אדמה פתרונות לחקלאות בע"מ

ADAMA Agricultural Solutions Ltd.

PERIODIC REPORT
FOR THE YEAR 2014

The information contained herein constitutes an unofficial translation of the Annual Report for the year 2014 published by the Company in Hebrew.

The Hebrew version is the binding version.

אדמה פתרונות לחקלאות בע"מ
ADAMA Agricultural Solutions Ltd.

Periodic Report for the Year 2014

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אדמה פתרונות לחקלאות בע"מ

ADAMA Agricultural Solutions Ltd.

Chapter A

Description of the Company's Business

Chapter A

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CHAPTER A - THE COMPANY'S BUSINESS

ADAMA Agricultural Solutions Ltd. (formerly Makhteshim-Agan Industries Ltd.) hereby submits its Annual Report for 2014. The Annual Report consists of five complementary chapters and should be seen as a single document ("the Report").

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

ADAMA	-	ADAMA Agricultural Solutions Ltd.
The Company or the Group or ADAMA Group	-	ADAMA, including all its subsidiaries, unless expressly stated otherwise.
Koor	-	Koor Industries Ltd.
CNAC	-	China National Agrochemical Corporation, a Chinese company and part of the ChemChina Group.
CC or ChemChina	-	China National Chemical Corporation.
Makhteshim	-	ADAMA Makhteshim Ltd.
Agan	-	ADAMA Agan Ltd.
TASE	-	Tel Aviv Stock Exchange.
Financial Statements	-	The Company’s consolidated financial statements as of December 31, 2014 attached to this Periodic Report.
Merger Agreement or Merger Transaction	-	As defined in Section 1.1 below.
Securities Law	-	Israel Securities Law, 1968
Acquisition Transaction in China	-	As defined in section 1.4.2 below.

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.

Part I - General Development of the Company's Business

1. THE COMPANY'S ACTIVITIES AND GENERAL BUSINESS DEVELOPMENT

1.1. General

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

At the time of this Report, the crop protection products produced by the Company are based mainly on off-patent substances, i.e. products similar to patent-protected products in terms of their active ingredients (after the patents have expired). Although the Company's products are usually not protected by patents, they do, however, require registration. A significant part of the Company's products in its additional activities (see Section 18) are specialty products developed by the Company, and the Company continually examines additional options for developing or marketing specialty products.

At the time of this Report and to the best of its knowledge, the Company is the world's leading off-patent company (by sales), and is ranked seventh in the world (in terms of sales) among companies engaged in the field of crop protection (both specialty/research-based and off-patent). At the time of this Report, the Company sells its products in approximately 100 countries, through some 50 subsidiaries worldwide, all as described in this Report below. For details regarding the Company's objectives and strategy, see section 31 of the Report.

The Company's business model integrates end customer access, local product development, licensing expertise in more than 100 countries, global R&D and production capacities, thereby providing the Company a significant competitive edge and allowing it to launch new products in key markets worldwide.

ChemChina Merger

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

On October 19, 2011, after the Merger Transaction was closed, the Company's shares were delisted from the TASE and the Company became a private company, with 60% held indirectly by CC (through a sub-subsidiary of CNAC) and 40% held by Koor Companies. However, although the Company continues to be a Reporting Corporation, as this term is defined in the Securities Law, since the debentures issued by the Company in the past continued to be listed for trading on the TASE after the Merger Transaction was closed. It is noted that, commencing from the date on which the Companies Law (Amendment No. 17), 2011 ("**Amendment 17**") came into force, the Company is a Debentures Company, as such term is defined on the Companies Law, 1999. For additional information on the Merger Transaction and its related agreements, see section 2.1 of this Report.

Acquisition of companies in China

On October 1, 2014, the Company engaged in a transaction in terms of which it will acquire from CNAC four companies operating in the agrochemical and complementary fields in China. For further information, see Section 1.4.2 below.

Public offering

In the latter half of 2014, the Company prepared to execute a public offering of its shares on the New York Stock Exchange (the "**Public Offering**"). On November 20, 2014 the Company announced that, in view of the capital market conditions, it had decided to postpone the Public Offering. For further information, see Section 1.4.3 below.

Launch of Global Brand

As part of the process of building a new marketing strategy, during 2014, the Company launched a new and uniform global brand for all its products and those of its subsidiaries – ADAMA. The branding process is being implemented globally and its assimilation in all Group companies is expected to be completed by the end of 2015. As the first stage in the process, the Company changed its name on January 23, 2014 from Makhteshim-Agan Industries Ltd. to ADAMA Agricultural Solutions Ltd, and the names of most active companies in the Group were changed, so that their new name includes the name ADAMA.

Company President and CEO

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

1.2. The Company's area of operation

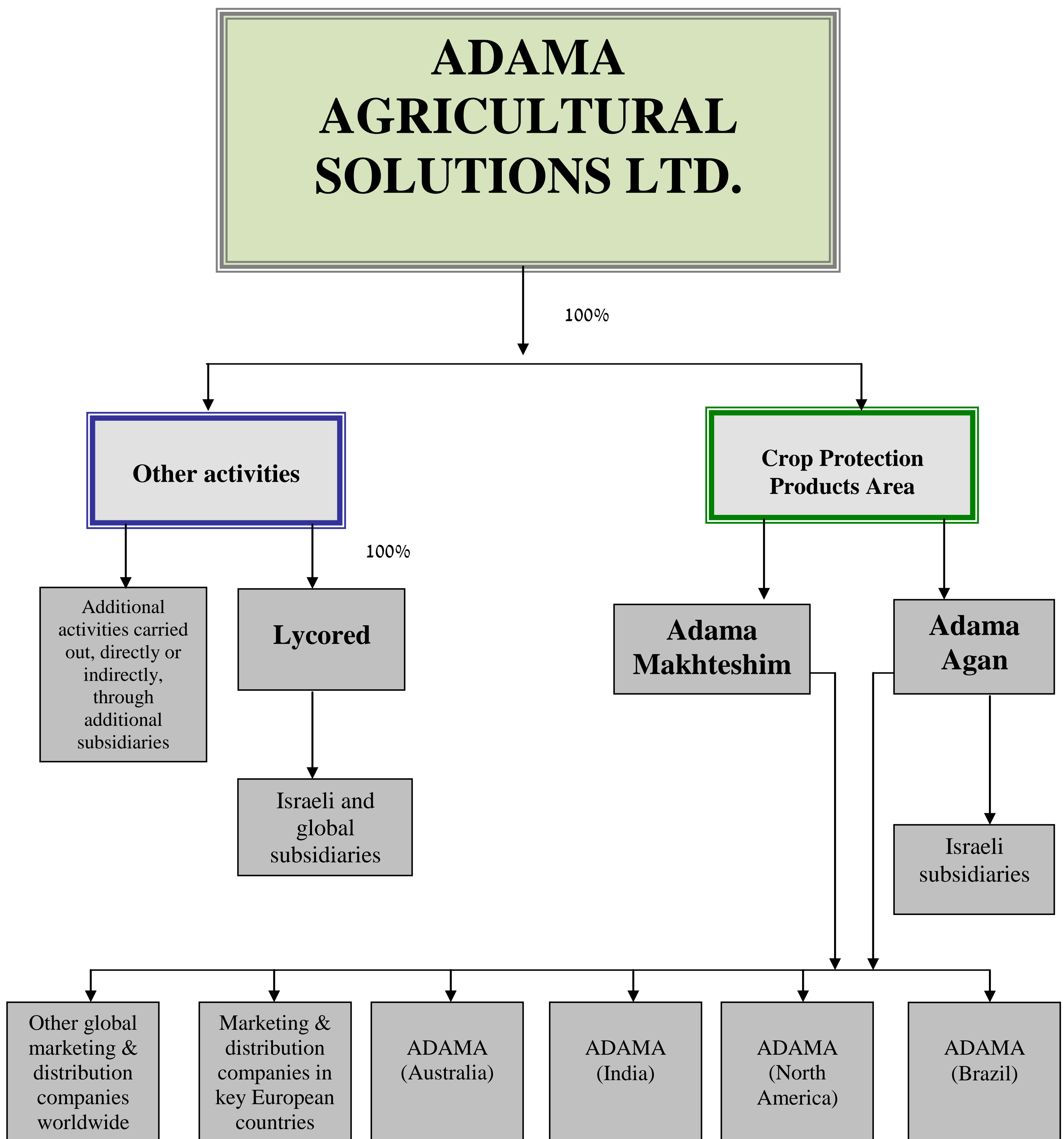
- ☑ Crop Protection Products - At the reporting date, the Company is focused on the development, manufacturing and marketing of off-patent crop protection products (hereafter "**Crop protection products area**"). The company's main products in this area of operation are: (1) herbicides, (2) fungicides, and (3) insecticides, all of which are designed to protect agricultural and other crops at various stages of their development, during their growing season. Furthermore, the Company produces and markets other crop-protection products, mainly substances applied to plants, that are not herbicides, insecticides or fungicides, and interim substances used to produce active ingredients for crop protection; develops and markets agrochemical products for seed treatment, and uses its expertise to develop and adapt similar products for non-crop uses. The Company has a diverse portfolio of products, and is increasingly differentiating its offered products by the development, manufacturing and marketing of unique mixtures and formulations. In 2014, the Crop protection product area (including use of these substances for non-crop purposes) represented approximately 94% of the Company's sales.

  In 2011, the Company established a department for novel agricultural technologies, designated to expand the Company's areas of business activity to the sector of novel agricultural technologies, which will, over time, be integrated into the Company's core businesses. This department is focusing on development and promotion of various innovative technologies designed for agriculture, including activities in the seed and biotechnology sectors, and is reviewing possible entry into other complementary agricultural sectors. As of the date of this report, the projects that are being developed by this department are in preliminary stages and the Company estimates that it will take several years before they are ready for commercialization.

