 17, 2012 (Ref: 2012-01-017373) and the amending report of the same date (Ref: 2012-01-018225).

(5) On February 1, 2015, the Company issued, in a private placement by way of series expansion, NIS 533,330,000 par value of debentures (Series B). For more details, see the Company's immediate report of February 2, 2015 (Ref: 2015-01-023371). In addition, within the scope of the said private placement, the Company issued 2,666,650 options convertible to up to NIS 266,666,650 par value of debentures (Series B), which, as to the date of this report, were exercised in full.

(6) On September 15, 2013, S&P Maalot confirmed a rating of ilA+ for the Company's debentures (Ref. 2013-01-146784). On July 1, 2014, S&P Maalot announced that it has raised the rating for the Company's debentures (B series) from ilA+ to a rating of ilAA- with stable outlook (Ref. 2014-01-104136). On January 22, 2015, S&P Maalot confirmed a rating of ilAA- for the Company's debentures (series B) issued upon a private placement of up to NIS 800 million (Ref. 2015-01-017026). On July 6, 2015, S&P Maalot ratified the aforementioned rating for the Company (Ref. 2015-01-066279). On August 18, 2015, S&P Maalot notified that there is no immediate change in the Company's rating following the possible transaction by the Company's shareholders to exchange their Company shares for shares of Hubei Sanonda Co. Ltd. (Ref. 2015-01-098901).

(7) Net of debentures purchased by a wholly-owned subsidiary, which, as of December 31, 2016, holds 67,909,858 debentures (Series B), which as to the end of the reported year, accounts for 1.91% of total issued debentures (Series B).

17 For information regarding the full repayment of the Company bonds (Series D) see the immediate report of December 1, 2016 (Ref. 2016-01-085086).

Appendix C - Sensitivity analysis tables

Effects 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	11,114	5,578	(34,764)	(5,588)	(11,177)
GBP/USD	1,258	629	1,911	(629)	(1,258)
USD/ZAR	1,539	806	(441)	(806)	(1,539)
USD/PLN	739	387	4,387	(387)	(739)
USD/ILS	(111,843)	(58,575)	(13,621)	58,133	107,305
USD/BRL	21,481	11,157	(8,666)	(11,738)	(23,424)

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	(0)	(0)	(34,764)	0	0
GBP/USD	0	0	1,911	0	0
USD/ZAR	0	0	(441)	0	0
USD/PLN	0	0	4,387	0	0
USD/ILS	(4)	(2)	(13,621)	2	3
USD/BRL	(48)	(25)	(8,666)	27	55

Effect of minor 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	(5)	(3)	(34,764)	3	5
GBP/USD	(5)	(2)	1,911	2	5
USD/ZAR	0	0	(441)	(0)	(0)
USD/PLN	1	1	4,387	(1)	(1)
USD/ILS	(11)	(6)	(13,621)	6	11
USD/BRL	714	358	(8,666)	(358)	(714)

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	(3)	(1)	(34,764)	1	3
GBP/USD	1	1	1,911	(1)	(1)
USD/ZAR	(0)	(0)	(441)	0	0
USD/PLN	(0)	(0)	4,387	0	0
USD/ILS	61	31	(13,621)	(31)	(61)
USD/BRL	(79)	(39)	(8,666)	39	79

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	(36,809)	(18,405)	24,102	18,405	36,809
GBP/USD	(4,082)	(2,045)	711	2,060	4,129
USD/PLN	2,591	1,357	1,231	(1,357)	(2,591)
USD/ILS	(15,128)	(7,925)	(2,171)	7,925	15,128

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	0	0	24,102	0	0
GBP/USD	3	1	711	(1)	(3)
USD/PLN	0	0	1,231	0	0
USD/ILS	0	0	(2,171)	(0)	0

Effect of minor 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	(195)	(97)	24,102	97	195
GBP/USD	(18)	(9)	711	9	18
USD/PLN	13	7	1,231	(7)	(13)
USD/ILS	(20)	(10)	(2,171)	10	20

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	(51)	(25)	24,102	25	51
GBP/USD	6	3	711	(3)	(6)
USD/PLN	(9)	(5)	1,231	5	9
USD/ILS	61	31	(2,171)	(31)	(61)

Sensitivity to USD/NIS exchange rate changes (in USD thousands)

	Profit (loss) from changes		Fair value	Profit (loss) from changes	
	+10%	+5%		-5%	-10%
Rate	4.230	4.037	**3.845**	3.653	3.461
Assets					
Cash and cash equivalents	(2,844)	(1,422)	**28,438**	1,422	2,844
Receivables	(1,098)	(549)	**10,981**	549	1,098
Financial assets	(1,537)	(768)	**15,366**	768	1,537
Prepayments net of provision for taxes	(87)	(44)	**870**	44	87
Total assets	**(5,566)**	**(2,783)**	**55,655**	**2,783**	**5,566**
Other long-term liabilities					
Bank and other credit	195	98	**1,954**	(98)	(195)
Trade payables	10,124	5,062	**101,241**	(5,062)	(10,124)
Other payables	10,104	5,052	**101,042**	(5,052)	(10,104)
Debentures	106,925	53,463	**1,069,253**	(53,463)	(106,925)
Other long term liabilities	18	9	**177**	(9)	(18)
Employee benefits	5,615	2,808	**56,152**	(2,808)	(5,615)
Total liabilities	**132,982**	**66,491**	**1,329,819**	**(66,491)**	**(132,982)**
Balance sheet exposure	**127,416**	**63,708**	**(1,274,164)**	**(63,708)**	**(127,416)**
Instruments for hedging cash balances	(111,843)	(58,575)	**1,255,973**	58,133	107,305
Balance sheet exposure including the impact of hedging transactions	**15,573**	**5,133**	**(18,191)**	**5,576**	**20,111**
Instruments for hedging projected transactions	(15,128)	(7,925)	**163,882**	7,925	15,128

Sensitivity to USD/Euro exchange rate changes (in USD thousands)

	Profit (loss) from changes		Fair value	Profit (loss) from changes	
	+10%	+5%		-5%	-10%
Rate	0.947	0.999	**1.052**	1.104	1.157
Assets					
Cash and cash equivalents	(7,583)	(3,791)	**75,826**	3,791	7,583
Short term investments	(1)	(0)	**9**	0	1
Receivables	(10,974)	(5,487)	**109,744**	5,487	10,974
Financial assets	(1,226)	(613)	**12,261**	613	1,226
Prepayments net of provision for taxes	(137)	(69)	**1,373**	69	137
Investments, long term loans and debit balances	(116)	(58)	**1,164**	58	116
Total assets	**(20,038)**	**(10,019)**	**200,377**	**10,019**	**20,038**
Other long-term liabilities					
Bank and other credit	141	71	**1,410**	(71)	(141)
Trade payables	6,812	3,406	**68,118**	(3,406)	(6,812)
Other payables	5,476	2,738	**54,764**	(2,738)	(5,476)
Current tax liabilities	218	109	**2,175**	(109)	(218)
Bank loans (including current maturities)	1	0	**6**	(0)	(1)
Other long term liabilities	29	15	**291**	(15)	(29)
Put options for non-controlling interests	288	144	**2,880**	(144)	(288)
Employee benefits	452	226	**4,518**	(226)	(452)
Total liabilities	**13,416**	**6,708**	**134,162**	**(6,708)**	**(13,416)**
Balance sheet exposure	**(6,622)**	**(3,311)**	**66,215**	**3,311**	**6,622**
Instruments for hedging cash balances	11,114	5,578	**(70,083)**	(5,588)	(11,177)
Balance sheet exposure including the impact of hedging transactions	**4,492**	**2,267**	**(3,868)**	**(2,277)**	**(4,556)**
Instruments for hedging projected transactions	(36,809)	(18,405)	**(385,564)**	18,405	36,809

Sensitivity to USD/BRL exchange rate changes (in USD thousands)

	Profit (loss) from changes		Fair value	Profit (loss) from changes	
	+10%	+5%		-5%	-10%
Rate	3.585	3.422	**3.259**	3.096	2.933
Assets					
Cash and cash equivalents	(1,893)	(946)	**18,927**	946	1,893
Trade receivables	(21,930)	(10,965)	**219,302**	10,965	21,930
Financial assets	(1,226)	(613)	**12,258**	613	1,226
Investments, long term loans and debit balances	(4,557)	(2,279)	**45,571**	2,279	4,557
Total assets	**(29,606)**	**(14,803)**	**296,058**	**14,803**	**29,606**
Other long-term liabilities					
Trade payables	1,488	744	**14,881**	(744)	(1,488)
Other payables	3,249	1,625	**32,494**	(1,625)	(3,249)
Current tax liabilities	0	0	**3**	(0)	(0)
Bank credit (including current maturities)	76	38	**758**	(38)	(76)
Other long term liabilities	1,833	916	**18,328**	(916)	(1,833)
Total liabilities	**6,646**	**3,323**	**66,464**	**(3,323)**	**(6,646)**
Balance sheet exposure	**(22,959)**	**(11,480)**	**229,594**	**11,480**	**22,959**
Instruments for hedging cash balances	21,481	11,157	**(232,171)**	(11,738)	(23,424)
Balance sheet exposure including the impact of hedging transactions	**(1,479)**	**(323)**	**(2,577)**	**(258)**	**(465)**
Instruments for hedging projected transactions	1,799	941	**(20,000)**	(941)	(1,799)

Sensitivity to USD/GBP exchange rate changes (in USD thousands)

	Profit (loss) from changes		Fair value	Profit (loss) from changes	
	+10%	+5%		-5%	-10%
Rate	1.106	1.167	**1.229**	1.290	1.352
Assets					
Cash and cash equivalents	(966)	(483)	**9,662**	483	966
Trade receivables	(471)	(235)	**4,709**	235	471
Financial assets	(94)	(47)	**942**	47	94
Total assets	**(1,531)**	**(766)**	**15,313**	**766**	**1,531**
Other long-term liabilities					
Bank and other credit	58	29	**580**	(29)	(58)
Trade payables	138	69	**1,375**	(69)	(138)
Other payables	216	108	**2,164**	(108)	(216)
Total liabilities	**412**	**206**	**4,119**	**(206)**	**(412)**
Balance sheet exposure	**(1,191)**	**(560)**	**11,194**	**560**	**1,191**
Instruments for hedging cash balances	1,258	629	**(13,668)**	(629)	(1,258)
Balance sheet exposure including the impact of hedging transactions	**138**	**69**	**(2,474)**	**(69)**	**(138)**
Instruments for hedging projected transactions	(4,082)	(2,045)	**(40,000)**	2,060	4,129

Sensitivity to USD/PLN exchange rate changes (in USD thousands)

	Profit (loss) from changes		Fair value	Profit (loss) from changes	
	+10%	+5%		-5%	-10%
Rate	4.597	4.388	**4.179**	3.970	3.761
Assets					
Cash and cash equivalents	(3,222)	(1,611)	**32,219**	1,611	3,222
Trade receivables	1,133	566	**(11,327)**	(566)	(1,133)
Financial assets	(138)	(69)	**1,375**	69	138
Prepayments net of provision for taxes	(70)	(35)	**699**	35	70
Total assets	**(2,297)**	**(1,148)**	**22,966**	**1,148**	**2,297**
Other long-term liabilities					
Bank and other credit	1,500	750	**15,000**	(750)	(1,500)
Trade payables	43	22	**433**	(22)	(43)
Other payables	281	140	**2,809**	(140)	(281)
Employee benefits	2	1	**15**	(1)	(2)
Total liabilities	**1,826**	**913**	**18,257**	**(913)**	**(1,826)**
Balance sheet exposure	**(471)**	**(235)**	**4,709**	**235**	**471**
Instruments for hedging cash balances	739	387	**(8,593)**	(387)	(739)
Balance sheet exposure including the impact of hedging transactions	**268**	**152**	**(3,884)**	**(152)**	**(268)**
Instruments for hedging projected transactions	2,591	1,357	**(29,862)**	(1,357)	(2,591)

* 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		Fair value	Profit (loss) from changes	
	+10%	+5%		-5%	-10%
Rate	15.092	14.406	**13.720**	13.034	12.348
Assets					
Cash and cash equivalents	(486)	(243)	**4,856**	243	486
Trade receivables	(1,749)	(875)	**17,490**	875	1,749
Financial assets	(0)	(0)	**4**	0	2,235
Total asset	**(2,235)**	**(1,118)**	**22,350**	**1,118**	**2,235**
Other long-term liabilities					
Trade payables	74	37	**738**	(37)	(74)
Other payables	120	60	**1,202**	(60)	(120)
Total assets	**194**	**97**	**1,940**	**(97)**	**(194)**
Balance sheet exposure	**(2,041)**	**(1,021)**	**20,410**	**1,021**	**2,041**
Instruments for hedging cash balances	1,539	806	**(16,561)**	(806)	(1,539)
Balance sheet exposure including the impact of hedging transactions	**(502)**	**(215)**	**3,849**	**215**	**502**
Instruments for hedging projected transactions	277	145	**(3,000)**	(145)	(277)

Sensitivity of financial instruments to interest rate changes (in USD thousands)

	Profit (loss) from changes		Fair value	Profit (loss) from changes	
	+10%	+5%		-5%	-10%
Changes in linked NIS interest rates					
Debentures Series B	40,482	20,528	**1,174**	(21,125)	(42,869)
CPI transaction	0	0	**(739,304)**	(0)	(0)
Total	**40,482**	**20,528**	**(738,130)**	**(21,125)**	**(42,869)**
Changes in USD interest rates					
USD loans	299	150	**(59,820)**	(151)	(303)
USD investments	(1)	(1)	**429**	1	1
Total	**298**	**149**	**(59,391)**	**(150)**	**(302)**
Changes in BRL interest rates					
Investments in BRL	(212)	(108)	**4,508**	111	225
Loans in BRL	7	4	**(664)**	(4)	(8)
Total	**(205)**	**(104)**	**3,844**	**107**	**217**

Appendix D - Exchange rate data for the Company's principal functional currencies

	December 31			Q4 Average			Annual Average		
	2016	2015	Change	2016	2015	Change	2016	2015	Change
EUR/USD	1.052	1.088	(3.4%)	1.080	1.095	(1.4%)	1.107	1.110	(0.3%)
USD/BRL	3.259	3.905	16.5%	3.293	3.842	14.3%	3.490	3.331	(4.8%)
USD/PLN	4.179	3.901	(7.1%)	4.057	3.893	(4.2%)	3.943	3.770	(4.6%)
USD/ZAR	13.720	15.558	11.8%	13.917	14.195	2.0%	14.710	12.742	(15.4%)
AUD/USD	0.722	0.731	(1.2%)	0.750	0.720	4.1%	0.743	0.752	(1.1%)
GBP/USD	1.229	1.482	(17.1%)	1.244	1.518	(18.1%)	1.351	1.529	(11.6%)
USD/ILS	3.845	3.902	1.5%	3.825	3.872	1.2%	3.836	3.878	1.1%
USD L 3M	1.00%	0.61%	62.9%	0.92%	0.41%	125.9%	0.74%	0.31%	136.6%

Chapter C

Financial Statements as at December 31, 2016

Adama Agricultural Solutions Ltd.

Consolidated Financial Statements
as of December 31, 2016
in US Dollars

Financial Statements as of December 31, 2016

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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. and its subsidiaries (hereinafter "the Company") as of December 31, 2016. 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.

In our opinion, the Company maintained, in all material respects, effective audited control components as of December 31, 2016.

We have also audited, in accordance with generally accepted auditing standards in Israel, the Company's consolidated financial statements as of December 31, 2016 and 2015 and for each of the three years in the period ended December 31, 2016 and our report dated March 20, 2017 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 30, 2017

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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. (hereinafter "the Company") as of December 31, 2016 and 2015 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, 2016. 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 4.8% and 5% of the total consolidated assets as of December 31, 2016 and 2015, respectively, and whose revenues constitute about 8.3%, 9% and 9.1% of the total consolidated revenues for the years ended December 31, 2016, 2015 and 2014, respectively. Furthermore, we did not audit the financial statements of equity accounted investees the investment in which amounted to approximately USD 7,805 thousand and USD 7,387 thousand as of December 31, 2016 and 2015, respectively, and the Group's share in their profits amounted to approximately USD 1,297 thousand, USD 1,268 thousand and USD 1,820 thousand for the years ended December 31, 2016, 2015 and 2014, respectively. 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, 2016 and 2015 and their results of operations, changes in equity and cash flows, for each of the three years in the period ended December 31, 2016, 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, 2016, and our report dated March 20, 2017 expressed an unqualified opinion on the effectiveness of such components.

Somekh Chaikin
Certified Public Accountants (Isr.)

March 30, 2017

Consolidated Statements as of Financial Position as of December 31

	Note	2016 $ thousands	2015 $ thousands
Current assets			
Cash and cash equivalents		**474,885**	395,352
Short-term investments		**5,131**	4,730
Trade receivables	4	**764,157**	771,818
Trade receivable as part of securitization transaction not yet eliminated	4	**30,156**	26,367
Subordinated note in respect of sale of trade receivables	4	**51,618**	71,293
Prepaid expenses		**20,578**	15,811
Financial and other assets, including derivatives	5	**163,739**	180,528
Tax deposits less provision for taxes	17	**15,949**	12,361
Inventories	6	**1,035,071**	1,149,058
Total current assets		**2,561,284**	2,627,318
Long-term investments, loans and receivables			
Investments in equity-accounted investee companies		**70,776**	70,397
Other financial investments and receivables	7	**52,871**	48,035
Non-financial assets, including non-current inventory	8	**18,426**	35,941
		142,073	154,373
Fixed assets			
Cost	9	**1,711,212**	1,651,652
Less – accumulated depreciation		**907,662**	864,345
		803,550	787,307
Deferred tax assets	17	**87,226**	75,196
Intangible assets			
Cost	10	**1,755,199**	1,651,529
Less – accumulated amortization		**1,062,771**	964,080
		692,428	687,449
Total non-current assets		**1,725,277**	1,704,325
Total assets		**4,286,561**	4,331,643

	Note	2016 $ thousands	2015 $ thousands
Current liabilities			
Loans and credit from banks and other lenders	11	**178,161**	222,800
Current maturities of debentures	15	**-**	100,789
Trade payables	12	**520,739**	554,357
Other payables	13	**570,773**	469,292
Current tax liabilities	17	**21,160**	25,627
Put options to holders of non-controlling interests		**37,253**	32,430
Total current liabilities		**1,328,086**	1,405,295
Long-term liabilities			
Long-term loans from banks	14	**116,129**	173,708
Debentures	15	**1,069,253**	1,056,380
Other long-term liabilities	16	**27,237**	29,233
Deferred tax liabilities	17	**11,218**	22,595
Employee benefits	18	**73,672**	70,552
Put options to holders of non-controlling interests		**6,686**	7,040
Total long-term liabilities		**1,304,195**	1,359,508
Total liabilities		**2,632,281**	2,764,803
Equity			
Share capital		**125,595**	125,595
Share premium		**623,829**	623,829
Capital reserves		**(322,454)**	(309,030)
Retained earnings		**1,227,310**	1,126,239
Total equity attributable to the owners of the Company		**1,654,280**	1,566,633
Non-controlling interests		**-**	207
Total equity	21	**1,654,280**	1,566,840
Total liabilities and equity		**4,286,561**	4,331,643

Yang Xingqiang Chairman of the Board of Directors	Chen Lichtenstein President & Chief Executive Officer	Aviram Lahav Chief Financial Officer

Date of approval of the financial statements: March 30, 2017

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

Consolidated Statements of Income for the year ended December 31

	Note	2016 $ thousands	2015 $ thousands	2014 $ thousands
Revenues	22	**3,070,165**	3,063,870	3,221,298
Cost of sales	23	**2,036,858**	2,094,281	2,195,993
Gross profit		**1,033,307**	969,589	1,025,305
Other income		**(9,738)**	(14,385)	(4,711)
Selling and marketing expenses	24	**549,731**	534,454	570,581
General and administrative expenses	25	**111,665**	102,535	111,933
Research and development expenses	26	**32,684**	30,197	33,554
Other expenses		**4,803**	16,681	2,947
		689,145	669,482	714,304
Operating income		**344,162**	300,107	311,001
Financing expenses		**260,962**	286,498	252,693
Financing income		**(120,612)**	(146,926)	(128,724)
Financing expenses, net	27	**140,350**	139,572	123,969
Share of income (losses) of equity-accounted investee companies	19A(8)	**(16,622)**	(1,498)	5,885
Profit before taxes on income		**187,190**	159,037	192,917
Income taxes	17	**22,520**	49,262	46,902
Profit for the year		**164,670**	109,775	146,015
Attributable to:				
The owners of the Company		**162,328**	110,108	146,405
Holders of non-controlling interests		**2,342**	(333)	(390)
Profit for the year		**164,670**	109,775	146,015

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

Consolidated Statements of Comprehensive Income for the year ended December 31

	2016 $ thousands	2015 $ thousands	2014 $ thousands
Profit for the year	**164,670**	109,775	146,015
Other comprehensive income items that after initial recognition in comprehensive income were or will be transferred to the statement of income			
Foreign currency translation differences for foreign operations	**(13,865)**	(32,159)	(25,499)
Foreign currency translation differences for foreign operations transferred to the statement of income	**(82)**	-	-
Effective portion of changes in fair value of cash flow hedges	**14,310**	58,521	56,426
Net change in fair value of cash flow hedges transferred to profit or loss	**(14,237)**	(70,060)	14,356
Taxes in respect of other comprehensive income items that were or will be transferred to the statement of income in succeeding periods	**539**	106	(3,023)
Total other comprehensive income (loss) for the year that after initial recognition in comprehensive income were or will be transferred to the statement of income, net of tax	**(13,335)**	(43,592)	42,260
Other comprehensive income that will not be transferred to the statement of income			
Re-measurement of defined benefit plan	**84**	3,404	935
Taxes in respect of other comprehensive income items that will not be transferred to the statement of income	**52**	(436)	(53)
Total other comprehensive income for the year that will not be transferred to the statement of income, net of tax	**136**	2,968	882
Total comprehensive income for the year	**151,471**	69,151	189,157
Total comprehensive income attributable to:			
The owners of the Company	**149,040**	69,483	189,592
Holders of non-controlling interests	**2,431**	(332)	(435)
Total comprehensive income for the year	**151,471**	69,151	189,157

The accompanying 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	Non-controlling interests	Total equity
	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands
For the year ended December 31, 2016							
Balance as of January 1, 2016	125,595	623,829	(309,030)	1,126,239	1,566,633	207	1,566,840
Total comprehensive income for the year							
Profit for the year	-	-	-	162,328	162,328	2,342	164,670
Other comprehensive income							
Foreign currency translation differences for foreign operations	-	-	(13,954)	-	(13,954)	89	(13,865)
Foreign currency translation differences for foreign operation recognized in profit or loss	-	-	(82)	-	(82)	-	(82)
Effective portion of change in fair value of cash flow hedges	-	-	14,310	-	14,310	-	14,310
Net change in fair value of cash flow hedges transferred to profit or loss	-	-	(14,237)	-	(14,237)	-	(14,237)
Re-measurement of defined benefit plan	-	-	-	84	84	-	84
Taxes on other comprehensive income	-	-	539	52	591	-	591
Other comprehensive income (loss) for the year, net of tax	-	-	(13,424)	136	(13,288)	89	(13,199)
Total comprehensive income (loss) for the year	-	-	(13,424)	162,464	149,040	2,431	151,471
Dividends to holders of non-controlling interests holding a put option	-	-		(4,149)	(4,149)	-	(4,149)
Derecognition of non-controlling interest due to loss of control in subsidiaries	-	-	-	-	-	(2,638)	(2,638)
Share-based payments	-	-	-	(16,981)	(16,981)	-	(16,981)
Dividends to owners of the Company	-	-	-	(40,263)	(40,263)	-	(40,263)
Balance as of December 31, 2016	125,595	623,829	(322,454)	1,227,310	1,654,280	-	1,654,280

(1) Including treasury shares that were cancelled in the amount of $245,548 thousand.