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

- ☑ Other activities of the Company – As part of its core capabilities in the chemical industry, the Company is engaged in several other non-agricultural areas, which together accounted for approximately 6% of the Company's sales in 2014. These activities include mainly the manufacturing and marketing of nutritional additives and food supplements, aroma products for the perfume, cosmetics, body treatments and detergents industry, industrial products and other non-material activities. At the reporting date, none of these activities, of itself, is material to the Company. See section 18 for a description of these activities.

1.3. Hereunder is the Company's main operational structure, as of the reporting date[1]:



[1] This diagram does not show all the Company's subsidiaries, but only those that are material to its operations. The diagram does not include the companies acquired in China. See the Appendix to the Company's financial statements for a complete list of the Company's subsidiaries and affiliates.

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

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

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

As of the reporting date, as part of such trend and its strategic goals (as detailed in Section 31 below), the Company continues to evaluate from time to time different collaborations or acquisitions of companies, operations and products in the fields of chemicals, agriculture and seeds, which are in its core business. See Section 1.5 for details on material acquisitions of companies made by the Company. For additional information on the Merger Transaction and its implications on the Company's operations, see sections 2.1 and 31.3.

1.4.2 Agreement to acquire companies in China

On September 30, 2014, after receiving the recommendations of the special independent committee of the Board of Directors, the Company's Audit Committee and Board of Directors approved the Company engaging in an agreement with CNAC, according to which at the transaction closing date and subject to meeting its contingent conditions, the Company will acquire through its wholly-owned subsidiary, from CNAC through a wholly-owned subsidiary, en masse, 100% of the issued and paid up share capital of four companies: Jiangsu Anpon Electrochemical Co., Ltd., Jiangsu Maidao Agrochemical Co., Ltd., Jiangsu Huaihe Chemical Co. and Jingzhou Sanonda Holding Co., Ltd., a holding company whose primary holding consists of Class A shares, constituting 20.15% of the issued share capital of Hubei Sanonda Co., Ltd. ("**Sanonda Ltd.**") ("**Acquisition Transaction in China**" and the "**Chinese Companies**"). Sanonda Ltd.'s shares are listed on the Shenzhen Stock Exchange in China. The total proceeds of the transactions amount to RMB 1,987 million[2].

Pursuant to the provisions of the acquisition agreement, stating that in the event the Acquisition Transaction in China shall not be consummated by March 31, 2015, the parties shall use their best efforts to discuss in good faith alternatives for the consummation of the transaction, the Company and its shareholders are examining

[2] As of the date of the report, this amount is equivalent to USD 324 million. It is emphasized that the amount of the final proceeds in USD will be determined based on the known exchange rate on the date of closing.

different possibilities regarding the execution of the business combination between the Company and the Chinese Companies, whether by consummating the Transaction or in a different manner.

For further information pertaining to the postponement of the Public Offering planned by the Company and the proceeds of which were intended for funding the Acquisition Transaction in China, see section 1.4.3 below.

Prior to of engaging in the Acquisition Transaction in China, in November 2013 the Company completed the purchase of 10.6% of Class B shares of Sanonda Ltd., by way of a partial tender offer published by the Company[3].

For further information regarding the Acquisition Transaction in China and the Chinese Companies, as well as the main provisions of the acquisition agreement, see Note 19A(9) to the financial statements and the Company's report dated October 1, 2014 (Ref. No. 2014-01-168309) ("**Assets Acquisition Report**"), the report dated October 26, 2014 (Ref. No. 2014-01-180657) and section 2 of the chapter on Material Changes or Innovations in the Matters Described in the Chapter on the Description of the Company's Business that is included in the quarterly report dated September 30, 2014 (published on November 9, 2014, Ref. No. 2014-01-190353), included herein by way of reference

Additionally, the Company is evaluating additional business opportunities in China that may support the creation of significant research, development, operational and commercial infrastructure in that country.

1.4.3 Public Offering

In the latter half of 2014, the Company prepared to execute a public offering of its shares on the New York Stock Exchange. In this context, the Company received the approval of the US Securities and Exchange Commission (SEC) for the Public Offering. On November 20, 2014 the Company announced that, in view of the then prevailing capital market conditions, it had decided to postpone the Public Offering. As of the reporting date, the Company considers, inter alia, the preferable stock market for its listing (among different stock exchanges worldwide), and its timing, all in accordance with the advantages of the different markets and the developments in market conditions.

For further information regarding the Public Offering and its terms, see the

3 For further information regarding the tender offer and its results see immediate reports dated August 05, 2013; September 10, 2013; October 09, 2013; October 13, 2013 and November 12, 2013 (Ref. Nos. 2013-01-108531, 2013-01-140892, 2013-01-162315, 2013-01-163575, 2013-01-188793, respectively).

Company's immediate reports dated August 12, 2014; September 18, 2014 and November 10, 2014 (Ref.Nos. 2014-01-132024, 2014-01-160107 and 2014-01-191637), included herein by way of reference. For further details relating to the postponement of the Public Offering, see immediate report dated November 20, 2014 (Ref. No 2014-01-200415).

For information regarding the registration rights agreement between the Company, Koor and CNAC, see section 2.3 below

1.4.4 Organizational changes

On May 12, 2014 the Company's Board of Directors approved changes to the Company's organizational structure, so as to enable the Company to best implement its strategy. The changes were introduced gradually from the latter half of 2014 and as of the reporting date, the organizational changes have been completed.

The organizational changes includes, inter alia, dividing the Company's regional operations into seven commercial clusters: North America; Brazil; Latin America; Asia Pacific; Northern Europe; Southern Europe; and India, Middle East and Africa. The Company expects that if its operations in China expand (including through the business combination with the Chinese Companies), China will be defined as an eighth cluster. The cluster managers each report to one of the Company's two Chief Commercial Officers (CCO). In view of these organizational changes, as of 2015, the presentation of geographic breakdown of the Company's sales will be adjusted (for details, see Section 3(a) of the Board of Directors Report). For the updated organizational structure chart of the Company, see Section 1.4.4 below.

As part of the organizational changes, a designated division was also set up for Innovation, Development, Research and Registration (IDR), which manages and coordinates all the knowledge and development activities of products in the Company. For further information, see Section 15.1 below.

The organizational changes also included changes to the Company's management so that additional officers from within the organization, who manage the clusters, were appointed as management members and an Executive Committee was set up from among the Company's management to follow the Company's performance. As part of these organizational changes, in 2014 changes were made in the number of senior officers, or in the authority or duties of some of the senior officers in the Company, as set out in Section 21 below.

1.5 Acquisitions of companies performed by the Company

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

Date	Country / Region	Acquired company	Acquired company's operations	% of stock acquired	Cash payment* (in USD millions)	Acquiring objective
Feb. 2010	U.S	Alligare LLC	Development, marketing and sales of herbicides for the non-crop market	Acquisition of additional 10% (further to the acquisition of 70% during 2006-2008)	Not material	At the reporting date, the Company holds 80% in Alligare LLC
Oct. 2010	Korea	JK Inc.	Formulation and distribution of crop protection products to the Korean market	51%	Not material	Expanding the sales and formulation capacities in Korea
Jan. 2011	Mexico	Companies of the Bravo AG group	Manufacture and distribution of pesticides, including copper-based pesticides, considered environmentally friendly, used mainly in organic farming	100%	Cash proceeds not to exceed USD 20 million, as well as additional amounts that the Company paid and may pay in the future based on formulas stipulated in the agreement.	Expanding the distribution, manufacturing and formulation capabilities in Mexico
Jan. 2011	Colombia	Proficol Andina B.V	Formulation and distribution of Crop protection products in South America	An additional 17.5% (in addition to 57.5% held by the Company) ***	16	Expanding the formulation and distribution capabilities in Columbia
July 2013	Chile	Chile Agro Solutions S.A.	Plant nutrition and abiotic solutions to reduce stress	60%	Not material	Expanding sales and distribution capacities in Chile
Dec. 2013	Slovakia	Agrovita spol. Sr.o	Distribution of crop protection products to the Slovakian market	100%	Not material	Expanding sales and distribution capacities in Slovakia
Nov. 2013	China	Hubei Sanonda Co., Ltd.	Development, production and sale of Crop protection products, active ingredients including intermediate ingredients used in the production of the active ingredients and in particular, production and sale of formulated products.	10.6%	Approx. 57	Step in the creation of an operational and commercial infrastructure in China
March. 2014	Colombia	Proficol Andina B.V	See above	25%	30	Completion of purchase of the company

* In addition to the said acquisitions, the Company made non-material investments in several other companies.
** In this table, "not material" payment means payment not exceeding USD 10 million.

For further information regarding the Acquisition Transaction in China, see section 1.4.2 above.

2. INVESTMENTS IN THE COMPANY'S EQUITY AND TRANSACTIONS IN THE COMPANY'S SHARES

- To the best of the Company's knowledge, during 2013-2014, no transactions were made by interested parties nor any buy-back of shares or securities convertible to shares of the Company.
- In the latter half of 2014, the Company prepared to execute a Public Offering of its shares on the New York Stock Exchange. On November 20, 2014 the Company announced that, in view of the then prevailing capital market conditions, it had decided to postpone the Public Offering. For further information regarding the Public Offering and its terms, see section 1.4.3 above and the immediate reports noted therein.
- On November 9, 2014 the Company's Board of Directors and its general meeting approved a reverse split of the Company's share capital at a ratio of 1:3.12 so that each 3.12 ordinary NIS 1 par value share of the Company were consolidated into one ordinary share of NIS 3.12 par value. The Company's general meeting also approved that, subsequent to the foregoing reverse split of capital, the Company's registered share capital would be increased to NIS 936,000,000 divided into 300,000,000 ordinary shares of NIS 3.12 par value each. For further details, see immediate report dated November 9, 2014 (Ref. No 2014-01-191373).

The Company entering into a Merger Agreement

2.1. Merger agreement

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

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

[4] Koor engaged in the Merger Agreement and its accompanying agreements independently and through its subsidiary, MAGM Chemical Holdings Ltd., which was merged into Koor in December 2013 and ceased to exist.