The accompanying 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	Non-controlling interests	Total equity
	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands
For the year ended December 31, 2015							
Balance as of January 1, 2015	125,595	623,829	(265,354)	1,106,592	1,590,662	387	1,591,049
Total comprehensive income for the year							
Profit for the year	-	-	-	110,108	110,108	(333)	109,775
Other comprehensive income							
Foreign currency translation differences for foreign operations	-	-	(32,160)	-	(32,160)	1	(32,159)
Effective portion of change in fair value of cash flow hedges	-	-	58,521	-	58,521	-	58,521
Net change in fair value of cash flow hedges transferred to profit or loss	-	-	(70,060)	-	(70,060)	-	(70,060)
Re-measurement of defined benefit plan	-	-	-	3,404	3,404	-	3,404
Taxes on other comprehensive income	-	-	106	(436)	(330)	-	(330)
Other comprehensive income (loss) for the year, net of tax	-	-	(43,593)	2,968	(40,625)	1	(40,624)
Total comprehensive income (loss) for the year	-	-	(43,593)	113,076	69,483	(332)	69,151
Dividends to holders of non-controlling interests holding a put option	-	-	-	(2,427)	(2,427)	-	(2,427)
Transactions with holders of non-controlling interests	-	-	(83)	-	(83)	152	69
Share-based payments	-	-	-	8,998	8,998	-	8,998
Dividends to owners of the Company	-	-	-	(100,000)	(100,000)	-	(100,000)
Balance as of December 31, 2015	125,595	623,829	(309,030)	1,126,239	1,566,633	207	1,566,840

(1) Including treasury shares that were cancelled in the amount of $245,548 thousand.

The accompanying 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	Non-controlling interests	Total equity
	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands
For the year ended December 31, 2014							
Balance as of January 1, 2014	125,595	623,829	(307,096)	953,423	1,395,751	1,001	1,396,752
Total comprehensive income for the year							
Profit for the year	–	–	–	146,405	146,405	(390)	146,015
Other comprehensive income							
Foreign currency translation differences for foreign operations	–	–	(25,454)	–	(25,454)	(45)	(25,499)
Effective portion of change in fair value of cash flow hedges	–	–	56,426	–	56,426	–	56,426
Net change in fair value of cash flow hedges transferred to the statement of income	–	–	14,356	–	14,356	–	14,356
Re-measurement of defined benefit plan	–	–	–	935	935	–	935
Taxes on other comprehensive income	–	–	(3,023)	(53)	(3,076)	–	(3,076)
Other comprehensive income for the year, net of tax	–	–	42,305	882	43,187	(45)	43,142
Total comprehensive income for the year	–	–	42,305	147,287	189,592	(435)	189,157
Dividends to holders of non-controlling interests holding a put option	–	–	–	(1,994)	(1,994)	–	(1,994)
Transactions with holders of non-controlling interests	–	–	(480)	–	(480)	480	–
Share-based payments	–	–	–	7,984	7,984	–	7,984
Elimination of non-controlling interests due to loss of control of subsidiary	–	–	–	–	–	(659)	(659)
Exercise of options granted to employees of a subsidiary	–	–	(83)	(108)	(191)	–	(191)
Balance as of December 31, 2014	125,595	623,829	(265,354)	1,106,592	1,590,662	387	1,591,049

(1) Including treasury shares that were cancelled in the amount of $245,548 thousand.

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

Consolidated Statement as of Cash Flows for the year ended December 31

	2016	2015	2014
	$ thousands	$ thousands	$ thousands
Cash flows from operating activities			
Profit for the year	**164,670**	109,775	146,015
Adjustments			
Depreciation and amortization	**175,294**	168,457	167,180
Loss (gain) on realization of fixed and intangible assets, net	**(6,883)**	(10,659)	258
Amortization of discount/premium and debt issuance costs	**(824)**	(2,334)	(2,813)
Impairment of assets	**8,703**	3,084	–
Share of losses (income) of equity-accounted investee companies	**16,622**	1,498	(5,885)
Share-based payments transactions	**(16,981)**	8,998	7,984
Revaluation of put and call options to holders of non-controlling interests	**(811)**	433	3,185
Adjustment of long-term liabilities	**15,939**	(12,221)	(132,639)
SWAP transaction	**(481)**	(481)	(481)
Change in provision for income tax and tax advances, net	**(364)**	851	(7,395)
Decrease (increase) in deferred taxes, net	**(22,884)**	9,602	(370)
Changes in assets and liabilities			
Decrease (increase) in trade and other receivables	**6,786**	26,708	(252,736)
Decrease (increase) in inventories	**135,348**	26,426	(22,668)
Increase (decrease) in trade and other payables	**24,381**	(225,346)	299,319
Change in employee benefits	**3,663**	2,219	(19,834)
Net cash from operating activities	**502,178**	107,010	179,120
Cash flows from investing activities			
Acquisition of fixed assets	**(94,061)**	(117,859)	(100,525)
Additions to intangible assets	**(93,854)**	(97,669)	(101,009)
Short-term investments, net	**(431)**	6,108	(1,136)
Long-term investments, net	**(9,147)**	7	52,208
Proceeds from sale of fixed and intangible assets	**6,223**	13,323	3,925
Investment grant received	**1,436**	1,340	–
Dividend from equity-accounted investee company	**1,112**	1,509	7,288
Disposal of subsidiaries	**(1,430)**	(101)	(261)
Deferred payment for business combination	**(600)**	–	–
Investment in equity accounted investee company	**-**	–	(6,528)
Net cash used in investing activities	**(190,752)**	(193,342)	(146,038)

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

Consolidated Statement of Cash Flows for the year ended December 31 (cont'd)

	2016	2015	2014
	$ thousands	$ thousands	$ thousands
Cash flows from financing activities			
Receipt of long-term loans from banks	**12,700**	15,650	97,237
Repayment of long-term loans and liabilities from banks and others	**(104,165)**	(74,320)	(109,974)
Repayment of debentures	**(101,210)**	(99,909)	(99,909)
Increase (decrease) in short-term liabilities to banks, net	**(9,028)**	76,796	(1,426)
Dividend paid to owners of the Company	**(18,521)**	(100,000)	-
Dividend paid to holders of non-controlling interests	**(4,149)**	(2,427)	(2,185)
Payment of contingent consideration in respect of business combination	**(7,520)**	-	5,000
Issuance of debentures, net of issuance costs	-	256,859	146,806
Proceeds from debenture options	-	4,505	-
Acquisition of non-controlling interests	-	-	(30,000)
Fundraising costs	-	(746)	(2,741)
Net cash from (used in) financing activities	**(231,893)**	76,408	(7,192)
Net increase (decrease) in cash and cash equivalents	**79,533**	(9,924)	25,890
Cash and cash equivalents at the beginning of the year	**395,352**	405,276	379,386
Cash and cash equivalents at the end of the year	**474,885**	395,352	405,276

Additional information:

	2016	2015	2014
Interest paid in cash	**(93,605)**	(107,478)	(96,384)
Interest received in cash	**35,009**	41,276	29,786
Taxes paid in cash, net	**(43,836)**	(34,108)	(47,798)

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

Note 1 - General

A. Description of the Company and its activities

1. Adama Agricultural Solutions Ltd. is an Israel-resident company that was incorporated in Israel, and its official address is at Golan Street in Airport City Park. The Group's consolidated financial statements as of December 31, 2016, include those of the Company and its subsidiaries (hereinafter together – "the Group") as well as the Company's interest in associated companies and in joint arrangements. The Group operates in and outside of Israel and is engaged in development, manufacturing and marketing of agrochemicals, intermediate materials for other industries, food additives and synthetic aromatic products, mainly for export.

   As of December 31, 2016, the Company is 100% held by China National Agrochemical Corporation (hereinafter - "CNAC") following the completion of the transaction for the purchase of the minority shares from Koor Industries Ltd. on November 22, 2016. The Company is a Reporting corporation.

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, the Group's balanced regional exposure mitigates the inherent seasonality in the business to some extent, even though the Group's sales are higher in the northern hemisphere.

B. Definitions

In these financial statements:

(1) <u>The Company</u>	–	Adama Agricultural Solutions Ltd.
(2) <u>The Group</u>	–	Adama Agricultural Solutions Ltd. and its investee companies.
(3) <u>Subsidiaries</u>	–	Companies of which the financial statements are fully consolidated, directly or indirectly, with the financial statements of the Company.
(4) <u>Investee companies</u>	–	Subsidiaries and associated companies or joint arrangements that the Company's investment in which is stated, directly or indirectly, using the equity method of accounting.
(5) <u>Related party</u>	–	As defined in IAS 24 (2009) "Relating Party Disclosures".
(6) <u>Interested parties</u>	–	As defined in Paragraph (1) of the definition of an "Interested Party" in Section 1 of the Israeli Securities Law, 1968.
(7) <u>CPI</u>	–	The Consumer Price Index in Israel as published by the Central Bureau of Statistics.
(8) <u>Dollar</u>	–	The United States dollar.
(9) <u>NIS</u>	–	The New Israeli Shekel.

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) as issued by the - International Accounting Standards Board (IASB). The financial statements have also been prepared in accordance with the Israeli Securities Regulations (Preparation of Annual Financial Statements), 2010.

The consolidated financial statements were authorized for issue by the Company's Board of Directors on March 30, 2017.

B. Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following assets and liabilities:

– Financial instruments, derivative and other assets and liabilities measured at fair value

– Deferred tax assets and liabilities.

– Provisions.

– Assets and liabilities relating to employee benefits.

– Investments in associated companies and joint ventures.

For additional information regarding the measurement of these assets and liabilities see Note 3 – Significant Accounting Policies.

C. Use of estimates and judgment

The preparation of financial statements in accordance with IFRS requires management to use judgments, estimates and assumptions that affect the implementation of the accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The preparation of accounting estimates used in the preparation of the Group's financial statements requires the Company's management to make assumptions regarding circumstances and events that involve considerable uncertainty. Management of the Company prepares the estimates on the basis of past experience, various facts, external circumstances, and reasonable assumptions according to the pertinent circumstances to each estimate.

Estimates and underlying assumptions 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.

Note 2 - Basis for Financial Statement Preparation (cont'd)

C. Use of estimates and judgment (cont'd)

Information regarding assumptions made by the Group with respect to the future and other significant reasons for uncertainty with respect to the estimates, that have a significant risk that they may result in a material adjustment to the carrying amounts of assets and liabilities in the next financial year, is included in the following notes:

- Contingent liabilities – when assessing the possible outcomes of legal claims filed against the Company and its Investee companies, the company positions are based on the opinions of their legal advisors. These assessments by the legal advisors are based on 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 determined by the courts, the outcomes could be different from the assessments.

  In addition to the said claims, the Group 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 weigh 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. Naturally, 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.

- Impairment of assets – the Company evaluates the need for recording a provision for impairment of goodwill at least annually, on a fixed date. In addition, each reporting date, the Company evaluates whether events have occurred or whether 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, if 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)

C. 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 accrue 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 receivables are stated net of an allowance for doubtful debts. The allowance for doubtful debts is examined regularly by the Company's management and is determined mostly according to familiarity with the customer, its quality and the collateral amount the customer provides. Changes in the assumptions used to calculate the allowance could lead to material changes in the allowance required.

- Income taxes – the Company and Group companies are assessed for income 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 carried forward for tax purposes in cases where it is expected to utilize 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 liabilities 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 risks related to foreign currency and inflationary risks. The derivatives are recorded at their fair value. The fair value of derivative financial instruments is based on quotes from financial institutions. The reasonableness of the quotes is examined by discounting the future cash flows, based on the terms and time to maturity of each contract, while using market interest rates of a similar instrument as of the measurement date. Changes in the assumptions and the calculation model could lead to material changes 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 or 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 selling price at the time of realization of inventories. A reduction in the expected selling price could lead to an impairment of the inventories.

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 the accounting standards.

A. Basis for Consolidation

(1) Business combinations

The Group applies 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 taken 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 Group 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.

(3) Transactions eliminated on consolidation

Intercompany balances within the Group and unrealized income and expenses derived from intercompany transactions are eliminated as part of the preparation of the consolidated financial statements.

Note 3 - Significant Accounting Policies (cont'd)

A. Basis for Consolidation (cont'd)

(4) **Structured entities**

The Group operates with a structured entities for purposes of securitization trade receivables. For details see note 4.

(5) **Investment in associated associates and joint ventures**

Associates are those companies in 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 rebuttable 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.

Joint ventures are joint arrangements wherein the Group has rights in the arrangement's net assets.

Investments in associates and joint arrangements 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 and other comprehensive income of investee companies accounted for using the equity method of accounting, from the date on which the significant influence or joint control exists until the date that significant influence or joint control ceases.

When the group's share in losses exceeds the group's value of rights in a Company accounted at equity, the carrying value of such rights is reduced to zero. The group recognizes additional losses when the group has another liability to support an investee.

(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 holders 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 their proportionate interest in the identifiable assets and liabilities of the acquiree.

Allocation of profit or loss and other 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 profit or loss and other 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.**

For an increase in the holding rate, the amount of the adjustment to the non-controlling interests is calculated 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 of the subsidiary changes, while retaining control, the Group 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 re-measurements of 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 subsidiary.**

Dividends distributed to holders of non-controlling interests in a subsidiary that hold a put option are recognized in equity.

(7) **Loss of control**

Upon the loss of control, the group derecognizes the assets and liabilities of the subsidiary, any non-controlling interests and other components of equity related to the subsidiary.

Note 3 - Significant Accounting Policies (cont'd)

B. Functional currency and presentation currency

(1) **General**

These consolidated financial statements are presented in Dollar, which is the Group's functional currency. The Dollar is the currency that represents the principal economic environment in which the Group operates.

(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 period, and the amortized cost in foreign currency translated according to the exchange rate at the end of the period. Exchange rate differences are recognized directly in "financing expenses" in the consolidated 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 recorded at acquisition, are translated into Dollars according to the exchange rates prevailing on the date of the report. Income and expenses of foreign operations are 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 and are presented in equity as part of capital reserve.

When a foreign operation is a subsidiary that is not wholly owned by the Company, the proportionate share of the foreign currency differences in respect of the foreign operations is allocated to the non-controlling interests.

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 within 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 mainly 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.

(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 issued. 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 less any directly attributable transaction costs. Subsequent to the initial recognition, financial liabilities are measured at amortized cost using the effective interest method.

Note 3 - Significant Accounting Policies (cont'd)

C. Financial Instruments (cont'd)

(2) Non-derivative financial liabilities (cont'd)

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.

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.

(3) Derivative financial instruments, including hedge accounting

The Group uses derivative financial instruments to hedge its risks related to foreign currency and inflation risks and derivatives that are not used for hedging.

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 of 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 must be highly probable and must give rise to exposure to changes in cash flows that could ultimately affect profit or loss.

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.

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 (cont'd)

Cash-flow hedges
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 portion 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 or CPI linked. Changes in the fair value of such derivatives are recognized in profit or loss as financing income or expenses.

Derivatives that are not used for hedging
Changes in the fair value of derivatives that are not used for hedging 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.

Incremental costs directly attributable to an expected issuance of an instrument that will be classified as an equity instrument are recognized as an asset in deferred expenses in the statement of financial position. The costs are deducted from the equity upon the initial recognition of the equity instruments, or are deducted as financing expenses in the statement of income when the issuance is no longer expected to take place.

Treasury 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 the capital reserves.**

Note 3 - Significant Accounting Policies (cont'd)

D. Fixed assets

(1) Recognition and measurement

Fixed-asset items are measured at cost less accumulated depreciation and accrued 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 such 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.

When major parts of a fixed asset item (including costs of major periodic inspections) have different useful lives, they are accounted for as separate items (major components) of fixed assets.

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.

The gain or loss from disposal of a fixed-asset item is determined by comparing the consideration from disposal 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 recognized if it is probable that the future economic benefits associated with them will flow to the Group and if 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. Fixed Assets (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 are not depreciated.

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

Buildings	25–50 years	
Facilities 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 year 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 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 registration – mainly 8 years.
- Intangible assets on purchase of products – mainly 20 years.
- Marketing rights – 5 to 10 years.
- Rights to use trademarks – mainly 4 years.

Registration 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.

Note 3 - Significant Accounting Policies (cont'd)

F. Leased Assets

Leases, including leases of lands from Israel Lands Authority 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.

Other leases are classified as operating leases when the leased assets are not recognized in the financial report of the group. Operating lease payments are recorded in profit or loss over the lease term.

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 a weighted-average formula**, 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 Borrowing Costs

The costs of specific and non-specific borrowing are capitalized to qualified assets during the period required for completion and construction until they are ready for their intended use. Non-specific borrowing costs were capitalized in the same manner to the investment in qualified assets or to the part thereof that was not financed by specific borrowing, using an interest rate that is the weighted-average of the cost rates for those borrowing sources, the cost of which was not capitalized specifically. Other borrowing costs are recorded in profit and loss as incurred.

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 reliably estimated.

Note 3 - Significant Accounting Policies (cont'd)

I. Impairment (cont'd)

Non-derivative financial assets (cont'd)

The Group assesses evidence of impairment of trade receivables at both individual asset and collective levels. Trade receivables that are individually significant are reviewed specifically for impairment. These trade receivables for which no specific impairment has been identified are grouped together and then collectively assessed for any impairment that has occurred and has not yet been identified. Regarding trade receivables that are not individually significant, collective testing for impairment is carried out by grouping them in accordance with similar risk characteristics.

All impairment losses are recorded 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 indications of impairment. If such indications exist, 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 ("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.

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 the goodwill 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 benefit from synergies of the combination.

Note 3 - Significant Accounting Policies (cont'd)

I. Impairment (cont'd)

2. Non-financial assets (cont'd)

Recognition of impairment loss
Impairment losses are recognized if the carrying amount of an asset or the cash-generating unit exceeds its estimated recoverable amount and such losses 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.

3. Investments in associates and joint ventures

An investment in an associates and a joint venture is tested for impairment when objective evidence indicates there has been a decline in value.

Goodwill that constitutes part of the carrying amount of an investment in an associated company or joint venture is not recognized as a separate asset and, therefore, is not tested for impairment separately.

If objective evidence indicates that the value of the investment may have been impaired, the Group estimates the recoverable amount of the investment, which is the greater of its value in use and its net selling price. In assessing value in use of an investment in an associated company or joint venture, the Group either estimates its share of the present value of the estimated future cash flows that are expected to be generated by the associate or joint venture, including cash flows from operations of the associate or joint venture and the consideration from the final realization of the investment, or estimates the present value of the estimated future cash flows that are expected to be derived from dividends that will be received and from the final disposal.

Note 3 - Significant Accounting Policies (cont'd)

J. Employee Benefits

1. Post-employment benefits

The Group has a number of 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 either as defined contribution plans or as defined benefit plans.

a. Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Group 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.

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 as of the date of the report on high-quality, CPI-linked corporate debentures, which are denominated in NIS and the maturity dates of which approximate the terms of the Group's obligation. The calculations are performed by a licensed actuary using the "projected unit credit 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 (assets) includes actuarial gains and losses and the return on plan assets (excluding interest). Remeasurements are recognized immediately, directly in retained earnings through other comprehensive income.

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.

Note 3 - Significant Accounting Policies (cont'd)

J. Employee Benefits (cont'd)

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 these obligations is deducted therefrom. The discount rate is determined according to the yield as of the date of the report on high-quality, CPI-linked corporate debentures, which are denominated in NIS and the maturity dates of which approximate the terms of the Group's obligation. The calculations use the "projected unit credit method" 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 used is the yield on the reporting date on highly-rated corporate debentures denominated in the same currency, that have maturity dates approximating the terms of the Group's obligation.

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 benefits.

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.

Note 3 - Significant Accounting Policies (cont'd)

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.

The Group recognizes an indemnification asset if, and only if, it is virtually certain that the indemnification will be received if the Group settles the obligation. The amount recognized in respect of the indemnification does not exceed the amount of the provision.

Legal claims

A provision for claims is recognized if, as a result of a past event, the Group 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.

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.

In cases where the credit period granted by the group exceeds the accepted credit period in the industry, the Group recognizes the future consideration at its present value, calculated using the credit risk rate of the customer. The difference between the fair value and the stated value of the proceeds is recognized as interest income over the credit period.

The Group recognizes revenue when the significant risks and rewards from ownership of the products are transferred to the buyer, receipt of the proceeds is probable, it is possible to reliably estimate the future returns, the costs that were incurred or will be incurred for the transaction can be reliably estimated, management has no ongoing involvement in the products sold 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 products are loaded on the shipper's transport vehicles.

Note 3 - Significant Accounting Policies (cont'd)

L. Revenues (cont'd)

(2) Commissions

When the Group acts as an agent and not as a primary 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, changes in the fair value of financial assets presented at fair value through profit or loss and gains on hedging instruments recognized in profit or loss. Interest income is recognized as it is accrued, using the effective interest method.

Financing expenses include interest on loans received, changes in the time value of provisions, changes in the fair value of contingent considerations from a business combination, changes in the fair value of financial assets presented at fair value through profit or loss, impairment losses on 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.

Exchange rate gains and losses in respect of financial assets and liabilities are reported on a net basis.
Results of derivatives transactions which are not used for hedging are reported in net amounts.

N. Income Taxes 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 of the date of the report. Current taxes also include taxes in respect of prior years.

Offset of current tax assets and liabilities
The Group offsets current tax assets and liabilities if there is a legally enforceable right to offset current tax liabilities and assets, and intends either to settle the current tax liabilities and assets on a net basis or to realize the asset and settle the liability simultaneously.

Note 3 - Significant Accounting Policies (cont'd)

N. Income Taxes Expense (cont'd)

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 associates, 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.

The measurement of deferred taxes reflects the tax implications deriving from the way the group expects, at the end of the reporting period, to recover or settle the carrying value of assets and liabilities.

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 of the reporting date.

A deferred tax asset is recognized in respect of tax loss carryforwards, 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.

Deferred tax assets that were not recognized are reevaluated at each reporting date and recognized if it has become probable that future taxable profits will be available against which they can be utilized.

When calculating the deferred taxes, taxes that would have applied in the event of realizing investments in Subsidiaries were not taken into account since it is the Company's intention to hold these investments and not realize them.

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 taxable entities, 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 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 is not to distribute a dividend which creates an additional tax liability for the recipient company in the foreseeable future.

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 procuring company.

Note 3 - Significant Accounting Policies (cont'd)

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 rate 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.

Grants that compensate the Group for the cost of an asset **are presented as a deduction from the related assets** and are recognized in profit or loss on a systematic basis over the useful life of the asset.

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.

R. New standards

(A) IFRS 9 (2014), *Financial Instruments*

A final version of the standard, which includes revised guidance on the classification and measurement of financial instruments, and a new model for measuring impairment of financial assets. This guidance has been added to IFRS 9 issued in 2013.

Note 3 - Significant Accounting Policies (cont'd)

R. New standards (cont'd)

(A) IFRS 9 (2014), *Financial Instruments* (cont'd)

Classification and measurement
In accordance with the standard, there are three principal categories for measuring financial assets: amortized cost, fair value through profit and loss and fair value through other comprehensive income. The basis of classification for debt instruments is the entity's business model for managing financial assets and the contractual cash flow characteristics of the financial asset. Investments in equity instruments will be measured at fair value through profit and loss (unless the entity elected at initial recognition to present fair value changes in other comprehensive income).

The standard requires that changes in fair value of financial liabilities designated at fair value through profit or loss that are attributable to changes in its credit risk, should usually be recognized in other comprehensive income.

Hedge accounting – general
In accordance with the standard, additional hedging strategies that are used for risk management will qualify for hedge accounting. The standard replaces the present 80%-125% test for determining hedge effectiveness, with the requirement that there be an economic relationship between the hedged item and the hedging instrument, without stipulating a quantitative threshold. In addition, the standard introduces new models that are alternatives to hedge accounting as regards credit exposures and certain contracts outside the scope of the standard and sets new principles for accounting for hedging instruments. In addition, the standard provides new disclosure requirements.

Impairment of financial assets
The standard includes a new 'expected credit loss' model for calculating impairment. For most of the financial debt instruments, the new model presents a dual measurement approach for impairment: if the credit risk of a financial asset has not increased significantly since its initial recognition, an impairment provision will be recorded in the amount of the expected credit losses that result from default events that are possible within the twelve months after the reporting date. If the credit risk has increased significantly from the initial recognition of the financial asset, in most cases the impairment provision will increase and be recorded at the level of lifetime expected credit losses of the financial asset.

The standard is to be applied for annual periods beginning on January 1, 2018, with early adoption being permissible. The standard is to be applied retrospectively, except for certain exemptions.

The group reviewed the implications of implementing the standard and the group estimates that the standard implementation will have no material effect on the financial statements.

(B) IFRS 15, *Revenue from Contracts with Customers*

The standard replaces the current guidance regarding recognition of revenues and presents a new model for recognizing revenue from contracts with customers. The standard provides two approaches for recognizing revenue: at a point in time or over time. The model includes five steps for analyzing transactions so as to determine when to recognize revenue and at what amount. Furthermore, the standard provides new and more extensive disclosure requirements than those presently existing.

Note 3 - Significant Accounting Policies (cont'd)

R. New standards (cont'd)

(B) IFRS 15, *Revenue from Contracts with Customers* (cont'd)

The standard is to be applied for annual periods beginning on January 1, 2018, and earlier application is permissible. The standard includes various alternative transitional provisions, so that companies may choose between one of the following alternatives at initial application: full retrospective application, full retrospective application with practical expedients, or application as from the mandatory effective date, with an adjustment to the balance of retained earnings at that date in respect of transactions that are not yet complete.

The group reviewed the implications of implementing the standard and the group estimates that the standard implementation will have no material effect on the financial statements.

(C) IFRS 16 – *Leases*

The standard replaces International Accounting Standard 17 – Leases (IAS 17) and its related interpretations. The standard's instructions annul the existing requirement from lessees to classify leases as operating or finance leases. Instead of this, for lessees, the new standard presents a unified model for the accounting treatment of all leases according to which the lessee has to recognize an asset and liability in respect of the lease in its financial statements. Similarly, the standard determines new and expanded disclosure requirements from those required at present.

The standard will become effective for annual periods as of January 1, 2019, with the possibility of early adoption, so long as the company has also early adopted IFRS 15 – Revenue from contracts with customers. The standard includes a number of alternatives for the implementation of transitional provisions, so that companies can choose one of the following alternatives at the implementation date: full retrospective implementation or implementation from the effective date while adjusting the balance of retained earnings at that date.

The Group has not yet commenced examining the effects of adopting the amendments on the financial statements.

Note 4 - Trade Receivables

	December 31	
	2016	2015
	$ thousands	$ thousands
Foreign	**798,523**	792,669
Domestic (Israel)	**11,241**	10,296
	809,764	802,965
Less – provision for doubtful accounts	**(45,607)**	(31,147)
	764,157	771,818

	December 31	
	2016	2015
	$ thousands	$ thousands
Non-current trade receivables	**26,762**	20,089
Current trade receivables	**809,764**	802,965
Trade receivable as part of securitization transaction not yet eliminated	**30,156**	26,367
Less – provision for doubtful accounts	**(45,607)**	(31,147)
	821,075	818,274

A. In September 2004, the Company and certain of its subsidiaries entered into a securitization transaction with Rabobank International for sale of customer receivables (hereinafter – "the Securitization Program" and/or "the Securitization Transaction").

Pursuant to the Securitization Program, the companies will sell their customer receivables, in various different currencies, to a foreign company that was set up for this purpose and that is not owned by the Adama Agricultural Solutions Group (hereinafter – "the Acquiring Company"). Acquisition of the customer receivables by the Acquiring Company is financed by a U.S. company, Nieuw Amsterdam Receivables Corporation for the Rabobank International Group.

The customer receivables included as part of the Securitization Transaction are customer receivables that meet the criteria provided in the agreement.

Every year the credit facility is re-approved in accordance with the Securitization Program. As at the date of the report, the Securitization Agreement was approved up to July 31, 2017.

The maximum scope of the securitization is adjusted for the seasonal changes in the scope of the Company's activities, as follows: during the months April through June the maximum scope of the securitization is $350 million, during the months July through September the maximum scope of the securitization is $300 million and during the months October through March the maximum scope of the securitization is $250 million. The proceeds received from those customers whose debts were sold are used for acquisition of new customer receivables.

Note 4 - Trade Receivables (cont'd)

A. (cont'd)

The price at which the customer receivables are sold is the amount of the debt sold less a discount calculated based on, among other things, the expected length of the period between the date of sale of the customer receivable and its anticipated repayment date.

In the month following acquisition of the debt, the Company pays the Acquiring Company in cash most the price of the debt while the remainder is recorded as a subordinated liability that is paid after collection of the debt sold. If the customer does not pay its debt on the anticipated repayment date, the Company bears interest up to the earlier of the date on which the debt is actually repaid 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 Acquiring Company will not have a right of recourse to the Company in respect of the amounts paid in cash, except regarding debts with respect to which a commercial dispute arises between the companies and their customers, that is, a dispute the source of which is a claim of non-fulfillment of an obligation of the seller in the supply agreement covering the product, such as: a failure to supply the correct product, a defect in the product, delinquency in the supply date, and the like.

Pursuant to the Receivables Servicing Agreement, the Group companies handle collection of the customer receivables as part of the Securitization Transaction for the benefit of the Acquiring Company.

The loss from sale of the customer receivables is recorded at the time of sale in the statement of income in the "financing expenses" category.

As part of the agreement, the Company committed to comply with certain financial covenants, mainly the ratio of the liabilities to equity and profit ratios (see Note 20E).

Up to March 26, 2015, the companies bore the full amount of the losses incurred by the Acquiring Company as a result of non-payments of the customer receivables included as part of the Securitization Program, up to the amount of the total balance of the price of the unpaid debt. In addition, the Company undertook with an insurance company in an insurance policy for the benefit of the Acquiring Company insuring the customer receivables included in the Securitization Program.

On March 26, 2015, the Securitization Agreement was amended. The main changes are as follows:

– The Acquiring Company bears 90% of the credit risk in respect of the customers whose debts were sold.

– The Acquiring Company appointed a policy manager who will manage for it the credit risk involved with the customer receivables sold, including an undertaking with an insurance company.

– Increase of the proceeds received in cash in the month following the date of sale of the customer receivables.

Note 4 - Trade Receivables (cont'd)

A. (cont'd)

The accounting treatment of sale of the customer receivables included as part of the Securitization Program is: the Company continues to recognize the customer receivables included in the Securitization Program based on the extent of its continuing involvement therein.
Up to March 2015, the Acquiring Company is consolidated in the Group's financial statements since control over the Acquiring Company existed.
Commencing from March 2015, as a result of amendment of the Securitization Agreement, as described above, the Company ceased controlling the Acquiring Company, therefore is not consolidated in the company's financial statements since that date.
In respect of the part of the trade receivables included in the securitization Program with respect to which cash proceeds were not yet received, however regarding which the Company has transferred the credit risk, a subordinated note is recorded.

B. In the fourth quarter of 2016, a subsidiary in Brazil (hereinafter - "the subsidiary") entered into a 3 years securitization transaction with Rabobank Brazil for sale of customer receivables. Under the agreement, the subsidiary will sell its receivables to a securitization structure (hereinafter - "the entity") that was formed for this purpose where the subsidiary has subordinate rights of 5% of the entity's capital.

The maximum securitization scope amounts to BRL 200 million (as of December 31, 2016 - $61 million).

On the date of the sale of the customer receivables, the entity pays the full amount which is the debt amount sold net of discount calculated, among others, over the expected length of the period between the date of sale of the customer receivable and its anticipated repayment date.

The entity bears 90% of the credit risk in respect of the customers whose debts were sold such that the entity has the right of recourse of 10% of the unpaid amount. The subsidiary should make a pledged deposit equal to the amount the entity's right of recourse.

The subsidiary handles the collection of receivables included in the securitization for the entity.

The subsidiary does not control the entity and therefore the entity is not consolidated in the group's financial statements.

The subsidiary continues to recognize the customer receivables sold to the entity based on the extent of its continuing involvement therein (10% right of recourse) and also recognizes an associated liability in the same amount.

The loss from the sale of the customer receivables is recorded at the time of sale in the statement of income in the "financing expenses" category.

Note 5 - Financial and Other Assets, Including Derivatives*

	December 31	
	2016	**2015**
	$ thousands	**$ thousands**
Claims from the government in respect of participations and tax refunds	**55,457**	59,331
Receivables in respect of transactions in derivatives	**91,791**	78,790
Financial institutions	**10**	4,528
Advances to suppliers	**8,792**	23,200
Other	**7,689**	14,679
	163,739	180,528

* 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	
	2016	**2015**
	$ thousands	**$ thousands**
Finished goods and commercial inventory	**629,490**	735,768
Work in progress	**74,969**	81,317
Raw materials	**297,289**	296,748
Packaging materials	**13,449**	15,081
Spare parts and maintenance materials	**19,874**	20,144
	1,035,071	1,149,058
Additional information:		
Merchandise in transit (included in the inventories balance)	**17,209**	19,315

	December 31	
	2016	**2015**
	$ thousands	**$ thousands**
Non-current inventory	**16,900**	35,565
Current inventory	**1,035,071**	1,149,058
	1,051,971	1,184,623

The Group wrote-down inventory mainly due to slow moving and defective inventory and inventory for which the net realizable value is less than its cost. The balance of the write-down was $25 million and $29 million as of December 31, 2016 and 2015, respectively.

Note 7 - Other Financial Investments and Receivables

	December 31	
	2016	2015
	$ thousands	$ thousands
Long-term investments, loans and receivables	**24,294**	17,844
Non-current trade receivables	**26,762**	20,089
Receivables in respect of transactions in derivatives	**-**	6,860
Call option in respect of business combination transaction	**1,822**	3,249
	52,878	48,042
Less – current maturities	**7**	7
	52,871	48,035

Note 8 - Non-Financial Assets, including Non-Current Inventory

	December 31	
	2016	2015
	$ thousands	$ thousands
Non-current inventory	**16,900**	35,565
Non-financial assets	**1,526**	376
	18,426	35,941

Note 9 - Fixed Assets

A. Movement in the carrying amount:

	Land and buildings	Facilities and equipment	Motor vehicles	Furniture computers and office equipment	Total
			$ thousands		
Cost					
Balance as of January 1, 2016	**240,956**	**1,359,111**	**13,549**	**38,036**	**1,651,652**
Additions**	**17,060**	**60,521**	**1,758**	**3,760**	**83,099**
Disposals	**(167)**	**(20,830)**	**(1,685)**	**(641)**	**(23,323)**
Disposal of subsidiaries	**-**	**(164)**	**-**	**(52)**	**(216)**
Balance as of December 31, 2016	**257,849**	**1,398,638**	**13,622**	**41,103**	**1,711,212**
Accumulated depreciation					
Balance as of January 1, 2016*	**114,423**	**716,308**	**6,197**	**27,417**	**864,345**
Additions**	**6,266**	**52,551**	**2,179**	**3,921**	**64,917**
Disposals	**(154)**	**(20,781)**	**(1,287)**	**(615)**	**(22,837)**
Losses from impairment	**1,324**	**-**	**-**	**-**	**1,324**
Disposal of subsidiaries	**-**	**(63)**	**-**	**(24)**	**(87)**
Balance as of December 31, 2016	**121,859**	**748,015**	**7,089**	**30,699**	**907,662**
Depreciated value as of December 31, 2016	**135,990**	**650,623**	**6,533**	**10,404**	**803,550**

Note 9 - Fixed Assets (cont'd)

A. Movement in the carrying amount: (cont'd)

	Land and buildings	Facilities and equipment	Motor vehicles	Furniture computers and office equipment	Total
			$ thousands		
Cost					
Balance as of January 1, 2015	237,964	1,286,594	14,057	36,008	1,574,623
Additions**	3,059	74,076	2,117	2,575	81,827
Disposals	(67)	(629)	(2,625)	(545)	(3,866)
Disposal of subsidiaries	-	(930)	-	(2)	(932)
Balance as of December 31, 2015	240,956	1,359,111	13,549	38,036	1,651,652
Accumulated depreciation					
Balance as of January 1, 2015	107,998	669,730	6,171	24,268	808,167
Additions**	5,231	46,753	1,975	3,469	57,428
Disposals	(67)	(571)	(1,949)	(366)	(2,953)
Losses from impairment	1,261	600	-	48	1,909
Disposal of subsidiaries	-	(204)	-	(2)	(206)
Balance as of December 31, 2015*	114,423	716,308	6,197	27,417	864,345
Depreciated value as of December 31, 2015	126,533	642,803	7,352	10,619	787,307

* Including an impairment provision of $17.7 million, of which $15.5 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. The facilities of Adama Makhteshim are situated on lands in Naot Hovav (including structures, offices, facilities and warehouses) by virtue of lease agreements for various periods ending between the years 2023-2029 with a renewal option and on a land in Beer Sheva which is leased from the Israel Land Authority (ILA) on which a built area is erected thereon that includes structures, offices, facilities and warehouses. In addition, on the real estate complex in Beer Sheva a facility of Licored is situated, a subsidiary of the Company.

   The facilities of Adama Agan are located in Ashdod. A small portion of the land is owned by the company and the majority of which is leased from ILA for lease periods ending between the years 2050-2054.

   The land contains a built area that includes, inter alia, production facilities, warehouses, storage areas, engineering services, technical equipment, offices and laboratories. In addition, Adama leases from various lessors, who are third parties not related to the Company, spaces adjacent to the plant area, for the purposes of parking and storage in return for immaterial amounts. In April 2006, the Company entered into an agreement with the City of Ashdod, for a total period of 24 years subject to receiving the required regulatory approvals, under which the Company may use certain area for the purpose of the establishment and operation of a sewage treatment plant. The Company pays usage fees each year for using the land.

   Facilities of Investees companies outside of Israel are located on land which is partly owned and partly leased.

2. Regarding liens – see Note 20.

C. Collateral

As of December 31, 2016, fixed asset items totalling $1,124 thousand (2015 – $1,975 thousand) are pledged to secure bank loans.

D. Purchase of fixed assets on credit

The Group's credit due to purchases of fixed assets as of December 31, 2016 is $5,654 thousand.

Note 9 - Fixed Assets (cont'd)

E. Investment grants

Investment grants received for the purchase of fixed assets

	Balance as of December 31	
	2016	2015
	$ thousands	$ thousands
Buildings and equipment in the Group's plants	**115,459**	114,023

The investment grants that were 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. In order to ensure compliance with the grant conditions, a floating lien was recorded on the assets of the subsidiaries in Israel in favor of the State of Israel. For some of the investments, if the Group does not comply with the conditions for receipt of the grant, it will have to refund the amount of the grants, fully or partially, plus interest and linkage difference as per law.

F. Additional Information

The Group has fully-depreciated assets that are still in use. The cost of these assets as of December 31, 2016 is $320,495 thousand (December 31, 2015 – $308,621 thousand).

Part of the land in Israel has not yet been registered in the name of the Group companies at the Land Registry Office, mostly due to registration procedures or technical problems.

Note 10 - Intangible Assets

	Product registration	Goodwill	Intangible assets on purchase of products(*)	Software	Marketing rights and trademarks	Other	Total
	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands
Cost							
Balance as of January 1, 2016	**930,512**	**228,225**	**314,592**	**68,370**	**60,578**	**49,252**	**1,651,529**
Additions (**)	**99,022**	**5,351**	**-**	**9,424**	**(187)**	**962**	**114,572**
Disposals	**(2,791)**	**-**	**-**	**(1,687)**	**-**	**(6,164)**	**(10,642)**
Disposal of subsidiaries	**-**	**-**	**-**	**-**	**-**	**(260)**	**(260)**
Balance as of December 31, 2016	**1,026,743**	**233,576**	**314,592**	**76,107**	**60,391**	**43,790**	**1,755,199**
Accumulated amortization							
Balance as of January 1, 2016	**569,117**	**46,002**	**224,207**	**42,606**	**51,463**	**30,685**	**964,080**
Additions (**)	**80,990**	**216**	**13,937**	**7,507**	**1,873**	**2,645**	**107,168**
Disposals	**(2,791)**	**-**	**-**	**(1,553)**	**-**	**(6,164)**	**(10,508)**
Loss from impairment	**2,031**	**-**	**-**	**-**	**-**	**-**	**2,031**
Balance as of December 31, 2016	**649,347**	**46,218**	**238,144**	**48,560**	**53,336**	**27,166**	**1,062,771**
Amortized balance as of December 31, 2016	**377,396**	**187,358**	**76,448**	**27,547**	**7,055**	**16,624**	**692,428**

(*) 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.

(**) Including effect of foreign currency translation differences in respect of foreign operations.

Note 10 - Intangible Assets (cont'd)

	Product registration	Goodwill	Intangible assets on purchase of products(*)	Software	Marketing rights and trademarks	Other	Total
	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands
Cost							
Balance as of January 1, 2015	879,418	236,253	320,141	60,718	67,761	44,923	1,609,214
Additions (**)	83,005	(8,028)	-	8,389	(223)	4,338	87,481
Disposals	(30,993)	-	(5,549)	(737)	(6,960)	(4)	(44,243)
Disposal of subsidiaries	(918)	-	-	-	-	(5)	(923)
Balance as of December 31, 2015	930,512	228,225	314,592	68,370	60,578	49,252	1,651,529
Accumulated amortization							
Balance as of January 1, 2015	521,519	47,483	215,604	37,083	56,511	27,123	905,323
Additions (**)	76,631	(1,481)	14,152	6,234	1,912	3,566	101,014
Disposals	(30,130)	-	(5,549)	(711)	(6,960)	(4)	(43,354)
Loss from impairment	1,175	-	-	-	-	-	1,175
Disposal of subsidiaries	(78)	-	-	-	-	-	(78)
Balance as of December 31, 2015	569,117	46,002	224,207	42,606	51,463	30,685	964,080
Amortized balance as of December 31, 2015	361,395	182,223	90,385	25,764	9,115	18,567	687,449

(*) 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.

(**) Including effect of foreign currency translation differences in respect of foreign operations.

Note 11 - Loans and Credit from Banks and Other Lenders

A. Composition

	December 31 2016	December 31 2015
	$ thousands	$ thousands
Credit from banks		
Overdrafts	**3,861**	15,225
Short-term credit	**103,990**	103,725
	107,851	118,950
Current maturities – other	**106**	109
Current maturities of long-term loans from banks	**70,204**	103,741
	178,161	222,800

B. Regarding financial covenants – see Note 20C.

Note 12 - Trade Payables

	December 31 2016	December 31 2015
	$ thousands	$ thousands
Open accounts	**478,732**	511,534
Post-dated checks	**42,007**	42,823
	520,739	554,357

Note 13 - Other Payables

	December 31 2016	December 31 2015
	$ thousands	$ thousands
Liabilities to employees and other liabilities in respect of salaries and wages	**139,121**	103,333
Government institutions	**22,920**	11,819
Payables in respect of transactions in derivatives	**113,163**	125,640
Financial institutions	**15,809**	13,078
Accrued expenses	**73,158**	77,904
Payables in respect of intangibles assets	**29,017**	11,757
Payables in respect of business combination	**-**	8,237
Liabilities for discounts	**69,421**	61,004
Provisions for legal claims	**6,448**	12,930
Accrued interest expenses	**10,582**	10,492
Liability in respect of investment in equity-accounted investee company*	**21,799**	-
Dividend payable	**21,742**	-
Other	**47,593**	33,098
	570,773	469,292

* For further details, see Note 19A(8).

Note 14 - Long-Term Loans from Banks

A. Composition

	December 31 2016	December 31 2015
	$ thousands	$ thousands
Loans from banks	**186,333**	277,449
Less – current maturities	**70,204**	103,741
	116,129	173,708

B. 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 with a par value of NIS 12.5 million were de-listed from trading.

On March 25, 2009, the Company issued debentures by 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 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 7, 2013, the Company issued debentures by expanding Series B, in the total amount of NIS 600 million par value debentures for a consideration of 94.88% of their par value.

On February 9, 2014, the Company issued debentures by expanding Series D, in the total amount of NIS 487.8 million par value debentures for a consideration of 106.74% of their par value.

On February 1, 2015, the Company issued 533,330 units composed of NIS 533.3 million par value debentures (Series B), which were issued by means of an expansion of the Series, in exchange for 103.59% of their par value and 2,667 non-marketable options. Each option is exercisable for NIS 100 par value debentures (Series B) in exchange for a consideration of NIS 127. In the first and second quarters of 2015, all of the warrants were exercised.

Note 15 - Debentures (cont'd)

The debentures issued are broken down into three series, as follows:

1. Series B debentures, in the amount of NIS 3,563.5 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 costs for this series amounted to $4,144 thousand.

2. Series C debentures, 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 repaid in 4 equal payments in the years 2010 through 2013. The issuance costs for this series amounted to $1,591 thousand.

3. Series D debentures, in the amount of NIS 1,735.4 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 2011 through 2016. The debenture principal of the series issued in 2012 is to be repaid in 5 equal payments in the years 2012 through 2016 and the debenture principal of the series issued in 2014 is to be repaid in 3 equal payments in the years 2014 through 2016. The issuance costs for this series amounted to $2,775 thousand.

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, 2011 through 2016, the Company repaid a total of NIS 1,735.4 million par value debentures Series D, which amounted to about $455.5 million, as payment of the debenture principal of Series D. The principal payment made on November 30, 2016, was the final payment where as a result thereof the principal was repaid in full.

A. Linkage base and interest rates:

	Linkage terms	Interest rate as of balance sheet date %	Par value NIS thousands	Total $ thousands
Debentures – Series B	CPI	5.15	3,483,117	1,069,253
Total			3,483,117	1,069,253

B. Repayment dates:

	$ thousands
First year (current maturities)	-
Second year	-
Third year	-
Fourth year	62,897
Fifth year and thereafter	1,006,356
	1,069,253

Note 16 - Other Long-Term Liabilities

	December 31 2016	December 31 2015
	$ thousands	$ thousands
Liabilities in respect of claims	**2,427**	2,267
Long-term transactions in derivatives	**100**	4,107
Liability in respect of business combinations	**1,244**	1,991
Liability in respect of payments to the Chief Scientist	**727**	1,590
Other provisions and liabilities	**22,739**	19,278
	27,237	29,233

Note 17 - Income Taxes

Details regarding the tax environment of the Group

A. Corporate Tax Rates

(1) Set forth below are the tax rates in Israel relevant to the Company for 2014–2016:
2016 – 25%
2015 – 26.5%
2014 – 26.5%

On January 4, 2016, the Knesset plenum passed the Law for amending the Income Tax Ordinance (Number 216) - 2016 which determined, inter alia, that the corporate tax rate would be reduced by 1.5% to a rate of 25% as from 2016 onwards.

(2) On December 29, 2016 the Economic Efficiency Law (Legislative Amendments to Achieve Budget Targets in 2017 and 2018), -2016 was published in the official gazette under which tax changes were legislated as follows:

(a) The corporate tax rate will be reduced from 25% to 24% in 2017 on revenue generated or earned from January 1, 2017 and will continue to be reduced to 23% in 2018 and thereafter on revenue generated or earned from January 1, 2018.