Company shares held by the Company and by its subsidiary. The merger proceeds for each share amounted to USD 5.57450[5].

After the closing of the Merger Agreement, the Company's shares were delisted from the TASE on October 19, 2011, and the Company became a private company held 60% by CC (through a sub-subsidiary of CNAC) and 40% by Koor. Although the Company became a private company, it continued to be a reporting corporation, as the term is defined in the Securities Law, in view of the fact that the debentures issued by the Company in the past continued to be listed for trading on the TASE even after the closing of the Merger. As of February 17, 2012, after Amendment 17 took effect, the Company is a "Debentures Company", as such term is defined under the Companies Law, 1999.

For additional information on the Merger Transaction, see the transaction report of July 2, 2011 (Ref. 2011-01-199371) and the supplementary transaction report of July 31, 2011 (Ref. 2011-01-226866) (together: "**the Transaction Report**"), which are included here by way of reference.

2.2. Additional agreements

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

2.3. Shareholders Agreement

As noted above, concurrent with the signing of the Merger Agreement, a Shareholders Agreement was signed between the Koor and CNAC to regulate the relationship among the Company's shareholders after the Merger closing date. The Shareholders Agreement

[5] As of the date of the report, due to the reverse split of the Company's share capital (see section 2 above), the amount was adjusted to USD 17.3924 per share.

took effect on the Merger closing date. On November 9, 2014, CNAC and Koor notified the Company that they had signed an amendment to the Shareholders Agreement and that, at the same time, the general meeting approved amendments to the Company's Articles of Association, all subject to completion of the Public Offering. However, in view of the postponement of the public offering (as set out in section 1.4.3 above), the amendments to the Shareholders Agreement and Articles of Association did not come into force and the provisions of the existing Shareholders Agreement and Articles of Association remain in place.

The following matters, among others, are regulated under the Shareholders Agreement:

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

The Company's Board of Directors shall include no less than three directors. As long as CNAC will be the largest shareholder, it will be entitled to appoint the Chairman of the Board (who will have the casting vote in the Board of Directors), and as long as Koor will hold at least 10% of the voting rights in the Company, it will be entitled to appoint the Deputy Chairman. The aforementioned provisions apply, with the requisite changes, also with respect to the Board of Directors' committees.

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

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

Company, the consent of CNAC will be required in order to pass those same resolutions.

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

IPO and registration rights agreement - the Shareholders Agreement provides that the parties to the Shareholders Agreement will act to complete an IPO[6] of the Company within three years from the Merger closing date. In 2014 the Company prepared to execute a public offering, but, in November 2014, decided to postpone the offering (see section 1.4.3 above).

The Shareholders Agreement also states that if an IPO is not completed within 3 years from the Merger closing date, the dividend distribution policy would be adjusted for distributing dividends at a higher rate as set out in Note 21F to the financial statements and the registration rights agreement between the Company, Koor and CNAC would take effect, according to which Koor would be entitled: (a) to demand that the Company issue a public offering of its shares and list the Company shares held by Koor on one of the following stock exchanges (as Koor chooses): Hong Kong, New York, London (primary list) or Tel Aviv. If the parties disagree, Koor will also be entitled to direct the structure of the offering and time schedules for issuing it; (b) to demand that the Company list its shares in the Company for trading and include them under future listing of the Company's shares for trading, under the terms set out in the registration rights agreement.

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

Limitations on transfer of shares – The shareholder agreement prescribes various limitations on the transfer of shares and convertible securities of the Company, including reciprocal rights of first refusal or reciprocal rights of first offer (in the periods prescribed), and Koor's tag along rights toward CNAC, subject to the exceptions provided in the agreement, as well as certain limitations on the transfer of control in Koor and CNAC, including Koor's commitment that before the end of 3 years from the closing date of the

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

Merger, DIC will not cease to be its controlling shareholder (unless another entity from the IDB Group (i.e. IDB Holdings or a company it controls) will continue to control Koor), and that subsequently, control in it will not be sold to a competitor of the Company or of CNAC[7], and CNAC's commitment to hold at least 51% of the voting rights in the Company until the date of the IPO and to remain the largest shareholder in the Company until the end of 6 years from the date of the IPO.

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

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

Non-competition – With respect to Koor – commencing on the closing date of the Merger, and with respect to CC and CNAC – commencing on the earlier of the completion of the injection of the CNAC Assets or 24 months after the Merger closing date (*i.e.* October 17, 2013), then – (a) all of the activities of Koor and CNAC and the entities they control in fields related to crop protection products, seeds and genetic applications for crop traits or intermediary ingredients in the manufacturing of agrochemical products, and (b) all the activity of CC and entities it controls in fields related to crop protection products, seeds and genetic applications for crop traits – will be executed solely through the Company. For further details in connection with CNAC's obligations regarding non-competition, see Section 2.6.2 of the Assets Acquisition Report.

[7] In the event of a change in control in Koor after the end of 3 years, some of the rights given to Koor pursuant to the agreement and were defined as personal rights – will expire.
[8] Note that the agreement does not prohibit CNAC and the Company from entering into other agreements between them, including with respect to the injecting of assets to the Company by CNAC, all as will be agreed between them and subject to all laws and the provisions of the Shareholders agreement.

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

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

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

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

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

3. DIVIDEND DISTRIBUTION

3.1. For details on the dividend distribution policy prescribed in the Shareholders Agreement and the Company's Articles of Association, and other limitations regarding distributions of earnings, see Note 21F to the financial statements.

3.2. The Company did not declare or distribute a dividend during the years 2013-2014 or during 2015 until the reporting date.

3.3. The balance of distributable earnings according to the Company's financial statements as of December 31, 2014 is USD 868,444 thousand (net cancelled treasury shares)[9].

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

Part II - Additional Information

4. FINANCIAL DATA

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

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

2014 (in $ thousands)							
Segment of Operation	Segment revenues	Segment Costs[11]	Income from regular activities (Operating income)		Operating Income Margin (in %)	Total Assets	Total Liabilities
			Attributed to owners of Parent Company	Attributed to non-controlling rights			
Crop Protection Products	3,028,790	2,724,895	304,285	(390)	10.0%	3,601,803	624,585
Other Activities	192,508	185,402	7,106	-	3.7%	206,301	26,244
Total	3,221,298	2,910,297	311,391	(390)	9.7%	3,808,104	650,829
2013 (in $ thousands)							
Segment of Operation	Segment revenues	Segment Costs[10]	Income from regular activities (Operating income)		Operating Income Margin (in %)	Total Assets	Total Liabilities
			Attributed to owners of Parent Company	Attributed to non-controlling rights			
Crop Protection Products	2,876,198	2,583,114	293,261	(177)	10.2%	3,471,927	608,465
Other Activities	200,157	184,252	15,905	-	7.9%	209,934	33,060
Total	3,076,355	2,767,366	309,166	(177)	10.0%	3,681,861	641,525

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

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

2012 (in $ thousands)							
Segment of Operation	Segment Revenues	Segment Costs[10]	Income from regular activities (Operating income)		Operating Income Margin (in %)	Total Assets	Total Liabilities
			Attributed to owners of Parent Company	Attributed to non-controlling rights			
Crop Protection Products	2,648,673	2,377,351	271,212	110	10.2%	3,337,745	565,327
Other Activities	185,830	175,561	10,269	-	5.5%	232,398	31,918
Total	2,834,503	2,552,912	281,481	110	9.9%	3,570,143	597,245

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

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

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

Global Factors

☑ Demographic changes, economic growth and rising standards of living

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

This demand has fueled the growth of the agricultural sector, concurrent with stabilization of planting areas (whose global maximal area is limited), reduction of arable land area (among other things due to the demand for such areas to build new cities), and at the same time encouraged efforts to maximize crop yields (production per unit land area) and enhance crop quality, which have a positive impact on the demand for the Company's products. The Company estimates that the foregoing trends are expected to continue on a multi-annual level.

☑ Agricultural commodity prices

In 2014, prices of agricultural commodities declined, due to largely to an increase in the scope of expected yields and rise in stockpiles of key crops (corn, soy, cotton and sugar).

The high prices of agricultural commodities (over many years), has contributed in the past few years to growth in farmers' profits. The higher the prices of agricultural commodities, the greater the desire of farmers to reach maximum output from their existing seeding areas. Moreover, as profitability to farmers increases, the more worthwhile it is for them to protect their crops from disease and pests. Accordingly, demand for Crop Protection Products increases. The Company estimates that in the long run, the relative stability in planting areas, population growth and increasing standards of living, will continue to positively impact demand for the Company's Crop Protection Products. Nonetheless, the Company believes that the prices of agricultural commodities are expected to be relatively low in 2015 in a multi-year comparison, as set out in section A(1) of the Board of Directors report.

☑ Trend of use of agricultural-based oil substitutes

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

The importing of this resource is mainly from a few countries in the world, some of which are characterized by geopolitical instability and some of which have problematic relations with many western countries. Therefore, and in view of the fact that oil is a limited global resource, many countries are interested in reducing their dependency on the major oil exporters and to develop alternative energy sources to oil and its derivatives, and which are also considered to be less hazardous to the environment. This need is reinforced by the growing strength of the concept of sustainability in western culture, whereby it is preferable to use renewable energy sources. These factors have led in recent years, among other things, to technological development and to the adoption of policies by governments that encourage the production of organic fuels, produced from certain agricultural crops, such as corn and cane sugar. In certain North and South American countries, customary policy obligates the use of a certain minimum percentage of organic

fuels. Consequently, in recent years there has been a rise in demand for organic fuel, leading to an increase in agricultural production. The demand for organic fuels has stabilized over the past year. The Company estimates that in 2015 demand for agricultural produce used for producing organic fuels will remain stable and the demand is not expected to increase further.