(b) The amendment to the Encouragement of Capital Investments, which among other things, includes the reduction of the corporate tax rate for each company with a preferred enterprise on its revenues from preferred enterprise to 7.5% instead of 9% in Development Area A as from 1 January 2017.

Note 17 - Income Taxes (cont'd)

Details regarding the tax environment of the Group (cont'd)

A. Corporate Tax Rates (cont'd)

(3) In January 12, 2012 Amendment 188 to the Income Tax Ordinance (New Version) - 1961 (hereinafter - "the Ordinance") was published in the Official Gazette. The amendment amended Section 87A to the Ordinance, and 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 tax years 2010-2011 even if this standard was applied when preparing the financial statements (hereinafter - "the Temporary Order"). On July 31, 2014 Amendment 202 to the Ordinance was issued, by which the Temporary Order was extended to the 2012 and 2013 tax years. Taxable income for the years 2014-2016,was also calculated by the Temporary Order above.

(4) 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

Industrial enterprises of companies in Israel were 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 industrial enterprises 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 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 2011-2012, which includes an amendment to the Law for the Encouragement of Capital Investments – 1959 (hereinafter – "the Amendment"). The Amendment is effective from January 1, 2011 and its provisions apply to preferred income derived or accrued in 2011 and thereafter by a preferred company, per the definition of these terms in the Amendment. Companies can choose not to be included in the scope of the amendment to the Encouragement Law and to stay in the scope of the law before its amendment until the end of the benefits period of its approved/beneficiary enterprise.

Note 17 - Income Taxes (cont'd)

C. Amendment to the Law for the Encouragement of Capital Investments, 1959 (cont'd)

The Amendment provides that only companies in Development Area A will be entitled to the grants track and that they will be entitled to receive benefits under this track and under the tax benefits track at the same time. In addition, the existing tax benefit tracks were eliminated (the tax exempt track, the “Ireland” track and the “Strategic” track) and two new tax tracks were introduced in their place, a preferred enterprise and a special preferred enterprise, which mainly provide a uniform and reduced tax rate for all the company’s income entitled to benefits. On August 5, 2013 the Knesset passed the Law for Changes in National Priorities (Legislative Amendments for Achieving Budget Objectives in the Years 2013 and 2014) – 2013, which raised the tax rates on preferred income as from the 2014 tax year as follows: 9% for Development Area A and 16% for the rest of the country (compared with 7% for Development Area A and 12.5% for the rest of the country in 2013). Furthermore, an enterprise that meets the definition of a special preferred enterprise is entitled to benefits for a period of 10 consecutive years and a reduced tax rate of 5% in Development Area A and of 8% in the rest of the country.

The amendment further determined that no tax shall apply to dividend distributed out of preferred income to shareholder who is Israel resident company. On dividend distributed out of preferred income to a single shareholder or a foreign resident subject to double taxation treaties, tax of 20% shall apply.

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 Adama Makhteshim) and amortization of know-how over 8 years.

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 stated above. Deferred taxes for subsidiaries operating outside of Israel were calculated according to the relevant tax rates in each country.

Note 17 - Income Taxes (cont'd)

E. Deferred tax assets and liabilities (cont'd)

(1) Deferred tax assets and liabilities recognized

The movement in deferred tax assets and liabilities is 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, 2015	(77,241)	12,339	40,331	56,671	30,828	62,928
Changes recognized in the statement of income	(3,997)	712	(3,742)	1,706	(5,477)	(10,798)
Changes recognized in other comprehensive income	219	(415)	(14)	-	681	471
Deferred tax asset (liability) balance as at January 1, 2016	(81,029)	12,636	36,575	58,377	26,032	52,601
Changes recognized in the statement of income	**(14)**	**1,967**	**7,723**	**(262)**	**13,470**	**22,884**
Changes recognized in other comprehensive income	**413**	**59**	**(97)**	**(12)**	**160**	**523**
Deferred tax asset (liability) balance as at December 31, 2016	**(80,620)**	**14,662**	**44,201**	**58,103**	**39,662**	**76,008**

	December 31 2016	December 31 2015
	$ thousands	$ thousands
Presented in:		
Deferred tax assets	**87,226**	75,196
Deferred tax liabilities	**(11,218)**	(22,595)
Total	**76,008**	52,601

Note 17 - Income Taxes (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 carryforwards is mainly from a subsidiary in Brazil and subsidiaries in Israel. Deferred tax assets were recognized as management considered it probable that future taxable profits will be available against which they can be utilized or in the amount of the deferred tax liabilities.

According to the existing tax laws in the countries in which deferred taxes were recognized, generally, the utilization period of deductible temporary differences and tax losses carryforward does not expire. However, Brazil does limit the amount of tax loss carryforwards 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 established 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) Unrecognized deferred tax assets

Deferred tax assets have not been recognized in respect of the following items:

	December 31 2016	December 31 2015
	$ thousands	$ thousands
Tax losses	**185,006**	242,373

Deferred tax assets have not been recognized in respect of these items, since it is not probable that foreseeable future taxable profit will be available against which the Group can use the benefits therefrom.

F. Components of income taxes expenses (income)

	For the year ended December 31		
	2016	2015	2014
	$ thousands	$ thousands	$ thousands
Current tax expenses (income)			
Current year	**45,581**	34,381	48,250
Adjustments for previous years, net	**(177)**	4,083	(1,564)
	45,404	38,464	46,686
Deferred tax expenses (income)			
Creation and reversal of temporary differences	**(21,349)**	9,982	216
Change in the tax rate	**(1,535)**	816	–
	(22,884)	10,798	216
Total income taxes expenses	**22,520**	49,262	46,902

Note 17 - Income Taxes (cont'd)

G. Reconciliation between the theoretical tax and the tax expense

Following is reconciliation between the theoretical tax and the tax expense included in the statement of income:

	For the year ended December 31		
	2016	2015	2014
	$ thousands	$ thousands	$ thousands
Profit before taxes on income	**187,190**	159,037	192,917
Company's main tax rate	**25%**	26.5%	26.5%
Tax calculated according to the main tax rate	**46,798**	42,145	51,123
Tax benefits from Approved Enterprises	**(8,362)**	(4,278)	(1,668)
Difference between measurement basis of income for financial statement and for tax purposes	**(7,490)**	26,925	11,663
Taxable income and temporary differences at other tax rates	**(11,577)**	(26,569)	(19,949)
Taxes in respect of prior years	**(177)**	4,083	(1,564)
Temporary differences and losses in the report year for which deferred taxes were not created	**1,155**	5,009	7,545
Utilization of tax losses from prior years for which deferred taxes were not created	**(1,611)**	(2,484)	(1,904)
Creation of deferred taxes for tax losses from previous years for which deferred taxes were not created in the past	**(9,549)**	(1,228)	(5,525)
Non-deductible expenses and other differences	**9,754**	4,569	5,621
Neutralization of tax calculated in respect of the Company's share in results of equity accounted investees	**4,125**	274	1,560
Effect of change in tax rate in respect of deferred taxes	**(1,535)**	816	–
Reversal of tax asset created in previous years for loss carryforwards	**989**	–	–
	22,520	49,262	46,902
Effective tax rate	**12.03%**	30.98%	24.31%

H. Income taxes in respect of other comprehensive income

	For the year ended December 31								
	2016			2015			2014		
	Before tax	Tax benefit (expense)	Net of tax	Before tax	Tax benefit (expense)	Net of tax	Before tax	Tax expense	Net of tax
	$ thousands								
Effective portion of changes in fair value of cash flow hedges	**14,310**	**(1,244)**	**13,066**	58,521	(6,254)	52,267	56,426	(1,500)	54,926
Net changes in fair value of cash flow hedges transferred to the statement of income	**(14,237)**	**1,783**	**(12,454)**	(70,060)	6,360	(63,700)	14,356	(1,523)	12,833
Re-measurement of defined benefit plan	**84**	**52**	**136**	3,404	(436)	2,968	935	(53)	882
Total	**157**	**591**	**748**	(8,135)	(330)	(8,465)	71,717	(3,076)	68,641

Note 17 - Taxes on Income (cont'd)

I. Final tax assessments

Final tax assessments - Adama Agan, Adama Makhteshim, Lycored and the Company up to and including the year ended 2011.

J. Losses and deductions available for carryforward to future years

The amount of the carryforward of unused tax losses at the balance sheet date is $530 million.

The Group has created a deferred tax asset of approximately $44 million for carryforward of unused tax losses, based on management's assessment that it is probable that these losses will be realized in future years.

K. Additional Information

Tax demands were filed against the Company in a total amount of $4 million which has not provided a provision in the financial statements since the group companies estimates that their chances to be accepted are lower than the chances to be rejected.

Note 18 - Employee Benefits

Employee benefits include post-employment benefits, other long-term benefits, short-term benefits, termination benefits and share-based payments. Likewise, the Company has a defined contribution plan for some of its employees, which is subject to Section 14 of the Israeli Severance Pay Law, 1963.

Severance pay and retirement grants in Israel

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 managed or controlled by 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, calculated on the basis of their most recent salary. In cases that the amounts accumulated in the pension fund are not sufficient to cover the calculated severance benefits, the companies will cover the deficit.

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 (General Organization of Workers in Israel) and with the workers' councils of the subsidiaries in Israel during 2010 – see Note 19A(10).

Employee Benefits

	December 31, 2016	December 31, 2015
	$ thousands	$ thousands
Present value of unfunded obligations	**25,195**	23,757
Present value of funded obligations	**39,545**	36,658
Total present value of obligations	**64,740**	60,415
Less – fair value of plan's assets	**(18,885)**	(16,794)
Total recognized liability for defined benefit plan, net	**45,855**	43,621
Liability in respect of early retirement	**24,677**	32,271
Liability for other short-term benefits	**20,343**	19,734
Liability for other long-term benefits	**24,990**	16,758
Total employee benefits, net	**115,865**	112,384
Presented in the following items:		
Other payables	**42,193**	41,832
Long-term employees benefits	**73,672**	70,552
	115,865	112,384

The liability for salaries, accompanying benefits and bonuses are included in the "other payables" category.

Note 18 - Employee Benefits (cont'd)

Post-employment benefit plans – defined benefit plan

(1) Movement in the net liability and assets, net in respect of defined benefit plans and their components

	Defined benefit obligation		Fair value of plan assets		Total	
	2016	2015	2016	2015	2016	2015
	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands
Balance as of January 1	**60,415**	64,789	**16,794**	18,408	**43,621**	46,381
Expense/income recognized in profit and loss:						
Current service cost	**3,996**	3,308	**-**	-	**3,996**	3,308
Interest costs	**2,180**	2,215	**587**	607	**1,593**	1,608
Changes in exchange rates and others	**325**	(1,078)	**24**	(575)	**301**	(503)
Included in other comprehensive income:						
Actuarial losses from changes in the demographic assumptions	**(451)**	(469)	**-**	-	**(451)**	(469)
Actuarial gains (losses) from changes in the financial assumptions	**978**	(3,614)	**-**	-	**978**	(3,614)
Other actuarial gains (losses)	**272**	(243)	**1,209**	(663)	**(937)**	420
Actual return less interest income	**(53)**	(50)	**(379)**	(309)	**326**	259
Foreign currency translation differences in respect of foreign operations	**(83)**	(44)	**(7)**	-	**(76)**	(44)
Additional movements:						
Benefits paid	**(2,839)**	(4,214)	**(1,588)**	(2,008)	**(1,251)**	(2,206)
Contributions paid by the Group	**-**	-	**2,245**	1,334	**(2,245)**	(1,334)
Classification of short-term employee benefits	**-**	(185)	**-**	-	**-**	(185)
Balance as of December 31	**64,740**	60,415	**18,885**	16,794	**45,855**	43,621

Note 18 - Employee Benefits (cont'd)

(2) Actuarial assumptions and sensitivity analysis

The principal actuarial assumptions at the reporting date (weighted average)

	2016	2015	2014
	%	%	%
Discount rate on December 31	**1.6**	1.7	1.4

The assumptions regarding the future mortality rate are based on published statistical data and acceptable mortality rates.

Possible reasonable changes as of the date of the report in the discount rate assuming the other assumptions remain unchanged, would have affected the defined benefit obligation as follows:

	As of December 31, 2016	
	Increase of 1%	Decrease of 1%
	$ thousands	$ thousands
Discount rate	**(6,208)**	**7,496**

(3) Impact of the plan on the Group’s future cash flows

The Group expects $1,011 thousand to be paid to the funded defined benefit plan in 2017.

(4) Post-employment benefit plans – defined contribution plans

	For the year ended December 31		
	2016	2015	2014
	$ thousands	$ thousands	$ thousands
Amount recognized as an expense in respect of defined contribution plan	**3,583**	3,093	3,237

Note 19 - Commitments and Contingent Liabilities

A. Commitments

1. On December 30, 2015, the Company's general meeting of shareholders resolved (after obtaining the approval of the board of directors from December 30, 2015 and the approval of the Remuneration Committee and the Audit Committee from December 29, 2015) to approve as a framework decision, the Company’s engagement in annual directors and officers liability insurance policies for directors and officers, under which the liability of directors and officers of the Company and its subsidiaries in Israel and abroad, as may be from time to time will be insured, including directors and officers who are controlling shareholders of the Company (hereinafter - "Insurance Policies") provided that said agreements meet the conditions set forth in the framework decision. The Insurance Policies will be for several insurance periods which shall not exceed five (5) years cumulatively (i.e. for five annual insurance periods the last of which to end on December 31, 2020).

Note 19 - Commitments and Contingent Liabilities (cont'd)

A. Commitments (cont'd)

1. (cont'd)

The liability of directors and officers of the Company and its subsidiaries (including officers who might be considered as controlling shareholders) is covered by an insurance policy, of which the liability limit is $100 million for each insurance occurrence and for the insurance period plus reasonable legal defense expenses in accordance with the terms of the policy. On December 1, 2016, the Company entered into an insurance policy agreement with Clal Insurance Company Ltd. for the period ending on November 30, 2017 in accordance with the terms of the framework decision as specified above and according to the Company's remuneration policy.

2. On October 8, 2007, the General Meeting of the shareholders of the Company approved a commitment to indemnify in advance officers by granting letters of indemnity to Company officers (including officers who might be considered controlling shareholders). Simultaneously, 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 it includes provisions designed to accommodate the letters of indemnity to the amendments made to the legislation regarding exemption, indemnity and insurance of officers and to the provisions of the Efficiency in Enforcement Processes in the Securities Authority (Legislative Amendments), 2011 (hereinafter - "Amendment of Letters of Indemnity"). Further to the resolution of the Company's Board of Directors, on November 17, 2011 the Company's General Meeting approved the Amendment of Letters of Indemnity that were issued and will be issued to directors.

On August 10, 2015 the Company's general meeting of shareholders, after obtaining the approval of the board of directors dated August 10, 2015 and the approval of the Remuneration Committee from August 6, 2015, approved a commitment to exempt officers and directors serving in the Company and to officers and directors who will serve on the Company from time to time. The conditions of the commitment for exemption are identical for all officers and directors of the Company and in accordance with the provisions of the Companies Law, 1999 (hereinafter - the "Companies Law"), the Company's articles of association and its remuneration policy.

3. Regarding undertakings of the Company and its subsidiaries as part of a securitization agreement – see Note 4.

4. Regarding undertakings with interested parties – see Note 28.

Note 19 - Commitments and Contingent Liabilities (cont'd)

A. Commitments (cont'd)

5. In July 2006, Adama Agan entered into an agreement with Ashdod Energy Ltd. (hereinafter – "Ashdod Energy"), which was amended from time to time, for the construction and operation of a power plant for the production of electricity and steam, based on the use of natural gas.
As of the report date the construction of the power plant has been completed and it is operating. According to the agreement, Ashdod Energy will supply electricity and steam to Adama Agan for a period of 24 years and 11 months from the date of financial closing or until the end of the rental period of the adjacent real estate (as defined in the agreement), whichever is earlier and in any case for a period that will not end before 24 years and 11 months from October 10, 2010.

6. In May 2007, Adama Makhteshim entered into an agreement with Ramat Hanegev Energy Ltd. (hereinafter – "Negev Energy"), a third party that is not related to the Company, which was amended from time to time, for the construction, operation, own and delivery of a power plant for the production of electricity and steam, based on the use of natural gas in Naot Hovav (hereinafter - "the Agreement"). As of the report date, the construction of the power plant has been completed and it is operating.

   Pursuant to the Agreement, Negev Energy will supply electricity, steam, gas emissions for creation of carbon dioxide, soft water, distilled water and compressed air to Adama Makhteshim's facilities in Naot Hovav for a period of 24 years and 11 months from the date of which the area was made available to Negev Energy and thereafter, the power plant will be transferred to Adama Makhteshim's ownership.

7. In November 2013, 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 approximately $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 in decision making and protecting the subsidiary's interests in Sanonda, which provides the subsidiary significant influence over Sanonda.

   For details regarding the approval of an agreement for the sale of Sanonda Class B shares which are held by the Company to Sanonda, subject to the completion of Sanonda Combination Transaction, see Note 19A(9) below.

8. The fourth quarter includes losses of $ 17.8 million for impairment of production facility in Negev Aroma (Naot Hovav) Ltd. (hereinafter - "Negev Aroma"), a joint venture accounted for using the equity method due to the group's obligation to support Negev Aroma and provision in the group's books for loan granted in the past to Negev Aroma.
The losses were included in the categories: share of income (losses) of equity-accounted investee companies and financing expenses.

Note 19 - Commitments and Contingent Liabilities (cont'd)

A. Commitments (cont'd)

9. On October 1, 2014, an agreement was signed pursuant to which the Company entered into an undertaking with CNAC whereby on the completion date of the transaction and subject to fulfillment of its contingent terms, including the receipt of the required governmental approvals and all of the approvals required from third parties the Company will acquire from CNAC several companies it owns (hereinafter– "the Companies in China" and "the Purchase Agreement").

   Pursuant to the provisions of the Purchase Agreement and since the transaction was not completed by March 31, 2015, the Company and CNAC are examining various possibilities with respect to execution of the business combination between the Company and the Companies in China, this being either by means of completion of the transaction, by necessary changes, or in other ways including by way of a transaction according to which Sanonda will acquire from CNAC the entire share capital of the Company, in return therefor issuing and assigning new shares in Sanonda to CNAC (hereinafter - "the Sanonda Combination Transaction") such that the Company shall become a wholly owned subsidiary of Sanonda, with control remaining with CNAC.

   In this regard it is further noted that on February 4, 2016, the Company's Audit committee, Board of Directors and shareholders approved the Company entering into an agreement for the sale of the Class B shares of Sanonda held by the Company (hereinafter - the "B Shares") for HKD 7.70 per share and in total HKD 485 million (approximately US $ 63 million) for all B shares, subject to the approval of the general meeting of Sanonda and the completion of the Sanonda Combination Transaction.

10. On October 31, 2010, the Company announced that it reached agreements with the new Histadrut and the workers committees of the subsidiaries in Israel, Adama Makhteshim and Adama Agan, whereby the labor disputes declared with respect to the subsidiaries' plants will come to an end.

    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

    (2) An 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.

Note 19 - Commitments and Contingent Liabilities (cont'd)

A. Commitments (cont'd)

10. (cont'd)

(3) A special fund will be established to assist the employees and those retiring voluntarily.

The employees' representatives committed not to cause any work disruptions due to 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 Adama 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.

During 2015, in addition to provisions recorded in previous years, the Company recorded a provision in an amount of $12 million reported in other expenses.

B. Contingent liabilities

1. In accordance with the Israeli Law for the Encouragement of Capital Investments, 1959, Company's 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.

2. In accordance with the Israeli Law for the Encouragement Development and Technological Innovation 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 $1.5 million.

Note 19 - Commitments and Contingent Liabilities (cont'd)

C. Environmental protection

1. The manufacturing processes of the Company, and the products it 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 balance sheet date, none of its applicable permits and licenses with respect to environmental issues have 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.
2. The Company's Israel plants conduct various soil surveys, risk surveys and tests regarding the treatment of soil or ground water at the plants, according to the instructions of the Ministry of Environmental Protection and the Water Authority.

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, similar to other companies operating in the market of products for plant protection 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. 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.

Various immaterial 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's management, based on its legal advisors, the chances of them succeeding is lower than the chances they will be rejected, amounts to approximately $7.2 million. 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 deductible requirement or the amount thereof does not exceed the deductible amount.

Note 20 - Liens and Financial Covenants

A. Liabilities to banks secured by liens:

The Company and its subsidiaries have made commitments to banks not to register liens on their assets in favor of other parties, except for specific liens in the amount of about $1.1 million, for securing liabilities in the amount of about $320 thousand, to 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 Paragraph B. below, and except for liens within the scope of the securitization agreement – see 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.

Note 20 - Liens and Financial Covenants (cont'd)

C. (1) The main financial covenants included in the financing agreements as of December 31, 2016, are as follows:

(a) The ratio of the interest-bearing financial liabilities (net debt) to the Company's equity shall not exceed 1.25. As of December 31, 2016 the ratio was 0.5.

(b) The ratio of the interest-bearing financial liabilities (net debt) to earnings before financing expenses, taxes, depreciation and amortization (EBITDA) for 12 months shall not exceed a ratio 4. As of December 31, 2016, the ratio of the Company's interest-bearing financial liabilities (net debt) to the EBITDA for 12 months was 1.7.

(c) The Company's equity will not be less than $1.22 billion. As of December 31, 2016, the Company's equity amounted to $1,654 million.

(d) The financing documents of one of the banks further require that the retained earnings, according to the financial statements on every date, shall not be less than $700 million. As of December 31, 2016, the retained earnings were $1,227 million.

D. (1) 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.

(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 Adama Makhteshim and Adama 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.

E. The securitization agreement of trade receivables of the Company and its subsidiaries (as described in Note 4A) include the Company's commitment to maintain financial ratios, of which the key commitments are below:

(1) The ratio between the Company's interest bearing financial liabilities (net debt) and its equity will not exceed 1.25. As of December 31, 2016, the ratio was 0.5.

(2) The ratio between the Company's interest bearing financial liabilities (net debt) and the EBITDA for 12 months will not exceed 4. As of December 31, 2016, this ratio was 1.7.

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.

Note 20 - Liens and Financial Covenants (cont'd)

E. (cont'd)

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, 2016, the Company was in compliance with the financial covenants prescribed by the financing banks under the terms of the financing documents and the securitization agreement, 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	
	2016	**2015**
Share capital issued and paid-up at December 31, in thousands of shares of NIS 3.12 par value	**137,991**	137,991
Authorized share capital, in thousands of shares	**300,000**	300,000

The holders of the ordinary shares have the right to receive dividends as they will be declared from time to time and the right to vote at the Company's General Meetings, based one vote per share.

On November 9, 2014, the Company's Board of Directors and the Company's shareholders approved a reverse split of the Company's ordinary share capital, in a ratio of 3.12:1 (*i.e.,* each 3.12 ordinary shares of the Company will become 1 ordinary share of NIS 3.12 par value of the Company), effective as of the date of the Board Resolution.

Accordingly all ordinary shares and share-based payments parameters have been adjusted retroactively for all periods presented in these financial statements.

In addition, the Company's Board of Directors and the Company's shareholders approved an increase in the Company's authorized share capital to 300,000,000 shares of NIS 3.12 par value each, effective from the approval date of the Board of Directors.

B. Translation reserve of foreign operations

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

C. Hedging reserve

The hedging reserve comprises the effective portion of the net cumulative change in the fair value of cash flow hedging instruments that relate to hedged transactions that have not yet occurred.

Note 21 – Equity (cont'd)

D. Share-based payments

During 2014, after the required approvals by the Company's Remuneration Committee and Board of Directors, the Company issued 12,471,721 options to Group officers and employees, in accordance with the Company's options plan (hereinafter – "the Plan").

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.

3.12 options may be exercised for one share of NIS 3.12 par value.

The fair value of the options granted, as stated above, was estimated using a binomial model for pricing options.

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 approximately $28.7 million. The cost benefit in respect of share based payments recognized in the statement of income over the vesting period of each portion, subject to compliance with the expected performance of the program.

The total payroll expenses for share-based payment that were recorded as payroll expenses in 2015 amounted to approximately $9 million and in 2014 amounted to approximately $8 million.

In view of the progress of the Combination Transaction with Sanonda as described in Note 19a(9), as of the balance sheet date, the listing for trading of the Company's shares which constitutes a performance condition that is not a market condition under the Company's option plan, is not expected.
As a result, during the fourth quarter of 2016 the expenses recorded in regards with the plan commencing from 2014 were reversed. The total effect of this reversal is approximately $17 million. In parallel, due to certain provisions of the plan, a liability for compensation to the plan's grantees was created which the Company estimate in the total amount of approximately $12 million. Due to this liability an expense was recorded in the fourth quarter of 2016.
After the balance sheet date, the compensation to the grantees in lieu of the options, was approved by the Board of Directors, subject to the completion of the Sanonda Combination Transaction.

E. Buy-Back of Shares

Under the conditions precedent for the closing of the merger with CC (hereinafter – "the merger transaction"), the Company's Board of Directors resolved on August 7, 2011, to purchase 1,415,246 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 transaction), 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., 14,198,095 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.

Note 21 – Equity (cont'd)

E. Buy-Back of Shares (cont'd)

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 equity, the balance of distributable earning according to the Company's financial statement as of December 31, 2016 is $981,762 thousand.

F. Dividend declared

In December 2015, the Company's general meeting of shareholders, the board and the audit committee have resolved to distribute a dividend in the amount of $100 million. On December 7, 2015, the Company had distributed such dividend.

On September 15, 2016, after obtaining the approval of the Company's general meeting of shareholders, the board and the audit committee, the Company declared a dividend of $40.3 million. As of the date of the approval of the financial statements, the dividend that was actually distributed was $18.5 million

Note 22 - Revenues

	For the year ended December 31		
	2016	2015	2014
	$ thousands	$ thousands	$ thousands
Sales outside of Israel	**2,972,476**	2,969,533	3,118,093
Sales in Israel	**97,689**	94,337	103,205
	3,070,165	3,063,870	3,221,298

Note 23 - Cost of Sales

	For the year ended December 31		
	2016	2015	2014
	$ thousands	$ thousands	$ thousands
Materials and commercial inventory	**1,493,098**	1,694,215	1,767,501
Salaries and related expenses	**120,956**	112,023	118,120
Outsourcing	**85,986**	88,134	76,517
Other production expenses	**137,996**	144,841	160,856
Depreciation	**61,745**	58,725	55,017
	1,899,781	2,097,938	2,178,011
Change in finished goods, commercial inventory and work in process	**137,077**	(3,657)	17,982
	2,036,858	2,094,281	2,195,993

Note 24 - Selling and Marketing Expenses

	For the year ended December 31		
	2016	**2015**	**2014**
	$ thousands	**$ thousands**	**$ thousands**
Salaries and related expenses	**188,453**	176,425	184,386
Commissions and delivery costs	**83,267**	83,558	94,164
Advertising and sales promotion	**46,584**	47,311	54,890
Depreciation and amortization	**104,958**	101,786	105,148
Registration	**15,362**	15,226	16,886
Professional services	**12,459**	11,658	13,754
Insurance	**12,790**	13,066	13,524
Royalties	**2,496**	2,700	2,005
Other	**83,362**	82,724	85,824
	549,731	534,454	570,581

Note 25 - General and Administrative Expenses

	For the year ended December 31		
	2016	**2015**	**2014**
	$ thousands	**$ thousands**	**$ thousands**
Salaries and related expenses	**48,463**	45,120	46,911
Depreciation and amortization	**6,531**	5,954	5,214
Bad and doubtful debts	**12,960**	9,783	6,740
Professional services	**13,497**	13,575	19,485
Insurance, tax and fees	**2,691**	3,236	4,086
Other	**27,523**	24,867	29,497
	111,665	102,535	111,933

Note 26 - Research and Development Expenses

	For the year ended December 31		
	2016	**2015**	**2014**
	$ thousands	**$ thousands**	**$ thousands**
Salaries and related expenses	**17,069**	15,462	16,692
Field tests	**2,401**	2,173	2,444
Professional services	**4,790**	4,728	6,717
Materials	**303**	320	393
Other	**8,121**	7,514	7,308
	32,684	30,197	33,554

Note 27 - Financing Expenses (Income), Net

	For the year ended December 31		
	2016	2015	2014
	$ thousands	$ thousands	$ thousands
Financing Income:			
Interest income on trade receivables	**30,832**	27,051	23,651
Interest income on investments from banks and others	**7,786**	10,461	5,677
Net change in fair value of derivative	**18,448**	84,415	15,941
Exchange rate differences, net	**47,037**	-	74,620
CPI income in respect of debentures	**13,223**	22,783	7,768
Interest income in respect of plan assets	**587**	607	559
Revaluation of put options	**2,556**	765	378
Other income	**143**	844	130
Financing income recorded in the income statement	**120,612**	146,926	128,724
Financing expenses:			
Loss in respect of sale of trade receivables	**8,780**	7,625	6,931
Revaluation of put/call options	**1,930**	1,992	3,563
Interest expenses on debentures	**60,898**	63,462	60,857
CPI expenses on debentures	**9,970**	14,421	6,957
Interest expenses on short and long-term loans	**45,331**	50,095	38,429
Exchange rate differences, net	**38,582**	127,781	19,106
Interest expenses on post-employment benefits	**2,180**	2,215	1,995
Net change in fair value of derivative	**85,308**	10,111	109,160
Loss from impairment of financial asset	**5,348**	-	-
Fundraising costs	-	–	3,537
Revaluation of debentures options	-	6,512	–
Other expenses	**2,635**	2,284	2,158
Financing expenses recorded in the income statement	**260,962**	286,498	252,693
Financing expenses, net recorded in the income statement	**140,350**	139,572	123,969

Note 28 - Transactions and Balances with Related and Interested Parties

A. Transactions with interested parties

Commencing from November 22, 2016, following the closing of the transaction, pursuant to which CNAC purchased all the minority shares that were held by Koor Industries Ltd., the Company is 100% held by CNAC.

Negligible transactions

As determined by Regulation 41(a3)(1) of the Securities Regulations (Annual Financial Reports), 2010 (hereinafter - "the Financial Reports Regulations"), on March 10, 2009, the Company's Board of Directors adopted for the first time guidelines and regulations, as detailed below, for classifying transactions of the Company or its subsidiary (hereinafter – "the Group") with interested parties as negligible transactions.
Determination of the said benchmarks is made together with determination of transaction that might constitute as negligible transactions and, therefore, are approved in advance every year, as detailed below.

These guidelines and regulations, as shall be updated from time to time, will also function to examine the extent of the scope of disclosure in the periodic report and in the prospectus (including in a shelf offering reports) regarding transactions by the Company, corporations under its controls and related companies, with a controlling shareholder, or transactions in which a controlling shareholder has a personal interest in its approval, as provided in Regulation 22 of the Securities Regulations (Periodic and Immediate Reports) 1970 (hereinafter - "the Periodic Reports Regulations") and in Regulation 54 of the Securities Regulations (Prospectus Details and Prospectus Drafts – Structure and Form), 1969 (hereinafter - "the Prospectus Details Regulations"), (the types of transactions determined by the Financial Reports Regulations, the Periodic Reports Regulations and the Prospectus Details Regulations mentioned above, hereinafter – "Interested Party Transactions".

It is hereby clarified that according to the Company's opinion, transactions executed by the Company or companies in its Group with companies controlled by the government of China, which are not part of the China National Chemical Corporation group (hereinafter – "Chem China" or "CC"), that are executed in the ordinary and ongoing course of the Company's business, do not constitute transactions in which the controlling shareholder in the Company has a personal interest in and are therefore are excluded from these Regulations.

Types of transactions that might constitute negligible transactions

During their regular course of business, the Company and its subsidiaries, especially in light of the branched out holdings structure of the Group and its varied activities, implement or may implement Interested Party Transactions, including engagements with companies under CNAC's control which purpose is to advance the business combination with the Chinese companies and the Company's commercial and production activities in China, mainly in the form of marketing, sales, purchase, distribution and agency transactions of crop protection products, raw materials, active ingredients, intermediate materials, mixtures and formulations used in the Company's products production process in the field of its activity, contractual engagements with suppliers for the development, production and marketing of ingredients and products in the field of the Company's activity as well as transactions for the grant and/or receipt of services (such as logistic services, engineering planning, construction and infrastructure contracting, legal services, marketing and advertisement engagements and professional consultancy services in the Company's field of activity), purchase or rental of goods, chattels or real estate (such as insurance products and packaging). In most cases these are transactions that are not material to the Company, both in quantitative and in qualitative terms, and are usually made on the same terms as business transactions with third parties.

Note 28 - Transactions and Balances with Related and Interested Parties (cont'd)

A. Transactions with interested parties (cont'd)

Quantitative and qualitative criteria for classification of a transaction as negligible

Accordingly an Interested Party Transaction that is not extraordinary (as the term is defined in the Companies Law) shall be considered negligible transaction if it meets the following two-stage test: (1) a qualitative test – if in terms of its character, essence and effect on the Company it is not material to the Company and there are no special considerations arising from the circumstances of the matter that attest to the material nature of the transaction; (2) quantitative test (which was updated by the Company's Board of Directors on March 7, 2013) – for the purpose of periodic reports – if the ratio between the scope of transactions of the same type (in annual terms) ("transactions aggregate") and the relevant criterion in the annual report is less than 0.5%, and their total does not exceed 1.25 million dollars (for the avoidance of doubt, the aggregate of transactions for purchasing/selling products, raw materials, active ingredients and formulations will be examined per each supplier/client separately), (provided, that with respect to transactions for the purchase or sale of products, raw materials, active ingredients or formulations, in the Company's field of activity, in the ordinary course of business, with companies in a direct or indirect control of ChemChina, the Company will include a disclosure in the annual report if the ratio between the scope of the Interested Party Transaction and the relevant criterion is less than 0.5%, and its total does not exceed 3 million dollars), as detailed below:

In each type of Interested Party Transaction (including cumulative transactions of a certain type) whose classification as a negligible transaction is examined, the said ratio will be calculated against one or more of the relevant criteria of the certain transaction, on the basis of the last published audited or unaudited consolidated financial reports of the Company: (a) upon the purchase of a fixed asset ("a non-current asset") – the scope of the transaction against total assets (in other words, total balance sheet); (b) upon the sale of a fixed asset ("a non-current asset") – the profit/loss from the transaction against the average annual profit (i.e. for four quarters) based on the last 12 quarters for which reviewed or audited financial statements were issued. In this context, the profit/loss of the transaction and the profit/loss in each quarter will be calculated at their absolute value: (c) upon receipt of a financial liability – the scope of the transaction against the sum total of liabilities in the balance sheet; (d) upon the purchase/sale of products, raw materials, active ingredients, mixtures and formulations (excluding current assets) or services – the scope of the transaction against the sales income 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 should be noted that, even if the Interested Party Transaction conforms to the quantitative test above, it will not be considered negligible if qualitative considerations attest to its material nature, whether due to its effect on the Company or due to the importance of its disclosure to the investing public.

Note 28 - Transactions and Balances with Related and Interested Parties (cont'd)

A. Transactions with interested parties (cont'd)

For the purpose of periodic reports, financial reports and prospectus (including shelf offering reports), the negligibility of the aggregate of transactions will be examined on an annual basis (that is while combining all transactions of the interest holder of the same type), and subject to the aforementioned with regards to the method of examination of the aggregate of transactions for the purchase /sale of products, raw materials, active ingredients and formulations.

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 that are inter-dependent, so that in effect they are part of the same transaction (for example, management of concentrated negotiations regarding the entirety of transactions), will be examined as one transaction.

The total transactions classified as negligible by corporations held by the Company will be deemed negligible also at the Company level. Transactions by corporations which are held by the Company that were classified by said corporations as negligible, will be examined according to the relevant criteria on 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.

Every year, the Audit Committee will survey the implementation methods of this regulation by the Company, and will conduct a sample examination of the transactions classified as negligible according to the regulations. During this sample examination, the Audit Committee will, among other things, examine the pricing methods and other terms of the transaction, as the case may be, and will check the effect of the transaction on the business status of the Company and the results of its activities. The actions of the Audit Committee according to this clause, including the said sample examination, its implementation method and the summary of its findings and conclusions will be disclosed in the Company's periodic report. The Company's Board of Directors shall be updated regarding the procedure and its principles as part of the financial statements approval process.
The Company's Audit Committee will examine the need to update the provisions of these regulations from time to time taking into account the Interested Party Transactions made by the Company and changes in the relevant statutes.

Based on the Company's consolidated financial statements for 2016, 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 $2,546 thousand.

Note 28 - Transactions and Balances with Related and Interested Parties (cont'd)

A. Transactions with interested parties (cont'd)

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) On August 4, 2013 and September 8, 2014, the Company's Audit Committee, Board of Directors and the shareholders of the Company approved the execution of a partial tender offer for acquisition of Class B shares of Hubei Sanonda Co. Ltd. (hereinafter – "Sanonda") from public shareholders. Regarding this matter – see Note 19(A)(7).
On February 4, 2016, the Company's audit committee, the board of directors and the shareholders of the Company approved the Company's entring into an agreement for the sale of the B shares of Sanonda held by the Company under the conditions specified in Note 19(A)(9) and subject to the completion of the Sanonda Combination Transaction as described in Note 19(A)(9).

(2) On September 30, 2014, the Company's Audit Committee and Board of Directors and the shareholders of the Company approved the Company's undertaking in a transaction for acquisition of companies from CNAC, as detailed in Note 19A(9).

(3) On December 3, 2015, the shareholders of the Company (after obtaining the approval of the board of directors from December 3, 2015, and the approval of the audit committee from December 1, 2015) approved an engagement of the Company's subsidiary's in China (indirectly) (hereinafter – "Adama") in a commercial collaboration agreement with several agrochemical companies controlled by CNAC including Sanonda Ltd. (hereinafter – "CNAC companies") under which Adama shall gradually become the exclusive distributor of formalized agrochemical products of CNAC companies in China. At the end of 2016, the above agreement was extended to include active ingredients beyond formalized products.

(4) On December 30, 2015 the shareholders of the Company (after obtaining the approval of the board of directors dated December 30, 2015 and the audit committee from December 29, 2015) approved the Company's joining as a party to the Cash pooling agreement, the parties to which are: (1) China National Chemical Corporation (hereinafter - "CC"); (2) Companies held directly and indirectly by CC (hereinafter together with CC and the Company. "the Settlement Companies"); (3) a foreign bank (hereinafter -the "Bank"), in addition the audit committee, the board of directors and the shareholders approved an additional agreement of the Company with CC, which regulates other aspects relating to the Cash pooling agreement (hereinafter - "the Intercompany Agreement").

To secure the obligations of the Settlement Companies towards the bank, each of the Settlement Companies will create a first ranking charge on the rights in the designated account in favour of the Bank. CC, will extend simultaneously a guarantee to secure the obligations of the Settlement Companies. In the event of a debt of any of the Settlement Companies towards the Bank excluding an event of insolvency, the Bank may be repaid according to the repayment preference as follows: (1) by exercising the charge of the Settlement Company; (2) by exercising CC guarantee; (3) by exercising the charge of another Settlement Company. In the event of insolvency, the provisions of the above repayment preference are not applicable. Under the Intercompany Agreement, CC

Note 28 - Transactions and Balances with Related and Interested Parties (cont'd)

A. Transactions with interested parties (cont'd)

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) (cont'd)

(A) Transactions included in Section 270(4A) to the Companies Law (cont'd)

committed that upon an insolvency event, it will do its utmost efforts so that amounts are not offset from the Company's accounts or that the charge is not exercised on the Company's accounts only after the bank or the Settlement Companies (as the case may be) exhausted all other sources according to the Cash pooling agreement including CC guarantee and the charges extended by all of the Settlement Companies.

Simultaneously with entering into the Cash pooling agreement, CC and the Company entered into an Intercompany Agreement under which mechanisms were set to assure that the Company's transactions in the account and activities relating to the Company are approved in advance, the Company was granted information rights regarding the Settlement Companies and their financial position and CC commitment was granted to fully indemnify the Company if any amounts are offset from its account or if the charge is exercised on its account which is subject to the settlement.

The Company's audit committee, board of directors and shareholders determined an immaterial amount for the Company as the maximum amount to be deposited in the Company's accounts that are subject to the settlement (hereinafter - the "Maximum Amount"). The Maximum Amount may be changed by a resolution of the Company's competent organs.

(5) Subsequent to the date of the financial statements, in connection with the proposed acquisition of Syngenta AG by CC, the Company's controlling shareholder (hereinafter: "the Transaction"), the Company is working with the respective parties to consider that, in the event the Transaction is completed, and following such completion, to assist in obtaining the respective regulatory approvals, particularly in the U.S and Europe, the Company may be willing to divest a number of its products while receiving products of similar nature and economic value from the post-Transaction ChemChina group, the Company obtained the approval of its Board of Directors Audit Committee and shareholder to commence preparation and enter into agreements for the divestment of a number of its products, in a manner that will enable the respective parties to obtain the approval of the Transaction by the respective regulators, and will, in return, receive a number of products from the post-Transaction ChemChina group of similar nature and economic value of those of the divested products, all subject to the closing of the Transaction, such that, notwithstanding the individual scope of each of the transfers, their combined impact on the Company's business is expected to be immaterial. The Company's preparing and entering into the above agreements was approved by the competent organs of the Company as an extraordinary transaction in which the controlling shareholder of the Company has a personal interest (within the meaning of these terms in the Companies Law).

(6) In addition, it should be noted that in 2016, the Company entered into several agreements in market conditions and in return for cumulative immaterial amounts with Clal Insurance Corporation Ltd. (hereinafter – "Clal") a company controlled by IDB Development Corporation Ltd. which as of November 22, 2016 is no longer an interested party in the Company.

Note 28 - Transactions and Balances with Related and Interested Parties (cont'd)

A. Transactions with interested parties (cont'd)

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) (cont'd)

(B) Transactions not included in Sections 270(4A) of the Companies Law and that are not negligible

(1) During 2016 and in the ordinary course of business, the Company acquired from Sanonda group or other companies in the CC group raw materials on market terms and in cumulative amounts that are not significant to the Company. Starting from the second half of 2016, the Company purchases raw materials under a supply agreement for export that was approved for 5 years under which Sanonda and a related company will supply all the products that the Company purchases in China for export and that is under market terms and immaterial amounts for the Company. The agreement was classified by the audit committee as a non-extraordinary transaction.

(2) During the second half of 2016, the Company entered into an agency agreement, which was approved for a period of one year, whereby the company will serve as an exclusive agent of Sanonda and of another company in the CC group for the purposes of exporting their products out of China (with the exception of products regulated under the supply agreement, as stated in item 1 above). The agreement was classified by the Audit Committee of the Company as a non-extraordinary transaction.

(3) During 2015 and 2016 the Company engaged in two with contracting agreements with China Bluestar Lehigh Engineering Corp. (hereinafter – "Bluestar"), a company from the CC Group, whereby Bluestar will perform infrastructure and construction work for a formulation facility which the Company is constructing in China. The total consideration for these agreements, amounts to approximately $21 million, which is to be paid based on milestones in accordance with rate of progress of the work. The agreement was classified by the Company's Audit Committee as non-extraordinary transactions.

(4) In addition, it should be noted that in 2016, the Company entered into several agreements in market conditions and in return for cumulative immaterial amounts with Clal including agreements listed in section (a) (5) above, which as of November 22, 2016 is no longer an interested party in the Company.

Provided below are details of transactions with related and interested parties:

	For the year ended December 31		
	2016	2015	2014
	$ thousands	$ thousands	$ thousands
Interested Parties*			
Revenues	**1,314**	2,449	2,858
Expenses	**38,508**	32,060	20,942
Equity-Accounted Investee Companies*			
Revenues	**24,945**	23,419	27,675
Expenses	**1,284**	999	2,212

* Transactions with an equity-accounted investee company that is also part of the CC Group are included as part of transactions with interested parties.

Note 28 - Transactions and Balances with Related and Interested Parties (cont'd)

B. Benefits to interested parties

	For the year ended December 31		
	2016	2015	2014
	$ thousands	$ thousands	$ thousands
Salaries and related benefits to interested party employed by the Group	**3,401**	2,008	2,078
Number of interested parties	**1**	1	2
Share based payments to interested party employed by the Group*	**(764)**	1,250	1,251
Number of interested parties	**1**	1	1
Fees to other directors	**224**	261	363
Number of directors	**4**	7	4

* For details regarding the share-based payments net of liability for compensation in 2016, see Note 21D.

C. Balances with related and interested parties

	December 31 2016	December 31 2015
	$ thousands	$ thousands
Interested Parties*		
Trade receivables	**1**	1,430
Trade and other payables	**4,353**	7,361
Dividend Payable	**21,742**	-
Equity-Accounted Investee Companies*		
Trade receivables	**3,853**	4,352
Loans granted	**1,010**	7,338
Trade payables	**48**	128

* Transactions with an equity-accounted investee company that is also part of the CC Group are included as part of transactions with interested parties.

D. Guarantees for debts of equity-accounted investee company

The Company has provided a guarantee for bank loans of an equity-accounted investee company, in the amount of up to $18,250 thousand.

Note 28 - Transactions and Balances with Related and Interested Parties (cont'd)

E. 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, long-term incentive, social and salary-related benefits and options granted.

The benefits attributed to the key management personnel are comprised as follows:

	2016	2015	2014
	$ thousands	$ thousands	$ thousands
Direct salary	**2,892**	2,894	4,352
Short-term bonuses and long-term incentive*	**6,914**	2,906	3,598
Post-employment benefits and others	**1,138**	1,161	2,035
Share-based payments **	**(1,604)**	3,364	4,069
	9,340	10,325	14,054

* The bonuses are based on the operating results of the Group.

** For details regarding the share-based payments net of liability for compensation in 2016, see Note 21D.

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 the 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.

Note 29 - Financial Instruments (cont'd)

A. General (cont’d)

The Group’s risk management policy are established to identify and analyze the risks facing the Group, to set appropriate risk limits and controls and monitoring of the risks and to monitor risks and adherence to limits. The policy 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, aims to develop a disciplined and constructive control environment in which all the employees understand their roles and obligations.

B. Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and derives mainly from trade receivables and other receivables as well as from cash and deposits in financial institutions.

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 Company entered into an agreement for the sale of trade receivables in a securitization transactions. For details – see Note 4.

In April 2016, 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 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 1.4% (2015 – 1.8% and 2014 – 1.7%) of the Group’s revenues derive from sales to 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 been doing 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 South America where necessary it operates 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 components of this provision are specific losses related to specific significant exposure (the effect of the additional examination on trade receivables for which no specific impairment was identified is immaterial),and general loss that is determined for groups of similar assets in countries in which there are large number of customers with immaterial balances. 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 amount of financial assets represents the maximum credit exposure notwithstanding the carrying amount of security.

The maximum exposure to credit risk for trade receivables at the reporting date, according to geographic regions was as follows:

	December 31 2016	December 31 2015
	$ thousands	$ thousands
Israel	**6,763**	3,032
Latin America	**440,979**	453,028
Europe	**115,881**	123,104
North America	**67,137**	68,602
Asia Pacific	**54,510**	62,323
India, Middle East and Africa	**135,805**	108,185
	821,075	818,274

The Group's most significant customer is an agricultural corporation that constitutes $11,811 thousand out of the total carrying value of trade receivables as of December 31, 2016 (as of December 31, 2015 – $12,793 thousand).