The increase in the use of organic fuels in recent years led to changes in farmers' considerations, primarily in the North and South American markets, with regard to the type of crop to sow. The food price to oil price ratio also affects the farmers' considerations: As oil prices climb higher, some farmers prefer to convert their cultivation areas to produce crops for organic fuels, at the expense of growing agricultural crops for food. Therefore, this trend increased the ties between the energy market and the agriculture market, and intensified the multi-year increase in demand for agricultural commodities, which itself also contributed to the global food crisis, due to the decrease it created in cultivated area for the production of agricultural food products. Nonetheless, as aforesaid, demand for agricultural produce for the production of organic fuels has stabilized and therefore the price of oil is not expected to have a significant effect on the farmers' sowing considerations as has been in previous years.

☑ Significant fluctuations in global oil prices and impact of natural gas

Because western countries wish to reduce their dependence on certain oil exporters, as described above, the development of own-production of energy sources by western countries, particularly the US, has been a discernible trend in recent years. Such developments have caused a significant change in energy market supply, which led to oil prices dropping significantly in the latter half of 2014(compared with certain oil prices increase due to instability in various countries and an increase in demand in the first half of 2014). Through the course of 2014, oil prices dropped by around 38%.

In the global market, in the Company's core area of operation, the price of oil has several cumulative effects: (1) the majority of the costs of goods sold of the Company's products are due to the purchase of raw materials – chemicals produced, inter alia, as third- or fourth-order oil derivatives. Therefore extreme changes in global oil prices lead to changes in the price of these chemicals (affecting the Company's costs of goods), but such changes are only partial, due to the fact that they are distant derivatives of oil and the effect of the change in prices is evident in the Company's results only months later. (2) In addition, oil is used by the companies operating in this area of operations as an energy source for operating production facilities and overland and oversea transportation of their products. Global oil price fluctuations may affect energy costs.

The Company estimates that the drop in oil prices could have a positive effect on its production costs, its sea and land transportation costs and the prices of the raw materials and intermediates that it purchases, however such positive effect will likely be felt mostly in the latter half of 2015, due to the lapse of time until the sale of the existing inventory, which was manufactured in the cost environment which preceded the decrease in oil prices. Natural gas is an alternative energy source to fuel oil, diesel and condensed carbon gas, which are more expensive and polluting than natural gas. Therefore, developments in the natural gas market, which impact the price or availability of natural gas could have an effect on the Company's businesses. Following an agreement for the supply of natural gas signed by the Company in March 2013, natural gas became part of the Company's sources of energy during 2014.

☑ Development of the genetically modified seeds market (GMO)

Over the past decade, genetic engineering technology has developed through crop seed enhancement.

The development of genetically modified organisms (GMOs) led to replacing selective herbicides designed to eliminate certain types of weeds without harming the actual crop they are protecting with nonselective herbicides (which destroy all existing weeds and could also destroy the crop it was used to protect).

To the best of the Company's knowledge, there are two main families of GMOs: (1) seeds with traits designed, among other things, to protect the crop from non-selective substances (thereby saving costs of purchasing several selective crop protection substances) and against pests ("Input Traits"); (2) seeds with traits designed for enhancing and improving the quality of the crop and its nutritional components ("Output Traits"). To the best of the Company's knowledge, as of the reporting date, most investments and developments in the industry are in the first type of seed. Towards the end of the 1990s, genetically engineered seeds sold on the market enabled farmers to use a single non-selective herbicide, Glyphosate, thus enabling them to use less of other selective herbicides. Later, in recent years, genetically modified seeds were introduced on the market that either enable the use of other non-selective herbicides, or increase resistance to certain pests, or a combination of these traits.

At the start of the development of the genetically modified seeds industry, demand for non-selective products increased at the expense of selective products, while putting pressure on the profitability of the selective products. Nevertheless, over the years the increased use of certain non-selective products led to the development of weeds and pests that are resistant to these materials, leading to an increase in demand for other non-selective and certain selective products. Moreover, due to the effectiveness of genetically

modified seeds against certain insects, other pests have flourished in their stead.

In some countries, the use of genetically modified seeds is prohibited (such as EU countries, although each country has the option for deciding with regard to several issues) and accordingly, sales to these places do not include GMO products. As at the reporting date, other than a few European countries that have permitted very limited use in corn crops only, no European country has permitted the use of GMO seeds. Conversely, in other markets, the use of genetically modified seeds is allowed and is even encouraged (e.g. North and South America), and as of the reporting date, there is a large market for them (and accordingly, in these markets the mix of products sold by the Company includes products that supplement genetically modified seeds products). In the US, Canada and Argentina, the use of genetically modified seeds for major food crops (such as corn and soy) is higher than 90% of the relevant market in most cases. By contrast, in Brazil, where the use of genetically modified seeds was only recently permitted, the rate is lower and the Company estimates that it will increase over the coming years. In India and China, the use of genetically modified seeds as of the reporting date, is very limited and focuses mainly on cotton.

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

- ☑ Patent expiry and growth in volume of off-patent products

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

- ☑ Chemicals industry in China , including agrochemicals

Since 2000, China has developed a chemicals industry that the Company estimates to be the largest in the world. Within this industry, the agrochemicals industry has also developed, including thousands of players who invested in manufacturing infrastructure, of

which roughly half of their production capacity is presently directed to exports, intended for sale through small and large companies, including the Company and its competitors. The growth in production capacity, on one hand, and the price levels and competitiveness of the products produced in China on the other hand, affect the structure of competition in the entire industry. However, price levels of the products manufactured in China have started to rise, in view of the trend of rising manufacturing costs in China, which originated in the increase in wage costs and other inputs, including environmental costs.

Localized Factors

☑ The agricultural market and severe weather conditions

Weather conditions during the growing season in each country where the Company operates directly impact the demand for its products. See Note 1A(2) to the Financial Statements and Section 33 below ("Decline in scope of agricultural activities; Exceptional changes in weather") for details.

☑ Regulatory changes

Environmental protection

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

Registration

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

☑ Government policies

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

affect the demand for and prices of the Company's products. In recent years, government subsidization in many countries in which the Company operates has been relatively high, which had a positive impact on the profitability of agriculture, thereby indirectly increased demand for the Company's products. The Company estimates that the scope of such government subsidization will decrease in the coming years.

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

☑ World ports

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

Monetary Policy and the Financial Market

☑ Foreign exchange volatility

See Section B3 of the Company’s Board of Directors’ Report, “Currency Risks”.

☑ Consumer price index (CPI) volatility

See Section B3 of the Directors’ Report, “Exposure to CPI Indexation”.

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

The Company's assessments regarding 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 GMO 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 data, which relies on information from proprietary Company data, studies and other publications as detailed below, as well as on the Company's own estimates at the reporting date of the effects of market trends on supply and demand for its products.

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

Part III - Description of the Company's Business

6. CROP PROTECTION PRODUCTS (AGROCHEMICALS)

6.1. General Information-Introduction

The Company's crop protection products area includes research, development, production and marketing of products which enhance crop quantity and quality by protecting them against the damaging and destructive effects of a variety of weeds, pests and fungi. The Company estimates that, in the absence of these products, farmers could lose some 30%-70% of their crop yields (depending on the type of crop and geographic region). The Company's product range includes three main product families: (1) herbicides; (2) insecticides and (3) fungicides. Furthermore, the Company produces and markets other crop protection products, mainly substances applied to crops that are not herbicides, insecticides or fungicides, and interim materials used to produce active ingredients for crop protection. In addition, the Company develops and markets agrochemical materials for treating seeds.

The Company markets (mostly directly and otherwise through external distributors and agents) the products it develops and produces, as well as other crop protection products it buys from third parties.

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

The Company sells crop protection products in over 100 countries and as of the reporting date, is the world's leading off-patent company in sales of crop protection products.

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

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

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

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

The Company estimates[12] that over 70% of the world crop protection products market is controlled by six large multinational research-based companies, or RBCs, which develop and produce the original (ethical) products and patent the research rights in most world countries ("**Ethical Companies**"). In addition, since the patents on some of the Ethical Companies' products expired, they also sell patent-expired products (which represent, at the time of this Report, a significant share of the products sold by those companies).

The Company, which, as noted, mainly produces and markets off-patent crop protection products which compete with patent-expired products of ethical companies, ranks seventh worldwide in terms of its sales turnover, with annual sales of approx. USD 3,221.3 million in 2014 (of which approximately USD 3,028.8 million is in the crop protection field), making it the largest off-patent company in its field in the world.[13] In 2014 the Company was ranked 1 worldwide among off-patent companies (due to sales volume.

According to data reported by Phillips McDougall, an independent professional company, the total global sales turnover in the crop protection products industry for both the crop and the non-crop markets amounted to USD 63,030 million[14] in 2014 (compared with USD 60,689 million in 2013). The estimation is that the global scope of the crop protection products market (crop and non-crop) is expected to increase to USD 69,092 billion by 2018. Below is total global sales turnover of crop protection products area to the agricultural and non-agricultural[15] markets by the leading companies for 2014:

Company	Sales turnover (in $ millions)*
Syngenta AG	11,979
DuPont**	11,304
Bayer CropScience (of Bayer AG)	11,150
Dow AgroSciences** (of Dow Chemical)	7,290
BASF SA	7,238
Monsanto***	4,897
ADAMA Agricultural Solutions Ltd.	3,029

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

** Including modified seed sales.

*** The company's financial statements are for the four quarters period ended in November 2014.

[12] Based on financial statements for 2014 published by the companies.

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

[14] Based on preliminary estimates the Company received from Phillips McDougall in November 2014.

[15] Excludes sales of modified seeds.

Since 2000, the global agricultural sector experienced growth, leading to expanded planting areas (which are limited as it is) and increased crop volumes to meet the growing demand, and accordingly, causing an increase in demand for crop protection products – which was expressed in the quantitative increase in crop protection products sales. Based on external estimates[16], the average annual growth rate of the crop protection products industry (for crop market) is expected to be 2.6% in 2013-2018. For additional details on the global factors causing growth in the agricultural market and increased demand for crop protection products, see Section 5 above.

The Company's global sales growth trend, which began in 2010, continued in 2014 (while for some of the competitors, the growth had significantly slowed in this year). In 2012-2013 the increase in the prices of agricultural commodities and the pleasant climatic conditions contributed to growth in farmers' profits and to growth in demand for crop protection products, which led to quantitative sales growth for the industry, including the Company's products. In 2014, climatic conditions were favorable for agricultural crops in most parts of the world, and as a result, the global inventory of the main agricultural commodities increased. This trend led to attrition in the prices of the key agricultural commodities in the latter half of 2014, which led to a drop in the profits of farmers compared with 2012-2013. Nonetheless, from a multi-annual perspective, the long term trends that affect the crop protection products industry remained stable, including the scope of planting areas and high (in a multi-year comparison) agricultural commodity prices.

Over the past 20 years, the growth rate of the Company's sales has remained stable and was affected by expanding the global distribution of the Company's products as well as by launching new active products, which have been commercially successful. During this period the Company's revenues increased from USD 292 million in 1993 to USD 3,221.3 million in 2014, an increase reflecting average annual growth of 12%, more than three times greater than the general growth rate in the industry. During this period, most of the Company's growth has been organic, and in part stemmed from growth through the acquisition of companies and licensing rights and product distribution rights. Nonetheless, it is not at all certain that the Company will continue growing at a similar rate compared with the general growth rate in the industry (if at all).

Below are estimates submitted to the Company by Phillips McDougall on the market distribution and growth rates in the crop protection products for the agricultural market alone, according to geographic regions (in current prices, in sales to distributor terms) in 2014 compared with 2013:

[16] Estimates submitted to the Company by Phillips McDougall in September 2014.

	NAFTA	Latin America	Europe	Asia	Rest of world	Total	Nominal year-to-year change (total)
$M	9,591	15,882	14,131	14,770	2,050	56,424	+4.1%
%	17%	28.2%	25%	26.2%	3.6%	100%	

	2013 to 2014 growth (%)
NAFTA	-4.2%
Latin America	+13.2%
Europe	+3.6%
Asia	+2.3%
Rest of world	-2.6%
TOTAL	+4.1%

Source: Phillips McDougall – Industry Overview; data provided in November 2014.

The Company operates in developed markets and in emerging markets[17]. The Company's presence is particularly prominent in emerging markets, where its growth rate is expected to be higher than in developed markets. The breakdown of the Company's sales in 2014 was 52% in developed markets and 48% in emerging markets.

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

See the Board of Directors' Report below for further details on the 2014 trends and their effect on the Company's results.

6.4. Technological changes that could affect the area of operation

For information concerning the effect of GMO market developments on the Company, see Section 5 above.

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

[17] As defined under the MSCI Developed Markets Index (http://www.msci.com/products/indexes/country_and_regional/dm).

6.5. Success Factors Critical to Company Operations

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

General:

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

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

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

Off-patent development stage:

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

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

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

Raw material procurement stage:

(g) Raw material availability and supply chain efficiency;

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

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

Production stage:

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

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

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

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

Commercial marketing stage:

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

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

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

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

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

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

6.6. Segment Entry and Exit Barriers

The crop protection products market is characterized by high entry barriers which includes, inter alia, high development costs (particularly for companies developing patent-protected ethical products) as well as payments for use of know-how for registration purposes, all requiring high equity and financial strength, knowledge and expertise requirements, and particularly extensive technological know-how in industrial production of chemical syntheses and formulations, relying on professional and skilled human resources or external consultants, high marketing and distribution costs, compliance with strict registration requirements, in accordance with the existing regulation in each country,

significant investments in building and maintaining production facilities, positive reputation and strong customer loyalty. Nevertheless, in markets where relatively lenient registration requirements expedite the process and reduce its costs, the entry barriers are lower and, together with options for outsourcing production, this could allow smaller companies to start limited crop protection products operations.

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

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

6.7. Substitutes for Company products

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

7. COMPANY PRODUCTS

7.1. Crop protection products

As mentioned above, the Company manufactures and sells a broad range of crop protection products, divided into three main categories (based on their active ingredient): (1) herbicides, (2) insecticides and (3) fungicides. For information regarding the breakdown of the Company's revenues and margins by product groups, see Section 9 below.

Herbicides

During cultivation, crops are exposed to various weeds which grow in their environment and compete it for water, light and nutrients. Herbicides are designed to prevent the development of such weeds or delay their growth in order to allow the designated crop to develop optimally in the different stages of its cultivation and to reach optimum yield. As

already mentioned, the herbicides marketed by the Company are both selective and non-selective, as detailed in Subsection 5 above. According to the Company's estimate, the best-selling herbicides are designed to protect soybean, corn, cereal, rice and cotton crops. In 2013, herbicides constituted 43.7% of the total global crop protection products market[18].

<u>Insecticides</u>

During the crop growing process, crops are often exposed to various insects and other pests which damage their quality and even threaten their future development. The insecticides produced by the Company are designed to destroy various types of such insects selectively, that is, without damaging or destroying the crop itself. The use of genetic modified seeds that are capable of releasing active ingredients which remove damaging insects makes usage of some of the Company's insecticides essentially redundant; however, at the reporting date, they are used to a limited extent, mostly in non-edible crops. The Company estimates that the best-selling insecticides are designed to protect fruit and vegetable, corn, cotton and soybean crops. At the reporting date, the Company's gross profit from insecticides sales is higher than its gross profit from herbicide sales. In 2013, insecticides constituted 27.5% of the total global crop protection products market.

<u>Fungicides</u>

In the course of the growing process, crops are attacked by various diseases and types of parasitical fungi negatively affecting crop quantity and quality. The fungicides produced and marketed by the Company are designed to combat such diseases. When weather conditions in the growing season are dry, the outbreak of crop diseases is much smaller, reducing demand for such products. The Company estimates that at the reporting date, the crops in which fungicides are used most frequently are grains, fruits, vegetables, soybean, vines and rice. At the reporting date, even the gross profits from the Company's fungicide sales are higher than those resulting from herbicide sales. In 2013, fungicide constituted 25.8% of the total global crop protection products market.

In addition, the Company produces and markets other crop-protection products, mainly substances applied to plants, that are not herbicides, insecticides or fungicides, and interim substances used to produce active ingredients for crop protection; develops and sells agrochemical materials for seed treatment and uses its expertise to develop and adapt similar products for use in non-crop areas, so as to protect against weeds, disease

[18] According to the data provided to the Company by Phillips McDougall. As of the date of filing the report, the Company is yet to receive data regarding 2014; however it should be noted that in recent years, there was no significant change in the rate of each product group out of the total crop protection products market.

and pests in road infrastructures, forests, lawns, gardens, institutions, the timber and paint industries, installations and the gardens of private houses.

7.2. Key markets

The Company's operations are focused on Europe, North America, Latin America, Asia-Pacific and Africa, and the Company sells its products in 100 countries worldwide. In recent years, the Company has taken action to expand its presence in the European (including Eastern Europe) market, the American market, the growing markets of Latin America and Asia-Pacific and Africa, which are characterized by steady growth and rising standards of living as detailed above. In 2014, Company's sales in Europe (including Eastern Europe) represent some 36.8% of its total crop protection products sales. The North-American market also constitutes an important target for further growth and expansion of Company operations. In the Latin American market, which is currently the market with the highest growth in the industry, the Company has been working to solidify its position by focusing on expanding and diversifying its product portfolio and providing a more comprehensive response to the variety of customers in this region, with their diverse requirements and characteristics.

For details on the Company’s total crop protection products sales in its major markets in the years 2013-2014, see the attached Directors’ Report.

7.3. Company's Products

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

The off-patent crop protection products area has several distinct characteristics:

- ✓ Although their development is "generic", developing new products in the area still requires advanced development and registration processes and production process adjustments. In order to complete development, companies in this area of operation have to meet high costs. Nevertheless, the Company estimates that the development costs of off-patent products are significantly lower than ethical product R&D costs.
- ✓ As aforementioned, registering the products for marketing in the various target markets is subject to obtaining regulatory approval and marketing permits for each market, a process which may take between three to seven years (together with the development period). For more details on regulations applicable to the Company's activity area, see Sections 15 and 26 below. The procedures of obtaining the required regulatory approvals in each country carry considerable costs for these companies.

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

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

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

The Company offers a hybrid product mix that is on the one hand composed of non-patent protected products, and on the other, in increasing percentages, more innovative products based on specialized compounds and formulations. In this context, the Company is taking measures to change its sales mix so as to increase the percentage of innovative and specialized products that maintain higher profit margins. In 2014 no single active ingredient sales exceeded 7% of the Company's total sales.

7.4. Production Process in the Crop Protection Segment

The Company's operations include production and marketing of active ingredients (over 300 active ingredients, some of which constitute a major contribution to the Company’s sales, are managed globally) through multi-stage synthetic chemical processing of raw materials and interim materials; production and marketing of end products (some 1,400 different formulations, as defined below); and buying active products and processing them through various formulation activities before selling them to third parties. At the reporting date, some 80% of the Company’s products are manufactured and/or formulated at the Company’s sites.

The Company's production sites use active ingredients both for itself, as inputs in the process of producing end products, and for sale to third parties. At the reporting date, the annual sales of each product sold by the Company do not exceed 10% of total Company sales.

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

Formulation is a process wherein active ingredients produced by the Company or bought from third parties are adapted for preparations designed for various uses by the agriculture. During this adjustment and preparation stage, the concentration of active ingredients is reduced, and various additives are added. Sometimes, the active ingredient's physical form is transformed (including its liquefaction or solidification, as the case may be). This modification is hereafter called "formulation" or "formulization", as the case may be.

About half of the production of active ingredients is produced in one of the Company's plants, while final formulation and packaging – which require less complex production facilities – are completed in the Company's main plants or in the customer's country or a nearby country where the Company operates formulation facilities or is party to a formulation services agreement. As at reporting date, 37% of the active ingredients for the Company's products are produced at the Company's plants, with the largest percentage of active ingredients produced in Israel. Outside Israel, the Company operates active ingredient plants in Poland, Brazil and Columbia. It also operates formulation facilities in Poland, Brazil, Mexico and Columbia. The Company has formulation and packaging plants as set out in Section 19.1 below.