Note 29 - Financial Instruments (cont'd)

B. Credit risk (cont’d)

(2) Aging of receivables and allowance for doubtful accounts

Presented below is the aging of trade receivables:

	December 31 2016	December 31 2015
	$ thousands	$ thousands
Not past due	**728,247**	718,617
Past due by less than 90 days	**70,523**	67,000
Past due by more than 90 days	**67,912**	63,804
	866,682	849,421

The movement in the provision for doubtful accounts during the year was as follows:

	2016	2015
	$ thousands	$ thousands
Balance as of January 1	**31,147**	35,671
Additions during the year	**12,960**	9,783
Write-off of bad debts	**(1,665)**	(6,275)
Exchange rate differences	**3,165**	(8,032)
Balance as of December 31	**45,607**	31,147

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 of 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 covenants 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, is invested in short-term interest-bearing investment channels.

Note 29 - Financial Instruments (cont'd)

C. Liquidity risk (cont'd)

Presented below are the contractual maturities of the financial liabilities at undiscounted amounts, including estimated interest payments:

	As of December 31, 2016						
	Carrying amount	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							
Credit from banks	**3,861**	**3,915**	**3,915**	**-**	**-**	**-**	**-**
Short-term loans from banks	**103,990**	**106,170**	**106,170**	**-**	**-**	**-**	**-**
Trade payables	**520,739**	**520,739**	**520,739**	**-**	**-**	**-**	**-**
Other payables (2)	**454,100**	**454,100**	**454,100**	**-**	**-**	**-**	**-**
Debentures (1)	**1,069,253**	**1,741,668**	**50,952**	**55,584**	**55,584**	**119,072**	**1,460,476**
Long-term loans from banks (1)	**186,333**	**204,214**	**79,276**	**87,345**	**18,728**	**12,720**	**6,145**
Other long-term liabilities (1)(2)	**11,906**	**15,105**	**370**	**1,800**	**8,765**	**275**	**3,895**
Derivative financial liabilities							
Foreign currency derivatives	**111,891**	**111,891**	**111,791**	**100**	**-**	**-**	**-**
CPI/shekel forward transactions	**1,372**	**1,372**	**1,372**	**-**	**-**	**-**	**-**
	2,463,445	**3,159,174**	**1,328,685**	**144,829**	**83,077**	**132,067**	**1,470,516**

(1) Including current maturities

(2) Including put options to holders of non-controlling interests.

Note 29 - Financial Instruments (cont'd)

C. Liquidity risk (cont'd)

Presented below are the contractual maturities of the financial liabilities at undiscounted amounts, including estimated interest payments:

	As of December 31, 2015						
	Carrying amount	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							
Credit from banks	15,225	15,313	15,313	-	-	-	-
Short-term loans from banks	103,725	105,647	105,647	-	-	-	-
Trade payables	554,357	554,357	554,357	-	-	-	-
Other payables (2)	363,152	363,152	363,152	-	-	-	-
Debentures (1)	1,157,169	1,868,539	161,197	54,403	54,403	54,403	1,544,132
Long-term loans from banks (1)	277,449	304,578	116,087	64,760	86,878	18,455	18,398
Other long-term liabilities (1) (2)	13,668	17,181	109	277	12,703	133	3,959
Derivative financial liabilities							
Foreign currency derivatives	127,777	127,777	123,670	4,107	-	-	-
CPI/shekel forward transactions	1,970	1,970	1,970	-	-	-	-
	2,614,492	3,358,514	1,441,502	123,547	153,984	72,991	1,566,489

(1) Including current maturities

(2) Including put options to holders of non-controlling interests.

As at December 31, 2016, the Group has bank loans totaling 45 million and securitized trade receivables totaling $192 million, which contain financial covenants. For information on the financial covenants, see Note 20C to 20E. Interest payments on the variable-interest rate loans and the future cash flows on contingent consideration and put options to holders of non-controlling interests, may be different from the amounts described in the table above.

Except for 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 foreign 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 optimizing the return.

During the ordinary course of business, the Group purchases and sells derivatives and assumes financial liabilities for the purpose of managing market risks. All such transactions are carried out within the guidelines set by the Finance Committee.

(1) CPI/Linkage 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, Australian dollar and Indian rupee, Argentine peso, Canadian dollar, South African Rand and Ukraine Hryunia.

The Group uses foreign currency derivatives – forward transactions 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, 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's debentures are linked to the CPI and, therefore, an increase in the CPI, as well as changes in the NIS exchange rate, could cause significant exposure with respect to the Group's functional currency – the U.S. dollar. As of the approval date of the financial statements, the Group had hedged most of its exposure deriving from issuance of the debentures, in options and forward contracts.

Note 29 - Financial Instruments (cont'd)

D. Market risks (cont'd)

(1) CPI/linkage and foreign currency risks

(A) The Group's exposure to CPI/linkage and foreign currency risk, except in respect of derivative financial instruments (see hereunder) is as follows:

December 31, 2016

	Denominated in or linked to the Dollar	In Euro	In Brazilian real	CPI-linked NIS	Unlinked NIS	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	208,434	75,826	18,927	-	28,438	143,260	-	474,885
Short-term investments	3,006	9	-	-	-	2,116	-	5,131
Trade receivables	278,033	109,744	219,302	-	10,981	227,871	-	845,931
Financial and other assets including derivatives*	98,581	12,261	8,762	633	14,733	19,977	29,370	184,317
Current tax assets	4,594	1,373	3,496	-	870	5,616	-	15,949
Inventories	-	-	-	-	-	-	1,035,071	1,035,071
Investments, loans and other long-term debt balances	3,775	1,164	45,571	-	-	2,361	89,202	142,073
Deferred tax assets	-	-	-	-	-	-	87,226	87,226
Fixed assets	-	-	-	-	-	-	803,550	803,550
Intangible assets	-	-	-	-	-	-	692,428	692,428
	596,423	200,377	296,058	633	55,022	401,201	2,736,847	4,286,561
Liabilities –								
Loans and credit from banks (not including current maturities)	56,226	1,410	-	-	1,954	48,261	-	107,851
Trade payables	305,827	68,118	14,881	-	101,241	30,672	-	520,739
Other payables*	263,746	54,764	32,494	5,936	95,106	84,412	34,315	570,773
Current tax liabilities	14,340	2,175	3	-	-	4,642	-	21,160
Put options to holders of non-controlling interests	41,059	2,880	-	-	-	-	-	43,939
Loans from banks (including current maturities)	184,857	6	758	-	-	712	-	186,333
Debentures	-	-	-	1,069,253	-	-	-	1,069,253
Other long-term liabilities (including current maturities)	5,207	291	18,328	-	177	3,340	-	27,343
Deferred tax liabilities	-	-	-	-	-	-	11,218	11,218
Employee benefits	7,032	4,518	-	-	56,152	5,970	-	73,672
	878,294	134,162	66,464	1,075,189	254,630	178,009	45,533	2,632,281

* 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) CPI/linkage and foreign currency risks (cont'd)

(A) The Group's exposure to CPI/linkage and foreign currency risk, except in respect of derivative financial instruments (see hereunder) is as follows: (cont'd)

December 31, 2015

	Denominated in or linked to the Dollar	In Euro	In Brazilian real	CPI-linked NIS	Unlinked NIS	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	161,732	64,476	24,955	-	21,810	122,379	-	395,352
Short-term investments	3,001	8	-	-	-	1,721	-	4,730
Trade receivables	198,594	89,037	259,831	-	6,208	244,515	-	798,185
Subordinated note in respect of sale of trade receivables	51,361	14,771	-	-	3,880	1,281	-	71,293
Financial and other assets including derivatives*	82,093	15,137	19,175	-	16,667	24,257	39,010	196,339
Current tax assets	1,600	2,682	-		-	8,079	-	12,361
Inventories	-	-	-		-	-	1,149,058	1,149,058
Investments, loans and other long-term debt balances	17,490	2,342	26,101	-	32	2,070	106,338	154,373
Deferred tax assets	-	-	-	-	-	-	75,196	75,196
Fixed assets	-	-	-	-	-	-	787,307	787,307
Intangible assets	-	-	-	-	-	-	687,449	687,449
	515,871	188,453	330,062	-	48,597	404,302	2,844,358	4,331,643
Liabilities –								
Loans and credit from banks (not including current maturities)	51,731	5,879	-	-	-	61,340	-	118,950
Trade payables	295,174	91,884	10,510	-	119,848	36,941	-	554,357
Other payables*	207,350	62,115	23,887	6,480	80,910	78,001	10,549	469,292
Current tax liabilities	11,646	1,920	2,849	-	724	8,488	-	25,627
Put option to holders of non-controlling interests	36,431	3,039	-	-	-	-	-	39,470
Loans from banks (including current maturities)	275,085	5	1,438	-	-	921	-	277,449
Debentures (including current maturities)	-	-	-	1,056,380	100,789	-	-	1,157,169
Other long-term liabilities (including current maturities)	10,821	653	14,429	-	180	3,259	-	29,342
Deferred tax liabilities	-	-	-	-	-	-	22,595	22,595
Employee benefits	760	3,805	-		59,423	6,564	-	70,552
	888,998	169,300	53,113	1,062,860	361,874	195,514	33,144	2,764,803

* 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) CPI/linkage and foreign currency risks (cont'd)

(B) The exposure to CPI/linkage and foreign currency risk in respect of derivatives is as follows:

	December 31, 2016				
	Currency/ linkage receivable	Currency/ linkage payable	Average expiration date	Par value	Fair value
				$ thousands	$ thousands
Forward foreign currency contracts and call options	USD	EUR	4/23/2017	**455,647**	**(10,663)**
	USD	PLN	3/28/2017	**38,455**	**5,618**
	USD	BRL	4/16/2017	**252,171**	**(9,308)**
	USD	GBP	4/29/2017	**53,668**	**2,622**
	USD	ZAR	1/24/2017	**19,561**	**(528)**
	ILS	USD	2/3/2017	**1,419,855**	**(15,792)**
	USD	OTHERS		**336,582**	**7,318**
CPI forward contracts	CPI	ILS	4/20/2017	**650,195**	**(739)**

	December 31, 2015				
	Currency/ linkage receivable	Currency/ linkage payable	Average expiration date	Par value	Fair value
				$ thousands	$ thousands
Forward foreign currency contracts and call options	USD	EUR	06/15/2016	544,866	(17,556)
	USD	PLN	02/15/2016	25,080	2,301
	USD	BRL	03/27/2016	241,500	101
	USD	GBP	03/26/2016	48,374	2,687
	USD	ZAR	2/11/2016	17,177	1,982
	ILS	USD	01/22/2016	1,488,245	(37,250)
	USD	OTHERS		289,462	5,608
CPI forward contracts	CPI	ILS	4/16/2016	571,502	(1,970)

Presented below are data on Consumer Price Index in Israel and significant exchange rates:

	December 31			Average 1-12		
	2016	2015	Change in 2016	2016	2015	Change in 2016
EUR/USD	**1.052**	1.088	3.4%	**1.107**	1.110	0.3%
USD/BRL	**3.259**	3.905	(16.5%)	**3.490**	3.331	4.8%
USD/PLN	**4.179**	3.901	7.1%	**3.943**	3.770	4.6%
USD/ZAR	**13.720**	15.558	(11.8%)	**14.710**	12.742	15.4%
AUD/USD	**0.722**	0.731	1.2%	**0.743**	0.752	1.1%
GBP/USD	**1.229**	1.482	17.1%	**1.351**	1.529	11.6%
USD/ILS	**3.845**	3.902	(1.5%)	**3.836**	3.878	(11.%)
Known Index in Israel	**122.382**	123.209				
In respect of Index in Israel	**122.591**	123.085				

Note 29 - Financial Instruments (cont'd)

D. Market risks (cont'd)

(1) CPI/linkage and foreign currency risks (cont'd)

(C) Sensitivity analysis

The increase or decrease of the Dollar against the following currencies as of 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 constant. The analysis for 2015 was done on the same basis.

	December 31, 2016			
	Decrease of 5%		Increase of 5%	
	Equity	Profit (loss)	Equity	Profit (loss)
	$ thousand	$ thousand	$ thousand	$ thousand
New Israeli shekel	**2,350**	**(5,576)**	**(2,792)**	**5,133**
British pound	**1,991**	**(108)**	**(1,976)**	**94**
Euro	**16,127**	**(2,277)**	**(16,137)**	**2,267**
Brazilian real	**(1,199)**	**(258)**	**618**	**(323)**
Polish zloty	**(1,509)**	**(152)**	**1,509**	**152**
South African Rand	**70**	**215**	**(70)**	**(215)**
Consumer Price Index in Israel	**27,044**	**27,044**	**(27,044)**	**(27,044)**

	December 31, 2015			
	Decrease of 5%		Increase of 5%	
	Equity	Profit (loss)	Equity	Profit (loss)
	$ thousand	$ thousand	$ thousand	$ thousand
New Israeli shekel	9,115	3,526	(13,935)	(8,351)
British pound	(1,552)	91	1,552	(91)
Euro	(20,531)	599	21,834	(479)
Brazilian real	2,642	2,642	(2,801)	(2,801)
Polish zloty	(1,262)	(286)	1,262	286
South African Rand	83	100	(83)	(100)
Consumer Price Index in Israel	25,702	25,702	(25,702)	(25,702)

(2) Interest rate risks

The Group has exposure to changes in the Libor interest rate on the 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 with customers, 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

The interest rate profile of the Group's interest-bearing financial instruments was as follows:

	December 31	
	2016	2015
	Carrying amount	Carrying amount
	$ thousands	$ thousands
Fixed-rate instruments – unlinked to the CPI		
Financial assets	**53,962**	54,917
Financial liabilities	**(63,764)**	(173,306)
	(9,802)	(118,389)
Fixed-rate instruments – linked to the CPI		
Financial liabilities	**(1,069,253)**	(1,056,380)
Variable-rate instruments		
Financial assets	**48,166**	75,569
Financial liabilities	**(233,682)**	(326,097)
	(185,516)	(250,528)

The financial assets include cash equivalents with relatively low interest due to the current market conditions.

(B) Fair value sensitivity analysis for fixed rate 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 of the balance sheet date would not affect profit or loss, in respect of changes in the value of the assets and liabilities bearing fixed interest.

Note 29 - Financial Instruments (cont'd)

E. Cash flow hedge accounting

The table below presents the periods in which the cash flows associated with derivatives that are cash flow hedges are expected to occur:

	2016								
	Carrying amount	Expected 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:	**24,106**	**24,106**	**20,699**	**3,506**	**(99)**	**-**	**-**	**-**	**-**

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.

	2016								
	Carrying amount	Expected 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:	**(481)**	**(481)**	**(240)**	**(241)**	**-**	**-**	**-**	**-**	**-**
Forward contracts and options on exchange rates:	**24,112**	**24,112**	**20,704**	**3,507**	**(99)**	**-**	**-**	**-**	**-**
	23,631	**23,631**	**20,464**	**3,266**	**(99)**	**-**	**-**	**-**	**-**

Note 29 - Financial Instruments (cont'd)

E. Cash flow hedge accounting (cont'd)

The table below presents the periods in which the cash flows associated with derivatives that are cash flow hedges are expected to occur:

	2015								
	Carrying amount	Expected 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:	23,286	23,286	22,060	272	954	-	-	-	-

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.

	2015								
	Carrying amount	Expected 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:	(962)	(962)	(240)	(241)	(481)	-	-	-	-
Forward contracts and options on exchange rates:	23,558	23,558	22,325	279	954	-	-	-	-
	22,596	22,596	22,085	38	473	-	-	-	-

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 residual period until redemption, using an appropriate interest rate.

The fair value of foreign currency options 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 amount 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, are the same or proximate to their fair value.

The following table details the carrying amount in the books and the fair value of groups of non-current financial instruments presented in the financial statements not in accordance with their fair values:

	December 31, 2016		December 31, 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
	$ thousands	$ thousands	$ thousands	$ thousands
Financial assets				
Long-term loans and other receivables (a)	**10,490**	**6,697**	14,611	10,810
Financial liabilities				
Long-term loans (b)	**189,759**	**190,025**	281,482	274,598
Debentures (c)	**1,069,253**	**1,173,659**	1,157,169	1,188,392

(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 anticipated cash flows are:

	December 31, 2016
	In %
Brazilian real interest	**11.71-16.83**
U.S. dollar interest	**1.41-7.54**
Indian rupi interest	**6.91-10.52**

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 presents an analysis of financial instruments measured at fair value, measured by valuation method. The various 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 (unobservable inputs).

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, 2016	December 31, 2015
	$ thousands	$ thousands
Derivatives used for hedging the cash flow:		
Forward contracts and options	**24,106**	23,286
Derivatives used for economic hedging:		
Forward contracts and options	**(45,578)**	(67,383)
	(21,472)	(44,097)

Financial Instrument	Fair value
Forward contracts	Fair value measured on the basis of discounting the difference between the forward price in the contract and the current forward price for the residual period until redemption using market interest rates appropriate for similar instruments
Foreign currency options	The fair value is measured based on the Black&Scholes model.

Note 30 - Operating Segments

A. Products and services:

The Company presents its segment reporting based on a format that is based on a breakdown by business segments:

- Crop Protection (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.

- Other (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 - Operating Segments (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 as items that can be allocated on a reasonable basis. Unallocated items comprise mainly financing expenses, net.

Information regarding the results of each reportable segment is included below:

	For the year ended December 31, 2016			
	Crop Protection	Other	Reconciliations	Consolidated
	$ thousands	$ thousands	$ thousands	$ thousands
Statement of income information:				
Revenues				
External revenues	**2,877,360**	**192,805**	**-**	**3,070,165**
Inter-segment revenues	**-**	**1,236**	**(1,236)**	**-**
Total revenues	**2,877,360**	**194,041**	**(1,236)**	**3,070,165**
Results				
Segment's results	**377,489**	**6,673**	**-**	**344,162**
Financing expenses, net				**(140,350)**
Share of losses of equity-accounted investee companies, net				**(16,622)**
Income taxes				**(22,520)**
Non-controlling interests				**(2,342)**
Net income for the year attributable to the owners of the Company				**162,328**

	For the year ended December 31, 2015			
	Crop Protection	Other	Reconciliations	Consolidated
	$ thousands	$ thousands	$ thousands	$ thousands
Statement of income information:				
Revenues				
External revenues	2,883,490	180,380	–	3,063,870
Inter-segment revenues	-	1,048	(1,048)	–
Total revenues	2,883,490	181,428	(1,048)	3,063,870
Results				
Segment's results	300,835	(728)	–	300,107
Financing expenses, net				(139,572)
Share of losses of equity-accounted investee companies, net				(1,498)
Income taxes				(49,262)
Non-controlling interests				333
Net income for the year attributable to the owners of the Company				110,108

Note 30 - Segment Reporting (cont'd)

A. Products and services: (cont'd)

	For the year ended December 31, 2014			
	Crop Protection	Other	Reconciliations	Consolidated
	$ thousands	$ thousands	$ thousands	$ thousands
Statement of income information:				
Revenues				
External revenues	3,028,790	192,508	–	3,221,298
Inter-segment revenues	–	1,320	(1,320)	–
Total revenues	3,028,790	193,828	(1,320)	3,221,298
Results				
Segment's results	304,108	7,106	(213)	311,001
Financing expenses, net				(123,969)
Share of income of equity-accounted investee companies				5,885
Income taxes				(46,902)
Non-controlling interests				390
Net income for the year attributable to the owners of the Company				146,405

B. Sales distribution by geographic regions

Below is a breakdown of sales by geographical segments based on location of customers (sales target).

	For the year ended December 31		
	2016	2015	2014
	$ thousands	$ thousands	$ thousands
Europe	**1,041,508**	1,115,965	1,186,714
North America	**604,316**	573,046	544,825
Latin America	**739,327**	735,923	822,537
Asia Pacific	**291,952**	273,229	294,048
India, the Middle East and Africa	**295,373**	271,370	269,969
Israel	**97,689**	94,337	103,205
	3,070,165	3,063,870	3,221,298

Note 31 - Investments in Investees

Additional details in respect of subsidiaries directly held by the Company

	December 31, 2016			
	Country of association	Company equity rights	Loans to investees	Investments in investees
		%	$ thousands	$ thousands
Adama Makhteshim Ltd.	Israel	100	**499,562**	**879,343**
Adama Agan Ltd.	Israel	100	**461,747**	**612,653**
Lycored Ltd.	Israel	100	**-**	**106,018**
			961,309	**1,598,014**

The Company's guaranty of the liabilities to banks of Subsidiaries is unlimited.

The balance of subsidiaries' liabilities to banks as of balance sheet date for which the Company is guarantor is $238 million.