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

7.5. Product Pricing

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

7.6. Product Return and Liability Policies

On the whole, Company policy does not allow the return of non-defective sold products. The amount of products returned in 2014 was immaterial, and Company policy dictates the creation of appropriate provisions for expected refunds in its financial statements. At the reporting date, the Company has a third-party liability and defective products insurance policy of up to USD 350 million in aggregate annual damages.

8. NEW PRODUCTS

As discussed above, the Company's strategy is to maximize its agrochemical capabilities and expand its product portfolio and create a diverse array of products intended to fulfill market needs, penetrate new markets and reinforce its position in existing ones by developing and producing either complementary or new off-patent products as well as through M&A's. In recent years, the Company is turning its product portfolio into a more hybrid portfolio, based on off-patent products (mainly complex ones), unique formulations and mixtures and, selectively, also on innovative products. Accordingly, the Company is continually developing and registering new herbicides, insecticides and fungicides alongside new mixtures and formulations of existing products. In 2013, the Company continued to pursue this policy of investing in new product development and manufacturing, launching new active Ingredients and formulations, and obtained 399 new registrations (includes 92 expansions for new crops for licensed products) for marketing its products.

As part of this, in 2012 the Company completed the development of Nimitz (known as MCW2 in the development stage), an innovative anti-nematode product, that is highly effective in eradicating nematode pests in plants with a unique innovative active mechanism and reduced toxicity in humans and the environment, compared with existing alternatives. The Company filed licensing applications in various regions around the world (other than in Europe where separate approval processes are required). In the third quarter of 2014, the Company launched Nimitz in the US and has begun selling the product in this region.

At the reporting date, this product is not material to the Company and it will not materially impact the volume of sales or development expenses for 2015. As at reporting date, the Company carries out research and development with the aim of launching additional new products.

9. PRODUCT REVENUE SEGMENTATION

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

2014				
Product Group	**Revenues**	**Percentage of Company Revenues**	**Gross Profit**	**Gross Margin (1)**
Herbicides	1,617,840	50.2%	465,894	28.8%
Insecticides	761,543	23.6%	277,994	36.5%
Fungicides	649,407	20.2%	239,140	36.8%
Total of all crop protection products (2)	**3,028,790**	**94.0%**	**983,028**	**32.5%**
Other operations	**192,508**	**6.0%**	**42,277**	**22.0%**
Total	**3,221,298**	**100.0%**	**1,025,305**	

(1) In 2014, there was no substantial change in the gross profit margin for each of the forgoing product groups, compared with 2012-2013.

(2) As of January 1, 2015, the Company will present an additional sub-classification under its crop protection products segment - "Crop Protection Products - Other". This sub-classification will primarily include substances applied to plants, that are not herbicides, insecticides or fungicides, and interim substances used to produce active ingredients for crop protection.

2013		
Product Group	**Revenues**	**Percentage of Company revenues**
Herbicides	1,592,976	51.8%
Insecticides	711,703	23.1%
Fungicides	571,519	18.6%
Total of all crop protection products	**2,876,198**	**93.5%**
Other operations	**200,157**	**6.5%**
Total	**3,076,355**	**100.0%**
2012		
Product Group	**Revenues**	**Percentage of Company revenues**
Herbicides	1,510,780	53.3%
Insecticides	648,675	22.9%
Fungicides	489,218	17.3%
Total of all crop protection products	**2,648,673**	**93.4%**
Other operations	**185,830**	**6.6%**
Total	**2,834,503**	**100.0%**

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

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

10. CUSTOMERS

10.1. Customer Characteristics and Nature of Business Relationship

In this area of operation the Company has numerous customers that are scattered in many countries throughout the world. In some countries, sales are being made to a small number of customers. Generally, the Company's agricultural products are sold to regional and local distributors in the different countries, who in turn market them to end

customers in that country, some of which are large cooperatives. The Company also sells to multinationals companies (which buy its products in order to market them either as end products or as intermediate materials for their manufacturing operations) and to other producers who manufacture end products based on the Company's active ingredients.

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

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

10.2. The Company Supply Chain

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

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 Company's subsidiaries carry out the role of formulator, importer, and occasionally also distributor and retailer.

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

10.3. Customer Credit Policies

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

For changes in the provision for doubtful debts during 2014, see Note 29B(2) to the Financial Statements.

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

11. DISTRIBUTION AND MARKETING

Modes of marketing and distribution and chains of supply

The Company's marketing operations are global and designed to consistently increase profit and market share. Over the past two decades the Company developed its global distribution network through organic growth and strategic acquisitions. The Company markets its products directly through local representation in 19 of the 20 largest agricultural markets worldwide, and at reporting date, intends on establishing a leading commercial foundation in an additional market, in China, by completing the business integration of the Chinese Companies.

The Company established and acquired distribution companies in various regions, permitting it direct access to the markets in the various countries. The distribution companies import end materials and active ingredients to carry out any formulations required (by themselves or through third parties), and then sell to cooperatives or local distributors (occasionally Company subsidiaries), which sell them to the end customers.

Within this framework, the Company carried out during the past years, actions to strengthen its marketing network, including by way of: (1) the process of building a new marketing strategy that emphasizes marketing that will enable the strengthening of the differentiation of the Company's products, with a change in its operational approach, from emphasis on products to emphasis on the market and customer, and the launch of a global brand; (2) building a global network of management teams, around agricultural crops in a cross-section of different crops, who analyze the market and facilitate the development of unique products, formulations and digital or other services,, while providing a solution for the needs of farmer segments, with reciprocal communication and exchange of information; (3) Developing a new go to market approach by partnering with distribution to reach farmer segments based on holistic farming habits and needs to develop benefit driven offers and by way of establishing and acquiring companies in several countries, including in India, Korea, Mexico, Columbia, Ecuador, Peru, Vietnam, Chile and Slovakia.

The Company's distribution network, which equally serves all product groups, is organized according to country geographies. The Company has a marketing and product managers' team responsible for developing and marketing the products under their responsibility worldwide. Through its own startups and acquisitions, the Company created a global network of subsidiaries responsible for marketing, selling, developing and registering Company products.

In a small number of countries where the Company has no subsidiaries, it operates networks of local agents and marketing channels (mostly exclusive, commission-earning at rates ranging mainly between 3% and 5% of sale value - paid after receipt of customer payment). Activities via agents are not material to the Company. In some markets in which the Company operates, marketing channels are centralized and often external distributors 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 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 diverse customer base and as a result, it does not have any external distributor whose distribution volume of the Company's products exceeds 5% of the Company's sales in 2014. The Company estimates that, although the termination of an engagement with a single external distributor will not have an adverse impact on it, should external distributors choose to sell competitor products that compete and not to distribute the Company's products, this could adversely affect its results in countries in which most of its marketing activities are through external distributors.

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

The Company's marketing activities are carried out by local sales staff and directed at distributors, agricultural advisors and farmers

As part of the process of building a new marketing strategy, in 2014 the Company launched a new single global brand for the Company and all its products and those of the Group's subsidiaries - ADAMA (see section 1.1 of the report). Hand in hand with this branding process, the Company is developing packaging and intelligent labelling that will allow its customers to instinctively and very easily recognize its products, and packaging with special properties aimed at making the use of the Company's products easier. The Company is also developing technological means for simplifying access to farmers, such as specific mobile phone applications for its commercial force, growers and distributors, thus differentiating itself further from its competitors.

The Company's marketing and sales expenses in the crop protection products' segment totaled some USD 549.8 million in 2014, constituting 18.2% of its total crop protection products sales for the year.

12. ORDERS BACKLOG

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

13. COMPETITION IN THE FIELD OF BUSINESS

As noted in Subsection 6.3 above, the crop protection product market is controlled by six large multinational ethical companies, each with an annual turnover, exceeding four billion dollars in the crop protection product segment (excluding seeds activity). In the past year several consolidation transactions were made between large off-patent manufacturers, including FMC's acquisition of Cheminova; Platform's acquisition of Arysta, Agriphar and Chemtura's agrochemical operations; and Huapont Nutrichem's minority investment in Albaugh. Nonetheless, the crop protection products industry as a whole is decentralized with a large number of local manufacturers (see Section 33, under the heading "Operating in a competitive market"). The Company estimates that the entry barriers for the crop protection product market are relatively high, but vary from region to region.

The Company, to the best of its knowledge, is the world's largest off-patent crop protection products company. According to Phillips McDougall's list of both ethical and off-patent companies, the Company is ranked seventh (7) worldwide in 2014, with a market share of 5% in 2014, based on preliminary estimations made by Phillips McDougall regarding the total sales in the crop protection products industry in 2014.

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

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

In the recent few years, some new emerging trends may affect the nature of competition in this area of operation: (1) The proportion of products whose patents have expired continues to rise relative to that of patent-protected ethical products, due mainly to the fact that the rate of patent expiry exceeds that of new patent registration; (2) Some off-patent companies have been expanding (among other things, as a result of mergers and company and product acquisitions) and increasing their market shares, and in the future they may compete with Company products in world markets they have hitherto neglected; (3) Smaller companies have begun operating in a reduced volume, in certain markets with relatively lower entry barriers, as detailed in subsection 6.6 above; (4) Development of agrochemicals industry in China; and (5) Aggressive price cutting in certain markets by multinational ethical companies and/or extending the number of credit days.

The Company's expertise in successfully launching new off-patent products, as soon as possible following the expiry of their patents, represents a crucial factor in maintaining the Company's status in the global market. The Company normally pilot tests the feasibility of manufacturing and producing a patent-protected ethical products some five to six years prior to patent expiry. These tests include market size analysis and future demand forecasts, as well as assessments of the potential to expand the use of the product in question compared to others. Moreover, the Company estimates expected changes in the product's price and global market share against the share it may be able to capture as it begins to market it. All these factors are evaluated, among other things, in reference to market aspects and the availability of competing products launched over the same period, genetic engineering developments (as described in subsection 5 above) and their potential impact on product launch (for better or for worse), as well as the Company's estimated technological ability to manufacture the product efficiently and economically. Finally, possible means of manufacturing and marketing the product are evaluated.

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

The Company estimates that, as at reporting date, it enjoys material competitive advantages due to, among other things, the geographic deployment of its sales in more than 100 countries and the even distribution of its areas of operation, which increases its growth potential; the Company's R&D capacities and superior capabilities in technology and chemistry, enabling it to market new compounds, blends and applications for its products, constituting a competitive edge over ethical companies; professional knowledge; strong agronomical capabilities; wide portfolio of unique products suited for the needs of the farmers; reputation; financial strength and the availability of financial resources for building and upgrading production facilities;

development capabilities; experience in registration processes in various markets around the world (and the resulting ability to launch off-patent products soon after patent expiry); presence throughout the entire value chain (development, production, procurement, marketing, sales, distribution and licensing), in a manner that sets the Company apart from the competing off-patent companies; tight quality assurance; strict observance of environmental standards; global marketing and distribution network; and, finally, production and marketing collaborations with multinational companies; and the Company's administration by management staff with in-depth understanding of the crop protection products industry, as well as the know-how, skills and experience needed for contributing to the Company's growth and profitability and maintain its leading position in the global market. Such capabilities give the Company the ability to respond to the dynamic needs of farmers, changing weather conditions and changes in governmental policies and regulation.

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

The Company estimates that completion of the business combination with the Chinese Companies and the Company's penetration into the Chinese market 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 products industry worldwide with a significant integrative foundation (commercial and operational) in China.

The Company's estimates with regard to the impact of the business combination with the Chinese Companies will have on its competitive standing is forward looking information as defined in the Securities Law, based on the Company's subjective assessments and those of external entities and information relating to the crop protection products industry in China. These estimates may change, inter alia, due to the timing of the business combination with the Chinese Companies and/or changes in the operating results of the Company or the Chinese companies or competitors, including as a result of the developments in the crop protection products market, changes in demand for the products of the Company and the Chinese companies, and macro-economic trends worldwide.

14. SEASONAL EFFECTS

For information on the influence of agricultural seasons and weather, see Note 1A(2) to the financial statements and Section 33 below ("Decline in scope of agricultural activities; Exceptional changes in weather"). Below is a geographic breakdown of the Company's quarterly sales (in USD thousands) in 2013 and 2014:

2014	Q1		Q2		Q3		Q4		Annual	
North America	138,390	15.2%	175,526	20.0%	96,897	12.8%	134,012	19.9%	544,825	16.9%
South America	136,198	15.0%	169,637	19.4%	252,063	33.1%	264,639	39.2%	822,537	25.5%
Europe	467,224	51.3%	336,142	38.4%	243,207	31.9%	140,141	20.8%	1,186,714	36.8%
Asia-Pacific and Africa*	142,763	15.7%	165,164	18.8%	144,060	18.9%	112,030	16.6%	564,017	17.5%
Israel	25,126	2.8%	29,481	3.4%	25,262	3.3%	23,336	3.5%	103,205	3.2%
TOTAL	**909,701**	**100.0%**	**875,950**	**100.0%**	**761,489**	**100.0%**	**674,158**	**100.0%**	**3,221,298**	**100.0%**
Quarterly percentage of annual sales	**28.2%**		**27.2%**		**23.6%**		**20.9%**		**100.0%**	
2013	**Q1**		**Q2**		**Q3**		**Q4**		**Annual**	
North America	145,789	16.5%	150,801	18.8%	93,592	12.8%	125,971	19.2%	516,153	16.8%
South America	128,311	14.5%	139,848	17.4%	237,596	32.5%	251,763	38.4%	757,518	24.6%
Europe	435,982	49.2%	340,619	42.4%	227,511	31.1%	136,234	20.8%	1,140,346	37.1%
Asia-Pacific and Africa*	148,093	16.7%	144,199	18.0%	146,681	20.0%	114,184	17.4%	553,157	18.0%
Israel	27,210	3.1%	27,788	3.5%	26,648	3.6%	27,535	4.2%	109,181	3.5%
TOTAL	**885,385**	**100%**	**803,255**	**100.0%**	**732,028**	**100.0%**	**655,687**	**100.0%**	**3,076,355**	**100.0%**
Quarterly percentage of annual sales	**28.8%**		**26.1%**		**23.8%**		**21.3%**		**100.0%**	

* Excluding Israel

15. DEVELOPMENT AND REGISTRATION ACTIVITY

Generally, the Company, as an off-patent products manufacturer, does not conduct studies to discover and/or develop new molecules, but rather develops production processes and licensing data for existing molecules in the ethical product, and hence spends a lot less compared to ethical companies, which involve many years of extensive investment in order to discover the appropriate active ingredient and molecules until successful and complete development of the product.

In recent years, the Company is turning its product portfolio into a more hybrid portfolio, based on off-patent products (mainly complex ones), unique formulations and mixtures and, selectively, also on innovative products.

15.1. Development

The Company prioritizes its research and development efforts for the purpose of maximizing the return on its investment. The Company's main development and registering activity focuses on the chemical-engineering development of production processes for new active ingredients and off-patent products, biological and agronomical tests designed to meet registration requirements, development of licensing information for the active ingredient and solutions that constitute its licensing portfolio in the various regions, in-house development of compounds, as well as streamlining of production processes and development of innovative and unique formulations of existing products. The Company also provides scientific-technological support for existing production processes, emphasizing quality improvement, efficiency, safety, environmental protection as well as production cost reduction.

As at reporting date, the Company operates chemistry research and development centers in Israel, India and Brazil, and has started the establishment of a chemistry research and development center in China. In addition to chemistry development, the Company conducts development activities for licensing purposes through outside contractors in Israel and other countries (including in China). Such development efforts may be based on exclusive proprietary knowledge, on knowledge jointly developed with the subcontractor, or on knowledge exclusively owned by the latter.

The Company set up a designated division for research and development, licensing and innovation (IDR), which manages and coordinates all the knowledge and development activities for products in the Company. Consequently, this division coordinates the chemical research and development and the work of the development teams, the licensing and exclusive agricultural technologies. The IDR division is responsible for prioritizing product development to fit the Company's goals - in addition to a product mix

that maximizes relatively high profit margins.

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

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

In 2014, the Company's recognized R&D expenses (excluding registration expenses) totaled approximately USD 33.6 million, which constitute approximately 1.04% of its consolidated revenues. R&D expenses are not recognized as intangible assets.

According to the Company's estimate, and subject to fulfillment of its work plan, during the twelve months following the publication of this Report, it projects expenses of some USD 35.4 million on R&D activities. At the reporting date, the Company operates several analytical labs in Israel, China, India, U.S. and Brazil, which also conduct QA tests for its various products and tests for registration purposes. Makhteshim and Agan have the standard certificates from the Israel Laboratory Certification Authority, attesting to the high quality of working procedures in its analytical labs (GLP, or Good Laboratory Practice). In 2012, the registration laboratory in Brazil received GLP certification from the Laboratory Certifying Authority in Brazil, allowing it to perform chemical studies for registration purposes. As at reporting date, the Company employs 200 R&D employees, most of whom have academic qualifications.

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

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

15.2. Registration – General

The materials and products marketed by the Company require, at various stages of their production and marketing, registrations in every country where the Company intends to market them. The Company has seven development and licensing centers located in Europe, Israel, Latin America, USA and Asia. The Company has gained licensing

expertise in over 100 countries. For this purpose, the company employs approximately 160 professional registration workers – mostly researchers, engineers and technicians in chemistry, agronomy, biology and other life sciences – and also hires the services of external contractors in order to develop registration data.

Crop protection products are sold worldwide under the supervision of state authorities in every country (usually the Ministries of Agriculture, Health and Environment), with these registration proceedings characteristic of the crop protection products industry and constitute an entry barrier to the industry. Registration requirements change from time to time and tend to become stricter with time in various countries, consequently, registration costs rise and more time is required to prepare registration portfolios. In some countries, registrations have no time limit, although additional tests are required every several years. In other countries, registrations are limited to 10-15 years and have to be renewed, with additional tests and data required for that purpose. All or part of the registrations might be revoked should such information fail to meet the required updated criteria. The cost of registration and the time required obtaining a registration, or amending it, as well as the know-how required for dealing with the regulatory and political environment behind licensing requirements, vary by country, and they may last for several years. Likewise, the Company is required to make modifications in order to correlate fully between the specific registration requirements of a specific country and the sale of the product in that country. In order to comply with these requirements, the Company is continuously examining the compliance of its products with the registration requirements in the various countries where its products are sold and works to amend and modify them, as required. As part of this the Company continuously files application with the different registration authorities to adapt licensing for the products it sells in numerous countries, worldwide. Some of these requests were approved and some are being examined by the authorities, with these examination processes possibly lasting several years.

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

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

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

In 2014, the Company's registrations expenses were USD 87 million, plus depreciation, which constituted 2.7% of the Company's annual revenues.

Registration in the United States

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

There are two main methods for obtaining federal registrations:

1) For products containing an innovative active ingredient, the licensing applicant is required to submit a complete portfolio which includes all the data and studies required. Preparing such portfolio usually takes 4-5 years, and the EPA review in this type of process takes a further 2-4 years.

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

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

Registration in Europe

In the recent, years the registration processes of EU members have been consolidated, which resulted in new crop protection products regulations. Even after consolidating the licensing procedures, it is necessary to file additional data to obtain specific licenses for the end product in each country separately. Today, every new material intended for use in EU countries passes through a rigorous registration process composed of two main

stages. Stage 1 enables the producer to include the active material in the list of materials allowed for use in EU countries. In Stage 2, the final product has to be registered for its various uses in EU countries in which the product will be marketed. Under existing regulation, product licensing applications can be rejected depending on their potential inherent hazard.

The Company collaborates with several other companies with the aim of working together to develop the data and information as required, when it is commercially reasonable.