	December 31, 2015			
	Country of association	Company equity rights	Loans to investees	Investments in investees
		%	$ thousands	$ thousands
Adama Makhteshim Ltd.	Israel	100	455,074	796,106
Adama Agan Ltd.	Israel	100	390,745	664,564
Lycored Ltd.	Israel	100	-	99,078
			845,819	1,559,748

Appendix to the Financial Statements as of December 31, 2016

Holding company/companies	Investee company	Control rate and ownership of holding company/ companies %
A. Domestic consolidated subsidiaries		
Adama Agricultural Solutions Ltd.	Adama Makhteshim Ltd. (hereinafter – Makhteshim)	100
	Adama Agan Ltd. (hereinafter – Agan)	100
	Lycored Ltd.	100
Makhteshim	Makhteshim Chemical Works Trade and Marketing Ltd.	100
Agan	Agan Aroma and Fine Chemicals Ltd.	100
	Adama (Agan) Chemical Marketing Ltd.	100
Lycored Ltd.	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 (99.99%) and Agan (0.01%)	Adama Celsius B.V. (hereinafter – Celsius)	100
Agan (99.99%) and Makhteshim (0.01%)	Adama Fahrenheit B.V. (hereinafter – Fahrenheit)	100
Lycored Ltd.	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
	Protein Dynamix Limited	100
VN Biotech Limited	LLC Scientific and Production Enterprise “VITAN”	100
Lycored Corp (USA)	Nova HueLLC.	100
Makhteshim (50%) and Agan (50%)	Adama Agriculture B.V.	100
Celsius	Adama Irvita N.V.	100
	Adama Korea Inc.	51
	Adama Vietnam Limited Company	100
	Adama Agriculture Slovensko Spol s.r.o.	100
	Adama (Jiangsu) Agricultural Solutions Company Limited	100
	Adama (Nanjing) Agricultural Science and Technology Company Limited	100

Appendix to the Financial Statements as of December 31, 2016

Holding company	Investee company	Control rate and ownership of holding company %
B. Foreign consolidated subsidiaries (cont'd)		
Fahrenheit	Adama Quena N.V.	100
Fahrenheit (50%) and Celsius (50%)	Magan HB B.V.	100
	Adama Argentina S.A.	100
	Kollant s.r.l.	100
	Adama Hungary z.r.t.	100
	Adama Andina B.V.	100
	Adama (China) Investment Company Limited	100
Fahrenheit (30%), Celsius (30%), Adama Agriculture B.V. (39.99%), and Adama Registrations B.V. (0.01%)	Adama Agriculture Espana S.A.	100
Magan HB B.V. (99.99%) and Agricur Defensivos Agricolas Ltda. (0.01%)	Adama Brasil S.A.	100
Adama Andina B.V. (99.80%) and Fahrenheit (0.10%)	Proficol Venezuela S.A.	99.9
Adama Andina B.V. (99.99%) and Celsius (0.01%)	Adama Agriculture Peru S.A.	100
Adama Andina B.V. (99.8%) and Celsius (0.2%)	Adama Ecuador Adamecudor S.A.	100
Adama Andina B.V.	Adama Colombia S.A.S	100
Fahrenheit (2.50%) and Adama Agriculture B.V. (97.50%)	Adama Mozambique Lda	100
Adama Agriculture B.V. (99.90%) and Fahrenheit (0.10%)	Adama Agriculture East Africa Limited	100
Adama Agriculture B.V. (99%) and Fahrenheit (1%)	Adama Madagascar SARL	100
	Adama Guatemala SA	
Adama Agriculture B.V. (99.98%), Celsius (0.01%), and Fahrenheit (0.01%)	Agricur Defensivos Agricolas Ltd.	100
Adama Agriculture B.V. (99.93%) and Celsius (0.07%),	Adama Paraguay S.R.L.	100

Holding company	Investee company	Control rate and ownership of holding company %
B. Foreign consolidated subsidiaries (cont'd)		
Adama Agriculture B.V. (99.90%) and Celsius (0.10%),	Adama Dominican Republic, S.R.L.	100
Adama Agriculture B.V. (99.99%) and Celsius (0.01%),	Makhteshim Agan de Mexico S.A. de C.V.	100
Adama Agriculture B.V. (99.99%), and Adama Registrations B.V. (0.01%)	Adama India Private Ltd.	100
	Adama Polska SP Z.O.O	100
	Adama Agricultural Solutions UK Ltd.	100
Adama Agriculture B.V. (95%), and Adama Registrations B.V. (5%)	Adama Italia SRL	100
	Adama Portugal Lda	100
Adama Agriculture B.V.	Adama New Zealand Ltd.	100
	Adama CZ s.r.o.	100
	Adama Deutschland GmbH	100
	Magan Korea Co Ltd.	100
	Adama SRB DOO Beograd	100
	Adama RUS LLC	100
	Adama Australia Holdings Pty Ltd.	100
	Adama Manufacturing Poland S.A.	100
	Adama Northern Europe B.V.	55
	Adama Crop Solution SACC S.A.	100
	Adama France S.A.S.	100
	Adama Registrations B.V.	100
	Adama Japan K.K.	100
	Makhteshim Agan of North America Inc.	100
	Adama Agricultural Solutions S.R.L.	100
	Adama (Shanghai) Trading Co Ltd.	100
	Adama South Africa PTY Ltd.	100
	Adama Agriculture Swiss AG	100
	Adama Asia Pacific Pte Ltd.	100
	Adama (Thailand) Ltd.	100
	Adama Ukraine LLC	100
	Makhteshim Agan Venezuela S.A.	100
	Adama West Africa Ltd.	100
	Makhteshim Agan Chile SPA	100
	Adama Plant Protection Services Zambia Limited	100
	Adama Zimbabwe (Private) Ltd.	100
	ADAMA Turkey Tarım Sanayi ve Ticaret Limited Şirketi	100
Makhteshim Agan Chile SPA (99.90%) and Adama Agriculture B.V. (0.10%)	Chileagro Bioscience S.A.	100

Appendix to the Financial Statements as of December 31, 2016

Holding company	Investee company	Control rate and ownership of holding company %
B. Foreign consolidated subsidiaries (cont'd)		
Chileagro Bioscience S.A.	Adama Chile SA	60
Adama India Private Ltd.	PT. Royal Agro Indonesia	100
Makhteshim Agan de Mexico S.A. de C.V. (98.6%) and Adama Agriculture B.V. (1.4%)	Adama Servicios S.A. de C.V.	100
Makhteshim Agan de Mexico S.A. de C.V. (99%) and Adama Agriculture B.V. (1%)	Plant Protection, S.A. de C.V.	100
Makhteshim Agan de Mexico S.A. de C.V. (99.93%) and Adama Agriculture B.V. (0.07%)	Servicios Ingold S.A. de C.V.	100
Makhteshim Agan de Mexico S.A. de C.V. (99.99%) and Adama Agriculture B.V. (0.01%)	Ingenieria Industrial S.A. de C.V.	100
Servicios Ingold S.A. de C.V. (99.99%) and Adama Servicios S.A. de C.V. (0.01%)	Nangaru S.A. de C.V.	100
Makhteshim Agan de Mexico S.A. de C.V. (96.64%), Servicios Ingold S.A. de C.V. (1.12%), Plant Protection, S.A. de C.V. (1.12%), and Ingenieria Industrial S.A. de C.V. (1.12%)	Adama AGS, S.A. de C.V.	100
Adama Northern Europe B.V.	UAB Adama Northern Europe	100
Makhteshim Agan of North America, Inc.	Control Solutions Inc.	67.1
	Alligare LLC	80
	Adama Agricultural Solutions CANADA Ltd.	100
	Adama Americas Inc.	100
Adama Australia Holdings Pty Ltd. (50%) and Farmoz Pty Ltd. (50%)	Adama Australia Pty Ltd.	100
Adama Australia Holdings Pty Ltd	Farmoz Pty Ltd.	100
Adama West Africa Ltd.	Makhteshim Agan West Africa Limited (Nigeria)	100
	Adama West Africa Cote D'lvoire Ltd.	100
	Adama West Africa SARL	100
	Adama Cameroun SUARL	100
Adama (China) Investment Company Limited	Adama (Beijing) Agricultural Technology Company Limited	100

Appendix to the Financial Statements as of December 31, 2016

Holding company	Investee company	Control rate and ownership of holding company %
C. Jointly-controlled associated companies		
Adama Agricultural Solutions Ltd.	Biotech Plant Genomic Fund L.L.P	50
Biotech M.A.H Limited Partnership	Biotech Agro Ltd.	100
Agan Aroma and Fine Chemicals Ltd.	Negev Aroma (Ramat Hovav) Ltd.	50
Adama Agriculture B.V.	Alfa Agricultural Supplies Commercial and Industrial S.A.	49
Alfa Agricultural Supplies Commercial and Industrial S.A.	Agribul Ltd.	100
Fahrenheit	InnovAroma S.A.	50
Adama Colombia S.A.S.	Servicidas de Colombia S.A.S, in liquidation	50
D. Associated company		
Celsius	Hubei Sanonda Co. Ltd.	10.6
Makhteshim	Classeed Ltd.	9.84

Adama Agricultural Solutions Ltd.

Separate Financial Data
As of December 31, 2016
In USD

Separate Financial Data as of December 31, 2016

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Somekh Chaikin
KPMG Millennium Tower
17 Ha'arba'a Street, PO Box 609
Tel Aviv 61006, Israel
+972 3 684 8000

To: The Shareholders of Adama Agricultural Solutions Ltd.

Dear Sirs,

Subject: Special auditors' report on separate financial data according to Regulation 9C of the 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. (hereinafter – "the Company") as at December 31, 2016 and 2015 and for each of the three years, the last of which ended on December 31, 2016. The separate financial data are the responsibility of the Company's Board of Directors and Management. Our responsibility is to express an opinion on the separate financial data based on our audits.

We did not audit the financial statements of equity accounted investees the investment in which amounted to approximately $124,415 thousand and $116,615 thousand as of December 31, 2016 and 2015 respectively, and the Company's share in their profits amounted to approximately $9,574 thousand, $2,236 thousand and $10,108 thousand for each of the three years, the last of which ended December 31, 2016. 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 30, 2017

Separate Financial Data as of December 31, 2016

Data on Financial Position

	Note	December 31 2016 $ thousands	December 31 2015 $ thousands
Current assets			
Cash and cash equivalents	(3)	**740**	1,475
Prepaid expenses		**332**	331
Other receivables		**45,781**	41,569
Receivables from investee companies		**200,115**	340,940
Derivatives		**919**	193
Total current assets		**247,887**	384,508
Long-term investments, loans and receivables			
Investments in investee companies		**1,598,014**	1,559,748
Loans to investee companies		**961,309**	845,819
		2,559,323	2,405,567
Fixed assets		**2,575**	2,811
Intangible assets		**5,356**	5,341
Deferred tax assets	(6)	**-**	-
Total non-current assets		**2,567,254**	2,413,719
Total assets		**2,815,141**	2,798,227

Separate Financial Data as of December 31, 2016

Data on Financial Position

	Note	December 31 2016 $ thousands	December 31 2015 $ thousands
Current liabilities			
Current maturities of debentures	(4)	**-**	100,789
Other payables	(4)	**49,101**	19,059
Derivatives	(4)	**16,090**	30,587
Total current liabilities		**65,191**	150,435
Long-term liabilities			
Debentures	(4)	**1,090,257**	1,077,139
Employee benefits		**5,413**	4,020
Total non-current liabilities		**1,095,670**	1,081,159
Total liabilities		**1,160,861**	1,231,594
Equity			
Share capital		**125,595**	125,595
Share premium		**623,829**	623,829
Capital reserves		**(322,454)**	(309,030)
Retained earnings		**1,227,310**	1,126,239
Total equity attributable to owners of the Company		**1,654,280**	1,566,633
Total liabilities and equity		**2,815,141**	2,798,227

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 30, 2017

The accompanying additional information is an integral part of the separate financial data.

Separate Financial Data as of December 31, 2016

Data on Income

	Note	2016	2015	2014
		Year ended December 31		
	Note	**$ thousands**	**$ thousands**	**$ thousands**
Revenues				
Income from services to investees companies		**39,777**	51,364	47,003
Expenses				
General and administrative expenses		**36,307**	46,460	48,183
Operating (loss) profit		**3,470**	4,904	(1,180)
Financing expenses		**200,558**	250,689	232,016
Financing income		**(200,558)**	(250,685)	(229,460)
Financing income (expenses), net		**-**	(4)	(2,556)
Profit (loss) after financing expenses, net		**3,470**	4,900	(3,736)
Income from investee companies		**160,435**	105,643	150,536
Profit before tax on income		**163,905**	110,543	146,800
Tax on income	(5)	**1,577**	435	395
Profit for the year attributable to the owners of the Company		**162,328**	110,108	146,405

The accompanying additional information is an integral part of the separate financial data.

Separate Financial Data as of December 31, 2016

Data on Comprehensive Income

	Year ended December 31		
	2016	2015	2014
	$ thousands	$ thousands	$ thousands
Profit for the year attributable to the owners of the Company	**162,328**	110,108	146,405
Other comprehensive income items that after initial recognition in comprehensive income were or will be transferred to the statement of income			
Net change in fair value of cash flow hedges transferred to profit or loss	**(480)**	(480)	(482)
Other comprehensive income (loss) in respect of investee companies, net from tax	**(12,986)**	(43,157)	42,743
Taxes on other components of comprehensive income that were transferred or will be transferred to the statement of income in succeeding periods	**42**	44	44
Total other comprehensive income items for the year that after initial recognition in comprehensive income were or will be transferred to the statement of income, net of tax	**(13,424)**	(43,593)	42,305
Other comprehensive income items that will not be transferred to the statement of income			
Re-measurement of defined benefit plan	**659**	211	331
Other comprehensive income in respect of investee companies, net of tax	**(523)**	2,757	551
Total other comprehensive income for the year that will not be transferred to the statement of income, net of tax	**136**	2,968	882
Total comprehensive income for the year attributable to the owners of the Company	**149,040**	69,483	189,592

The accompanying additional information is an integral part of the separate financial data.

Separate Financial Data as of December 31, 2016

Data on Cash Flows

	Year ended December 31		
	2016	**2015**	**2014**
	$ thousands	**$ thousands**	**$ thousands**
Cash flows from operating activities			
Profit for the year attributable to the owners of the Company	**162,328**	110,108	146,405
Adjustments			
Income from investee companies	**(160,435)**	(105,643)	(150,536)
Depreciation and amortization	**2,716**	2,223	1,564
Amortization of discount/premium and issuance costs	**(824)**	(2,334)	(2,813)
Expenses (income) in respect of share-based payment	**(7,435)**	3,462	3,974
Adjustment of long-term liabilities	**14,117**	(10,105)	(132,142)
SWAP transactions	**(480)**	(480)	(482)
Change in deferred taxes, net	**42**	44	44
Changes in assets and liabilities			
Decrease (increase) in trade and other receivables	**3,940**	73,600	(46,639)
Increase (decrease) in trade and other payables	**(9,535)**	(95,023)	115,636
Change in employee benefits	**2,038**	165	(219)
Net cash used in operating activities in respect of transactions with investee companies	**(76,077)**	(97,952)	(104,603)
Net cash used in operating activities	**(69,605)**	(121,935)	(169,811)
Cash flows from investing activities			
Acquisition of fixed assets	**(313)**	(465)	(712)
Additions to intangible assets	**(2,182)**	(2,591)	(3,323)
Dividend received	**100,000**	180,000	-
Net cash provided by (used in) operating activities in respect of transactions with investee companies	**91,096**	(115,564)	125,829
Net cash provided by investing activities	**188,601**	61,380	121,794
Cash flows from financing activities			
Dividend paid to owners of the Company	**(18,521)**	(100,000)	-
Issuance of debentures net of issuance costs	**-**	256,859	146,806
Issuance of options for debentures	**-**	4,505	-
Repayment of debentures	**(101,210)**	(99,909)	(99,909)
Fundraising costs	**-**	-	(2,547)
Net cash provided by (used in) financing activities	**(119,731)**	61,455	44,350
Increase (decrease) net in cash and cash equivalents	**(735)**	900	(3,667)
Cash and cash equivalents at beginning of the year	**1,475**	575	4,242
Cash and cash equivalents at end of the year	**740**	1,475	575
Supplementary information:			
Interest paid in cash	**(63,285)**	(69,470)	(66,271)
Interest received in cash	**2,228**	1,432	1,769
Taxes paid in cash, net	**(1,118)**	(314)	(387)

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, 2016 (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 this 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 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	
	2016	2015
	$ thousands	$ thousands
Cash and cash equivalents denominated in shekels	**78**	927
Cash and cash equivalents linked to the dollar	**364**	286
Cash and cash equivalents linked to other currency	**298**	262
Total cash and cash equivalents	**740**	1,475

4. Financial Instruments

A. Loans and credit

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	3,551,022	1,090,257
Total			3,551,022	1,090,257

Additional Information

4. Financial Instruments (cont'd)

A. Loans and credit (cont'd)

Maturities

	$ thousands
First year (current maturities)	–
Second year	–
Third year	–
Fourth year	64,133
Fifth year and thereafter	1,026,124
	1,090,257

B. Other payables

	December 31, 2016				
	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	**11,341**	**4,658**	**32,915**	**187**	**49,101**

	December 31, 2015				
	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	11,672	4,603	2,711	73	19,059

Additional Information

4. Financial Instruments (cont'd)

C. Liquidity risk

Presented below are the contractual maturity dates of the financial liabilities, including estimates of interest payments:

	As of December 31 2016						
	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	**49,101**	**49,101**	**49,101**	**-**	**-**	**-**	**-**
Debentures	**1,090,257**	**1,775,624**	**51,945**	**56,667**	**56,667**	**121,393**	**1,488,952**
Derivative financial liabilities							
Derivatives in foreign currency	**14,718**	**14,718**	**14,718**	**-**	**-**	**-**	**-**
CPI/NIS forward transactions	**1,372**	**1,372**	**1,372**	**-**	**-**	**-**	**-**
Total	**1,155,448**	**1,840,815**	**117,136**	**56,667**	**56,667**	**121,393**	**1,488,952**

Additional Information

4. Financial Instruments (cont'd)

C. Liquidity risk (cont'd)

	As of December 31 2015						
	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	19,059	19,059	19,059	-	-	-	-
Debentures	1,177,928	1,903,176	162,267	55,473	55,473	55,473	1,574,490
Derivative financial liabilities							
Derivatives in foreign currency	28,617	28,617	28,617	-	-	-	-
CPI/NIS forward transactions	1,970	1,970	1,970	-	-	-	-
Total	1,227,574	1,952,822	211,913	55,473	55,473	55,473	1,574,490

Additional Information

4. Financial Instruments (cont'd)

C. 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:

	2016								
	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:	**(481)**	**(481)**	**(240)**	**(241)**	**-**	**-**	**-**	**-**	**-**

	2015								
	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:	(962)	(962)	(240)	(241)	(481)	-	-	-	-

Additional Information

4. Financial Instruments (cont'd)

D. Linkage and foreign currency risks

(1) Presented below are the company exposure to linkage and foreign currency risk in respect of derivatives:

	December 31 2016				
	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	23/1/2017	**1,097,618**	**(14,432)**
CPI forward contract	CPI	NIS	20/4/2017	**650,195**	**(739)**

	December 31 2015				
	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	10/1/16	1,104,945	(28,424)
CPI forward contract	CPI	NIS	16/4/16	571,502	(1,970)

Additional Information

4. Financial Instruments (cont'd)

E. Sensitivity analysis

A strengthening or weakening of the dollar against the shekel as of 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 2016 was made on the same basis.

	December 31, 2016			
	Decrease of 5%		Increase of 5%	
	Equity	Profit (loss)	Equity	Profit (loss)
	$ thousands	$ thousands	$ thousands	$ thousands
Shekel	**7,312**	**7,312**	**(6,371)**	**(6,371)**
CPI	**28,099**	**28,099**	**(28,099)**	**(28,099)**

	December 31, 2015			
	Decrease of 5%		Increase of 5%	
	Equity	Profit (loss)	Equity	Profit (loss)
	$ thousands	$ thousands	$ thousands	$ thousands
Shekel	2,826	2,826	(6,356)	(6,356)
CPI	26,757	26,757	(26,757)	(26,757)

5. Income tax expenses (income)

A. Components of income tax expenses (income)

	For the year ended December 31		
	2016	2015	2014
	$ thousands	$ thousands	$ thousands
Current tax expenses (income)			
For the current period	**766**	391	381
Adjustments for prior years, net	**769**	-	(30)
	1,535	391	351
Deferred tax expenses			
Creation and reversal of temporary differences	**42**	44	44
Changes in the tax rate	**-**	-	-
	42	44	44
Total income tax expenses	**1,577**	435	395

Additional Information

5. Income tax expenses (income) (cont'd)

B. Income taxes on components of other comprehensive income

	For the year ended December 31								
	2016			2015			2014		
	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	**(480)**	**42**	**(438)**	(480)	44	(436)	(482)	44	(438)
Actuarial gains (losses) from defined benefit plan	**659**	**-**	**659**	211	-	211	331	-	331
Total	**179**	**42**	**221**	(269)	44	(225)	(151)	44	(107)

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 of January 1, 2015	-	-
Changes charged to statement of income	(44)	(44)
Changes charged to other comprehensive income	44	44
Deferred tax asset balance as of December 31, 2015	-	-
Changes charged to statement of income	**(42)**	**(42)**
Changes charged to other comprehensive income	**42**	**42**
Deferred tax asset balance as of December 31, 2016	**-**	**-**

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 Adama Makhteshim Ltd. (hereinafter – “Adama Makhteshim”).

As of December 31, 2016, deferred taxes were not recognized in respect of losses for tax purposes of the Company and of Adama Makhteshim, in the amount of $16.5 million (December 31, 2015, the amount of $48 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 Adama Makhteshim have received final tax assessments up to and including the 2011 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 $238 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.

C. Agreement to provide services

The Company provides services to subsidiaries in the Group, consulting services and various headquarter services. For these services, the subsidiaries pay annual consideration, which is calculated based on the cost of the services plus a designated margin.

8. Buy-back of shares

See Note 21E to consolidated financial statements.

Chapter D

Additional Information on the Corporation

Chapter D – Additional Information on the Corporation

Company Name: ADAMA Agricultural Solutions Ltd.

Company ID No.: 52-004360-5

Address: Golan St., POB 298, Airport City, 7015103

Fax: 073-2321937

Telephone: 073-2321000

Email: main@adama.com

Balance Sheet Date: December 31, 2016

Report date: March 30, 2017

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Regulation 10A – Condensed Quarterly Consolidated Statements of Income (in USD thousands)

	Year	Quarter 4	Quarter 3	Quarter 2	Quarter 1
	Jan-Dec 2016	Oct-Dec 2016	Jul-Sep 2016	Apr-Jun 2016	Jan-Mar 2016
Sales Revenues	3,070,165	667,942	741,301	807,766	853,156
Cost of Sales	2,036,858	461,857	480,942	537,041	557,018
Gross Profit	1,033,307	206,085	260,359	270,725	296,138
Other Revenues	(9,738)	(759)	(1,265)	(1,441)	(6,273)
Sales and Marketing Expenses	549,731	142,779	136,894	135,038	135,020
General and Administrative Expenses	111,665	25,158	29,809	29,811	26,887
Research and Development Expenses	32,684	9,105	7,536	8,300	7,743
Other Expenses	4,803	1,960	2,143	82	618
Total Expenses	689,145	178,243	175,117	171,790	163,995
Operating Profit	344,162	27,842	85,242	98,935	132,143
Finance Expenses, Net	140,350	34,723	38,559	37,840	29,228
Profit After Finance	203,812	(6,881)	46,683	61,095	102,915
Share of income (losses) of equity-accounted investee companies	(16,622)	(15,790)	(1,170)	771	(433)
Profit before Income Tax	187,190	(22,671)	45,513	61,866	102,482
Income Tax Expenses	22,520	9,315	12,350	4,905	(4,050)
Profit for the Period	164,670	(31,986)	33,163	56,961	106,532
Attributed to:					
The Company Owners	162,328	(31,986)	33,163	56,961	104,190
Holders of non-controlling rights	2,342	-	-	-	2,342
Profit for the period	164,670	(31,986)	33,163	56,961	106,532

Condensed Quarterly Statements of Comprehensive Income (in USD thousands)

	Year Jan-Dec 2016	Quarter 4 Oct-Dec 2016	Quarter 3 Jul-Sep 2016	Quarter 2 Apr-Jun 2016	Quarter 1 Jan-Mar 2016
Profit for the period	164,670	(31,986)	33,163	56,961	106,532
Other comprehensive income items that after initial inclusion as comprehensive income were or will be transferred to the Profit & Loss statement:					
Foreign currency discrepancies from foreign operations	(13,865)	(15,198)	1,842	(7,461)	6,952
Foreign currency discrepancies from foreign operations transferred to the Profit & Loss statement	(82)	-	-	(82)	-
Effective portion of changes in fair value of cash flow hedges	14,310	30,028	(1,576)	8,684	(22,826)
Net change in fair value of cash flow hedges transferred to the Profit & Loss statement	(14,237)	106	311	1,120	(15,774)
Taxes in respect of other comprehensive income items that were or will be transferred to the Profit & Less statement in consecutive periods.	539	(2,724)	235	(28)	3,056
Total other comprehensive income for the year that after initial inclusion as comprehensive income were or will be transferred to the Profit & Loss statement, net of tax	(13,335)	12,212	812	2,233	(28,592)
Other comprehensive income that will not be transferred to the Profit & Loss statement:					
Re-measurement of defined benefit plan	84	2,766	1,625	(1,579)	(2,728)
Taxes in respect of other comprehensive income items that will not be transferred to the Profit & Loss statement	52	(202)	(286)	223	317
Total other comprehensive income for the year, that will not be transferred to the Profit & Loss statement, net of tax	136	2,564	1,339	(1,356)	(2,411)
Total comprehensive income for the period	**151,471**	**(17,210)**	**35,314**	**57,838**	**75,529**
Total comprehensive income attributed to:					
Company owners	149,040	(17,210)	35,314	57,838	73,098
Holders of non-controlling rights	2,431	-	-	-	2,431
Total comprehensive income for the period	**151,471**	**(17,210)**	**35,314**	**57,838**	**75,529**

Regulation 10C – Use of Security Proceeds

On May 9, 2010, the Company published a shelf prospectus ("**the Shelf Prospectus**"), whereby the Company was permitted to make public offer of 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. 2012-01-015084), additional Company Debentures (Series B and D) were listed for trading on the Tel Aviv Stock Exchange Ltd. by means of series expansion, at a total par value of NIS 1,054,097,000[1].

As noted in the aforementioned shelf offering report, the Company utilized the debenture proceeds for various purposes, as designated by the Company, including for the implementation and realization of its business strategy goals and for improvement of the structure of its net debt.

For information regarding the Company's Growth strategy, see Section 34 of Chapter A of this report.

Regulation 11 – List of Investments in Subsidiaries and Associated Companies[2]

Company Name	Stock exchange number	Class of share	Number of shares held by the Company	Total par value issued and outstanding held by the Company	Cost (in USD 000's)	Value in Company separate financial statements (in USD 000's)	% held by Company			
							In security	In equity	In voting	In authority to appoint directors
ADAMA Makhteshim Ltd.	Not traded	Ordinary	132,939,834	132,939,834	219,216	879,343	100%	100%	100%	100%
ADAMA Agan Ltd.	Not traded	Ordinary	15,065,980	15,065,980	206,962	612,653	100%	100%	100%	100%
Lycored Ltd.[3]	Not traded	Ordinary	15,223,428	15,223,428	17,689	106,018	100%	100%	100%	100%
Total investments in subsidiaries					**443,867**	**1,598,014**				

[1] On November 30, 2016 the Company executed a full redemption of its debentures (Series D). For further information see the immediate report of December 1, 2016 (Ref. 2016-01-085086).

[2] The table is accurate to the financial statements date and only refers to the most significant companies.

[3] Lycored Ltd. Holds 2,535,870 of its shares, which according to Article 308(a) of the Companies law do not confer any rights.

Balance of loans to subsidiaries and associated companies (in USD thousands)[2]

Company name	Loan amount	Linkage terms	Interest rate	Maturity date
ADAMA Agan Ltd.	461,747	Dollar-linked	6.55%	Yet to be established
ADAMA Makhteshim Ltd.	499,562	Dollar-linked	6.55%	Yet to be established
Total	**961,309**			

Regulation 12 – Changes in Investments in Subsidiary and Associated Companies

Over the course of 2016 the Company executed an investment in a subsidiary, in the amount of approximately USD 5 million.

Regulation 13 – Revenues of Subsidiaries and Associated Companies and Company Revenues therefrom (in USD thousands)[2]

Name of Subsidiary	Profit		Company's Revenues		
	Prior to provision for tax	After provision for tax, including equity gains from subsidiaries	Dividend	Management fees	Interest, linkage differences
ADAMA Makhteshim Ltd.	23,192	95,821	-	9,648	37,586
ADAMA Agan Ltd.	16,107	61,277	100,000	15,030	39,111
Lycored Ltd.	4,058	3,337	-	1,244	-

Regulation 21 – Compensation to Senior Officers

A. Compensation paid to Senior Officers in the Company and its Controlled Corporations in the reporting year

Compensation Recipient				Compensation for services (in NIS thousands) (*)			
Name	Title	Scope of position	Holding in Company equity	Salary(1)	Bonus for 2016(4)	LTI (3)	Total
Chen Lichtenstein(2)(5)	President and CEO	100%	0%	2,741	6,274	4,029	13,044
Ignacio Dominguez(5)	CCO	100%	0%	2,816	1,726	1,381	5,923
Shaul Friedland(5)	CCO	100%	0%	2,542	1,726	1,381	5,649
Aviram Lahav (5)	CFO	100%	0%	2,104	1,419	1,381	4,904
Elhanan Abramov (5)	EVP Global Operations	100%	0%	1,990	1,419	1,381	4,790

(1) The salary component stated above includes the following primary components: social benefits, accepted social provisions and related expenses, grossing up of vehicle value, landline and cellular phone expenses reimbursement and linkage to the relevant CPI.

(2) On April 24, 2014 and May 11, 2014, the Remuneration Committee, Board of Directors and Company's shareholders approved the employment terms of Mr. Lichtenstein, effective from the date of commencement of employment on February 7, 2014, and the allocation of additional options convertible to the Company's shares, in addition to those allocated pursuant to the approval of the Remuneration Committee and the Board of Directors on December 16, 2013 and December 24, 2013.[4]

(3) Pursuant to the Company Remuneration Committee and Board of Directors approval, dated August 17, 2016 and August 28, 2016 (and the approval of the Company's shareholder regarding the CEO of August 28 2016), the Company granted long term cash incentives to the office holders according to a long term cash incentive plan.

(4) It is noted that during 2016, the Remuneration Committee and the Board of Directors of the Company in their meetings dated March 14, 2016 approved bonuses to officers for 2015, as detailed in Chapter D of the Periodic report for 2015. The Bonus to Mr. Abramov was approved in accordance with section 272(c)(2) of the Companies Law.

(5) Pursuant to the Company Remuneration Committee and Board of Directors approval, dated December 16, 2013 and December 24, 2013, on January 29, 2014 the Company granted the office holders and approximately 160 other employees ("**Grantees**") options convertible to the Company's shares and other rights ("**Options**") according to the option plan (and its supplement plan) ("**Option Plan**") adopted by the Company. Due to the advancing of the combination with Sanonda as described in the Board of Directors Report and Note 19A(9) of the financial statements, the expenses recorded in the financial statements as of 2014 due to Option Plan were canceled and in parallel, and in light of certain provisions of the Option Plan, an expense was recorded due to the Company's obligation to compensate the Grantees which is lower than the income recorded as a result of the said expenses cancelation. After the balance sheet date, the Board of Directors approved the cancelation of the Option Plan and the Options and rights granted according to it against a payment of compensation to the Grantees, all subject to the closing of the Sanonda combination transaction and the approval of the Grantees. The compensation approved to the office holders is as follows: Mr. Chen Lichtenstein – NIS 6,664 thousands, Mr. Ignacio Dominguez, Mr. Shaul Friedland, Mr. Aviram Lahav and Mr. Elhanan Abramov – an amount of NIS 2,239 thousands each.

(*) Compensation amounts are in terms of cost to the Company. As per the average 2016 NIS-USD exchange rate.

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[4] For further details, see the reports of December 25, 2013 (ref. 2013-01-107488 and ref. 2013-01-107494) and of May 12, 2014 (ref. 2014-01-061290).

B. Compensation paid to Senior Officers after the Balance Sheet Date, with regard their tenure or employment in the reporting year

See the above table.

C. Compensation paid to each of the Interested Parties in the Company Who is Not Included in the Section Above

During the course of 2016, compensation to directors that did not exceed the norm (i.e. did not exceed the maximum amount under Regulations 4 and 5 of the Companies Regulations (Principles for Compensation and Expenses for an External Director), 5760-2000) ("**the Compensation Regulations**"), and with regard to all entitled directors amounted to approximately NIS 855 thousand. As per the Company Articles of Association, insofar as it has not been determined otherwise by the Company's shareholder, directors in the Company are not entitled to any compensation for their service other than reimbursement of expenses, to the exclusion of external directors and the independent director, who are entitled to the maximum compensation established in the Compensation Regulations.

On November 22, 2016 Mr. Ami Erel concluded his term as a director. Prior to the close of his term, payment had been made to Mr. Ami Erel of Directors' Compensation, which is identical to that compensation approved for external directors, as per the authorization of the Company shareholders on June 6, 2013.[5]

Regulation 21A – Control in the Company

At the report date, the controlling shareholder in the Company is China National Agrochemical Corporation ("**CNAC**").

For further information regarding the sale of the minority shares held by Koor Industries Ltd. and the transfer of the entire shares of the to CNAC, see section 3 of Chapter A of this Periodic Report.

[5] For information regarding the conclusion of Mr. Ami Erel's term as a Company director, see the immediate report of November 23, 2016 (ref. 2016-01-081180).

Regulation 22 – Transactions with Controlling Shareholders

For details regarding those transactions with the controlling shareholder or wherein the controlling shareholder has a personal interest in the authorization thereof[6] (with the exclusion of negligible transactions), executed by the Company during the report period, or at a date following the close of the report year until the report filing date, or those still in effect on the report date, see Note 28 to the financial statements of the Company as of December 31, 2016.

Negligible transactions procedure

At its meeting on March 28, 2017, the Company's Audit Committee reviewed the manner of implementation of the negligible transactions procedure in 2016 and examined a sampling of transactions classified during 2016 as negligible as per the procedure. Consequently, the Audit Committee determined that the Company implements the procedure as required.

For information regarding the negligible transactions procedure see Note 28 to the financial statements of the Company as of December 31, 2016.

Regulation 24 – Holdings of Interested Parties and Senior Officers

For information regarding the holdings of interested parties in securities of the Company as of December 31, 2016, see the Company's immediate report of January 5, 2017 (Ref: 2017-01-002211), 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 report date, the register of the Company's shareholders is as follows:

Shareholder Name	Corporate / ID No.	Street	City	Residency	Par value
China National Agrochemical Corporation	91110000100011399Y	62 Beisihuan Xilu, Haidian District	Beijing	China	137,990,881

[6] Due to the fact that prior to the sale of its minority shares in the Company, Koor may have been considered a joint holder with CNAC and therefore and in the interest of caution, as a possible controlling shareholder, Regulation 22 also enumerates transactions made with Koor and/or with companies in the IDB group preceding the said sale of minority shares.

Regulation 26 – Corporation Directors[7]

Name of Director	Yang Xingqiang	Ren Jianxin
Passport Number	SE0130853	SE0131803
Date of birth	1967	1958
Address for serving court documents	c/o Gross, Kleinhendler, Hodak, Halevy, Greenberg & Co., 1, Azrieli Center (Round Tower),Tel Aviv 60721, Israel	c/o Gross, Kleinhendler, Hodak, Halevy, Greenberg & Co., 1, Azrieli Center (Round Tower), Tel Aviv 60721, Israel
Citizenship	Chinese	Chinese
Member of board committees	No	No
Independent director or an external director	No	No
Has accounting and financial expertise or professional qualifications	Professional Qualifications	Professional Qualifications
An employee of the Company, a subsidiary, an associated company of the Company or an interested party	President of China National Chemical Corporation, an indirect shareholder of the Company.	Chairman of China National Chemical Corporation, an indirect shareholder of the Company.
Commencement of tenure	October 17, 2011	October 17, 2011
Education	B.Sc. Chemistry, Sichuan University	Master of Economics and Management, Lanzhou University
Activities in preceding five years and service as a director in additional corporations	2014-Present: President, China National Chemical Corporation Oct 2011 – Dec 2016: Chairman, China National Agrochemical Corporation 2009-2014: Vice President, China National Chemical Corporation	Since 2014: Chairman of China National Chemical Corporation; 2004-2014: President, China National Chemical Corporation.
A family member of another interested party in the Company (to the best of the knowledge of the Company and its directors)	No	No
A director considered by the Company to have accounting and finance expertise for the purpose of compliance with the minimum quantity established by the Board pursuant to Section 92(A)(12) of the Companies Law	No	No

[7] As of March 30, 2017.

Name of director	Lu Xiaobao	An Liru
Passport Number	SE0008896	PE0610845
Date of birth	1965	1969
Address for serving court documents	Gross, Kleinhendler, Hodak, Halevy, Greenberg & Co., 1, Azrieli Center (Round Tower), Tel Aviv 60721, Israel	c/o Gross, Kleinhendler, Hodak, Halevy, Greenberg & Co., 1, Azrieli Center (Round Tower), Tel Aviv 60721, Israel
Citizenship	Chinese	Chinese
Member of board committees	No	No
Independent director or an external director	No	No
Has accounting and financial expertise or professional qualifications	Accounting and Financial Expertise	Professional Qualifications
An employee of the Company, a subsidiary, an associated company of the Company or an interested party	Vice President of China National Chemical Corporation, an indirect shareholder of the Company	Chairman and Secretary of the Communist Party Committee of CNAC
Commencement of tenure	September 20, 2012	February 27, 2014
Education	Bachelor of Applied Chemistry, Beijing University of Chemical Technology; MBA of The Open University of Hong Kong.	B.A. in Applied Chemistry, Nanjing University. M.A in Chemical Engineering and MBA, Nanjing University
Activities in preceding five years and service as a director in additional corporations	2014 - present: Vice President of China National Chemical Corporation. 2012-2014: – Assistant President of China National Chemical Corporation. 2010 - present – President of China National Bluestar (Group) Co. Ltd.	Dec 2016 - present – Chairman, CNAC 2014 – Dec 2016 - Acting CEO, CNAC 2013 - present - Secretary of the Communist Party Committee, of CNAC 2009 - 2013 - Chairman of Jiangsu Huaihe Chemical Co.
A family member of another interested party in the Company (to the best of the knowledge of the Company and its directors)	No	No
A director considered by the Company to have accounting and finance expertise for the purpose of compliance with the minimum quantity established by the Board pursuant to Section 92(A)(12) of the Companies Law	No	No

Name of director	Gustavo Traiber	Dalit Braun
Passport Number	01114826	022416929
Date of birth	1961	1966
Address for serving court documents	39 Rupin St. Tel Aviv, 63457	8/76 Balfour St. Tel Aviv Israel
Citizenship	Israeli	Israeli
Member of board committees	Audit Committee, Financial Statements Review Committee, Remuneration Committee.	Audit Committee, Financial Statements Review Committee, Remuneration Committee.
Independent director or an external director	External Director	External Director
Has accounting and financial expertise or professional qualifications	Accounting and Financial Expertise	Accounting and Financial Expertise
An employee of the Company, a subsidiary, an associated company of the Company or an interested party	No	No
Commencement of tenure	March 12, 2015	March 12, 2015
Education	MBA-Business administration specializing in finance, Interdisciplinary Center (IDC) Herzliya. B.A in Political Science and International Relations, The Hebrew University of Jerusalem.	MBA-Business administration – Tel Aviv University Master degree in European Business Law, Anglia Ruskin University, UK. B.Sc- Industrial Engineering and Management –Technion
Activities in preceding five years and service as a director in additional corporations	2010-December 2014: CEO and Partner of Sun Team Group Ltd.	2011-present: Founder and CEO of Pick'nTell 2014-present: External Director in "Dira LeHaskir (Government company) 2011-2014: Chairperson of the Board of Kela Foundation 2010-2013: External Director at Mekorot
A family member of another interested party in the Company (to the best of the knowledge of the Company and its directors)	No	No
A director considered by the Company to have accounting and finance expertise for the purpose of compliance with the minimum quantity established by the Board pursuant to Section 92(A)(12) of the Companies Law	Yes	Yes

Name of director	Jiashu Cheng
Passport Number	G39600654
Date of birth	1953
Address for serving court documents	ADAMA Agricultural Solutions Ltd., Golan Street, Airport City 7015103, Israel
Citizenship	Chinese
Member of board committees	Audit Committee, Financial Statements Review Committee, Remuneration Committee.
Independent director or an external director	Independent Director
Has accounting and financial expertise or professional qualifications	Accounting and Financial Expertise
An employee of the Company, a subsidiary, an associated company of the Company or an interested party	No
Commencement of tenure	March 10, 2015
Education	Master of Art in Economic Development, Stanford University; Master of Art in Economics, Stanford University; Major in Planning and Statistics, Department of Economics, Hebei University
Activities in preceding five years and service as a director in additional corporations	2005-2013: President of China Operation of Celanese Corporation
A family member of another interested party in the Company (to the best of the knowledge of the Company and its directors)	No
A director considered by the Company to have accounting and finance expertise for the purpose of compliance with the minimum quantity established by the Board pursuant to Section 92(A)(12) of the Companies Law	Yes

Regulation 26A – Senior Officers[8]

Name of officer	Chen Lichtenstein	Aviram Lahav	Elhanan Abramov
Identification No.	022977631	056115876	052746302
Date of birth	1967	1959	1954
Commencement of office	January 26, 2006	June 1, 2010	April 1, 2012
An interested party in the Company / a family member of another senior officer or an interested party	No	No	No
Education	Doctorate in Business Administration and Law, Stanford University	BA Accounting, Hebrew University of Jerusalem Graduate of AMP, Harvard School of Business Management	Ph.D. Materials Engineering, Ben Gurion University; M.Sc. Materials Engineering, Ben Gurion University; B.Sc. Mechanical and Nuclear Engineering, Ben Gurion University
Position in the Company, subsidiary, associated company of the Company or of an interested party	President and CEO	CFO and Director of several Group companies	EVP Global Operations
Activities in the preceding five years	2012-2014: Deputy CEO Adama Agricultural Solutions Ltd. 06/2013-03/2014: President and CEO of China National Agrochemical Corporation. 2006-2012: VP Global Resources and Business Development	CFO of the Company	EVP Global Operations; Director of IMI Systems Ltd. (2016 – present), CEO Baran Group (2009-2012); Chairman of the Board of College of Engineering in the Negev (2002 – present); Chairman of Mata Association (2000-2015)

[8] As of March 30, 2017.

Name of officer	Shaul Friedland	Ignacio Dominguez	Michal Arlosoroff
Identification No.	060847746	PAD250629 (Spanish passport)	055458921
Date of birth	1952	1960	1958
Commencement of office	November 1, 2003	September 5, 2007	August 1, 2007
An interested party in the Company / a family member of another senior officer or an interested party	No	No	No
Education	B.Sc. and M.Sc. in Agronomy, Hebrew University of Jerusalem.	Master in Automatic Calculus, Complutense University of Madrid	LLB, B.A. Political Science, Tel Aviv University Graduate of AMP, Harvard School of Business Management
Position in the Company, subsidiary, associated company of the Company or of an interested party	CCO	CCO	SVP, General Counsel and Company Secretary, Corporate Social Responsibility Director (CSR)
Activities in the preceding five years	CCO; SVP Sales and Marketing in the Company; CEO of subsidiary – Head of Americas Region	CCO; CEO of subsidiary – Head of Europe Region	SVP, General Counsel and Company Secretary, Corporate Social Responsibility Director (CSR)

Name of officer	Daniel Harari	Shiri Ailon	Keren Yonayov	Yehoshua Hazenfratz
Identification No.	55732408	031999816	025699950	52187966
Date of birth	1959	1975	1974	1953
Commencement of office	January 1, 2010	July 1, 2014	June 1, 2010	November 6, 2007
An interested party in the Company / a family member of another senior officer or an interested party	No	No	No	No
Education	B.A. Arabic and Middle East Studies, Tel Aviv University M.A. Middle East Studies, Tel Aviv University M.A. Political Science, Haifa University	L.L.B, Tel Aviv University; MBA, Oxford Business School.	Business Management and Accounting – The College of Management, Rishon Lezion; CPA, LL.M for auditors – Bar Ilan University.	B.A. Economics and Accounting, Tel Aviv University
Position in the Company, subsidiary, associated company of the Company or of an interested party	SVP Strategy and Resources	VP China Integration and Corporate Development.	Comptroller of the Group	Internal Auditor
Activities in the preceding five years	SVP Strategy and Resources; SVP Strategy and Resources, Innovations and Knowledge Management in the Company	Head of Corporate business development and integration with China; Head of Mergers and Acquisitions (2009-2013).	Comptroller in the Group	Partner at RSM Shiff Hazenfratz & Co. Internal Auditor at Oil and Energy Infrastructures Ltd., Cross Israel Highway Ltd., Castro Ltd., Clal Biotechnology Ltd.

Regulation 26B – Independent Authorized Signatories

At the report date the Company does not have authorized signatories with the power to bind the Company in any particular action, without requiring the signature of another authority in the corporation.

Regulation 27 – Corporation Auditors

Somekh Chaikin & Co. of 17 Ha'arba'a Street, Tel Aviv. On March 30, 2017 the appointment of the accounting firm of Brightman, Almagor, Zohar & Co. from the Deloitte Group was authorized as the auditing accountants of the Company, commencing with the third quarter of 2017.

Regulation 28 – Adjustments to the Articles of Association or Memorandum

On May 19, 2016, the general meeting of the Company approved an amendment to the Articles of Association whereby, inter alia, the stipulations of said articles were made consistent with the stipulations of the law as these have been amended over time, with regard to those expenses and/or liabilities that officers may be insured and indemnified therefor.[9]

On November 22, 2016 the general meeting of the Company approved the replacing of the Company Articles of Association consequent to the completion of the purchase by CNAC of the minority shares held by Koor.[10]

Regulation 29 – Board of Directors Recommendations and Resolutions

A. Regulation 29(a)

1. On September 15, 2016 the Company's Board of Directors declared a dividend in the amount of approximately USD 40 million, of which only an amount of approximately USD 18 million was paid to the shareholders, at that time, by the report date[11].
2. For details regarding transactions with the Company's controlling shareholder, see Regulation 22 above.

C. Regulation 29(c) – Resolutions of Special General Meetings

1. On February 4, 2016 the general meeting of the Company, at that time, approved the Company's engagement in a transaction for the sale of the Sanonda Ltd. B Shares held by the Company, subject to the completion of the Sanonda Combination Transaction, as defined in section 1 of Chapter A of this Periodic

[9] See the Immediate Report on May 22, 2016 (Ref. 2016-01-030099).

[10] See the Immediate Report on November 23, 2016 (Ref. 2016-01-081198).

[11] For information regarding this dividend see Section 4 of Chapter A of this Periodic Report.

Report, and pursuant to the terms set out in the Company's immediate report dated February 7, 2016 (Ref. No. 2016-01-023893).

2. On May 19, 2016 and on November 22, 2016 the general meeting of the Company approved the amendment to the Articles of Association as detailed above in Regulation 28.
3. On September 15, 2016, the general meeting of the Company, at that time, declared a dividend in the amount of approximately USD 40 million, as detailed above in Regulation 29(a).
4. Following the report date, on January 19, 2017, the general meeting of the Company approved an extension and amendment of the Company Remuneration Policy.[12]
5. On August 24, 2016 and on March 30, 2017, the general meeting of the Company approved resolutions in connection with the remuneration of the CEO of the Company and of a senior officer, as detailed in Regulation 21 above.

Regulation 29A – Company Resolutions

Listed below are resolutions of the Company Board of Directors that are not specified in the above "Regulation 29 – Board of Directors Recommendations and Resolutions":

1. **Extraordinary Transactions requiring special approval under section 270(1) of the Companies Law:** There are no such resolutions which are not mentioned in "Regulation 29 – Board of Directors Recommendations and Resolutions" or in "Regulation 22 – Transactions with Controlling Shareholders".

2. **Officers Exemption, Indemnification and Insurance:** See Note 19(a)(1) and 19(a)(2) to the financial statements.

[12] See Immediate Report of January 22, 2017 (Ref. 2017-01-007357).

Date: March 30, 2017

Yang Xingqiang, Chairman

Chen Lichtenstein, CEO

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:

- Chen Lichtenstein, President and CEO
- Aviram Lahav, CFO
- Ignacio Dominguez, CCO.
- Shaul Friedland, CCO.
- Elhanan Abramov, EVP, Global Operations
- Michal Arlosoroff, SVP, General Legal Counsel
- Dani Harari, SVP, Strategy and Resources

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.

The assessment of the effectiveness of internal auditing of financial reporting and disclosure carried out by the Management under the supervision of the Board of Directors consisted four main components:

- Entity Level Controls.
- Financial Reporting Process and Disclosure.
- Information Technology General Controls (ITGC's).
- Control's regarding very significant processes connected with financial reporting: Sales, Inventories, Purchasing and Hedging transactions / derivatives.

Based on the assessment of the effectiveness, carried out by the Management under the supervision of the Board of Directors as stated above, 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, 2016 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 2016 (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: 30.03.2017	Chen Lichtenstein President and CEO

Officers' Certification

Certification of Chief Financial Officer

I, Aviram Lahav, certify that:

(1) I have examined the financial statements and other financial information included in the reports of Adama Agricultural Solutions Ltd. (hereinafter – "the Company") for the year 2016 (hereinafter – "the Reports").

(2) Based on my knowledge, the financial statements and other financial information included in 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 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.

Date: 30.03.2017

Aviram Lahav
CFO