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

REACH was implemented gradually over the years 2007-2018 under the supervision of the European Chemical Agency (ECHA). The company has already met the first (pre-registration) period deadlines, during which importers and exporters were required to report materials designated for registration in order to receive an extension for completing their full registration, allowing it to continue selling them. As at reporting date, the Company complies substantially with the relevant requirements of REACH legislation. At the reporting date, the Company estimates that the costs involved in implementing this legislation during the coming year would not be material.

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

Registration in Brazil

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

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

Most of the Company's crop protection products (both in absolute and in relative sales terms) are off-patent products, and therefore not protected by patents. Nevertheless, the Company has a relatively broad portfolio of patents, trademarks and licenses for protecting the intellectual property rights and its production processes. Consequently, the Company has 4 patent families that protect innovative materials and 35 more patent families, relating to off-patent materials and innovative materials that protect processes, formulations, material properties and unique mixtures. The Company also relies on trademark registration to establish its reputation for products it manufactures and markets. At the time of this Report, the Company owns more than 7,200 such active trademarks. In addition, the Company also has several exclusive territorial licenses for various additional substances.

In 2012 the Company completed the development of an innovative and intuitive product, Nimitz (see section 8 of the report. The Company purchased all of the rights to the NIMITZ (known as MCW2 at the development stage) a nematicide, including families of patents that protect it. The patent on NIMITZ is registered in more than 20 countries and is expected to expire between 2020-2022. Additionally, the Company acquired rights to families of patents related to mixtures of NIMITZ with fungicides, insecticides and to processes for the manufacture of NIMITZ, which will expire between 2022-2024.

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

The Company has an intellectual property department responsible for protecting the Company's intellectual property through registering patents on company developments and for trademarking its products. The Company, through the intellectual property department and the legal department works to penetrate new products based on the genetic materials, while refraining from infringing on the relevant valid patents. The Company also takes measures to cancel invalid patents of third parties and defends itself in processes and threats to its products and/or its intellectual property through the relevant forums and authorities. Regarding this matter, see also Section 33.2 below, under "Intellectual property rights of the Company and of third-parties".

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

According to generally accepted accounting principles, the amounts recognized as the Company's intangible assets at December 31, 2014 (including subsidiary goodwill) totaled some USD 703.9 million.

17. RAW MATERIALS, INVENTORIES AND SUPPLIERS

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

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

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

During the latter half of 2014, mainly in the fourth quarter, demand for the raw materials used for the Company's operations decreased. The substantial decline in oil prices in the second half of 2014, together with the strengthening of the USD against the leading currencies in the regions in which the Company operates, caused prices of petroleum-based raw materials to decline. For further information regarding fluctuations in oil prices and their possible effect on the Company's results, see section 5 above under the heading "Significant fluctuations in global oil prices and impact of natural gas”.

In 2014, the costs of raw materials, packaging and labels amounted to USD 1,210 million. This cost constituted 75% of the Company's total costs in the segment (excluding finished products), which amount to USD 1,618 million.

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

The Company stores raw material inventories in accordance with the order forecast for each season, for periods averaging three months. At the time of this Report, the Company estimates itself to be independent of any single supplier. For further details on supplier credit, see subsection 22.5 below. The Company contracted an agreement with a Chinese supplier for exclusive material production and marketing for the Company. The agreement provides for completing materials in the process of development, as well as development of new materials by the Chinese supplier, based on its own and the Company's knowledge. The company

undertook to invest an immaterial amount in researching, developing and manufacturing the new materials, as well as to buy from the Chinese supplier a significant share of the new materials produced. The agreement also governs the parties' joint proprietary rights to the developed products. Finally, the two parties also signed an exclusive supply agreement to be applied to each of the fully developed products. At the reporting date, the parties are acting according to the agreement, and the foregoing development activities have been reduced substantially.

Additional Activities

18. GENERAL

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

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

18.1. Dietary supplements and food fortification

Products

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

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

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

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

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

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

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

Structure, recent developments and competition in the DS market

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

The DS industry is exposed to competition, that has increased considerably in recent years, from manufacturers marketing raw materials and also, recently, formulated materials. Synthetic lycopene producers such as BASF ZMC and DSM Nutritional Products compete with LycoRed in the carotenoid area. Other competitors are natural lutein producers like Kemin Industries, Inc., formulators like DSM Nutritional Products and vitamin and mineral mixture producers such as Glanbia Fortitech Strategic Nutrition. Furthermore, the Company's DS products face competition from products based on other natural ingredients with health related properties.

Volume and profitability developments

In 2014, LycoRed's sales outside the group totaled some USD 93.1 million, compared to USD 97.3 million in 2013. At the reporting date, LycoRed's market share is immaterial in all of its product groups.

Critical success factors

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

Entry barriers

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

Customers

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

Marketing and distribution

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

R&D

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

Regulatory restrictions, registrations and permits

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

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

Raw materials and suppliers

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

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

Intellectual property

All of LycoRed's products are original developments. At the time of this Report, LycoRed has 28 registered (or in advance registration stages) patent families, regarding production and formulation processes or regarding the health-promoting properties and characteristics of active materials developed by LycoRed. LycoRed also owns several brands, registered as trademarks.

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

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

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

The Company has a joint venture with a Swiss company to produce and market fragrance and taste materials in its Agan plant. In addition, the Company in a joint venture with the Swiss Company jointly developed a unique process for manufacturing an aroma and taste product. As part of this joint venture a manufacturing facility was built at the Makhteshim site in Neot Hovav, which began to operate during the second half of 2012. The plant began regular production during 2013.

Structure and recent developments in the aroma market

The aroma chemicals market has developed considerably over the past few years in view of rising standards of living and changing preferences of end consumers. Concurrent with the market's development, there was an increase in the number of manufacturers, mainly in China and India, which led to price reductions and a significant decrease in Agan Aroma's market share during 2012-2013. Agan Aroma's market share which began to recover in 2014, as seen in the increase in its sales and its improved profit margins. Activity in this area requires innovation, expertise and advanced R&D, as well as the technological know-how required for sophisticated production, low-cost manufacturing, optimal deployment and management of an international sales network, and initial capital for investment in complex production facilities.

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

Customers in aroma products market

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

Marketing

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

Competition

The aromatic products industry is extremely competitive. Agan Aroma's main competitors include leading F&F multinationals having production capacity in this area, such as IFF, leading chemical companies, such as BASF SE and other companies in Eastern Asia. Nonetheless, the entry of manufacturers from China and India into the market, with products of improved quality, led to a significant drop in prices, which brought about a significant drop in the profitability of these products. Due to the foregoing processes, Agan Aroma is examining the option of entering new markets in which its comparative advantages could be realized and yield growth and improved margins.

R&D

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

Regulatory restrictions, registrations and permits

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

Raw materials and suppliers

In order to maintain high quality and availability, FF producers such as Agan Aroma need to forge long-term relationships with suppliers. Recently, production of certain chemicals – particularly aromatic chemicals – in low-cost economies such as China and India has increased. Agan Aroma's main raw material suppliers are based abroad. At the time of this Report, it is independent of any single supplier. Finished products in the FF area may be stored for a period of several months.

Turnover and profitability developments in DS segment

The group's sales of Agan Aroma's products to customers outside the group amounted to USD 41.9 million in 2014, compared with USD 37.2 million in 2013. .

18.3. Industrial Products

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

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

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

Industrial chemical sales outside the group in 2014 totaled USD 53.8 million, compared with USD 62.2 million in 2013.

Customers

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

Competition

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

Raw materials and suppliers

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

Issues Relevant to the Entire Group

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

19. FIXED ASSETS, REAL ESTATE AND FACILITIES

19.1 Company's Plants and Facilities

The Company's fixed assets are mainly the plants where it manufactures, researches, develops, formulates and packages Company products

In addition to its production plants, the Group has several other facilities in its regional operations worldwide, as set out in the table below. These facilities are designed mainly for final formulation processes and for packaging of products and substances produced at the plants in Israel, however as at reporting date, their operations are immaterial compared with the scope of the Group's operations. The Group also has agreements with various companies worldwide for providing outside formulation and packaging services at their facilities.

As at reporting date, the Company has started the establishment of a formulation center in China.
As part of the organizational changes (see section 1.4.4 above), and with the expansion of the Company's businesses in China (subject to completing of the business integration of the Chinese Companies (see section 1.4.2 above), it is the Company's intention to conduct its global production operations through two global centers, in China and in Israel. Description of the Company's material plants and facilities:

Location	Ownership / Leased	Purpose	Remarks
Airport City, Israel	Rental	Offices	The Company engaged in a rental agreement for a total area of 6,000 sq m (at immaterial cost) in a building located at Airport City, in which the Group's head office is located, and includes 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 the term of the rental, in accordance with the conditions set out in the agreement.

Neot Hovav, Israel	Lease	Production, packaging, research and development	Production of the active ingredients used to manufacture insecticides and fungicides. A manufacturing facility for a product in the aroma segment is located on the land (see section 18.2 above). The plant also serves for the production of industrial products (see section 18.3 above). For further information regarding the land, also see Note 9B(1) to the financial statements.
Beer Sheva, Israel	Lease	Formulation, packaging, research and development	Formulation and packaging of insecticides and fungicides which are manufactured in Neot Hovav; Formulation and packaging of products manufactured by third parties and sold by the Company. LycoRed's facility is located on part of the land, which LycoRed purchased from Makhteshim (area of 17,200 sq m). For further information regarding the land, also see Note 9B(1) to the financial statements.
Ashdod, Israel	Ownership/lease	Production, formulation, packaging, research and development	Production of the active ingredients used to manufacture herbicides. A manufacturing facility for a product in the aroma segment is located on the land (see section 18.2 above). The Company owns a logistics center and effluent purification facility, which are located close to the plant. For further information regarding the land, also see Note 9B(1) to the financial statements.
Londrina, Brazil	Ownership	Production, formulation, packaging, research and development, offices	Real estate of 2241 dunam (built-up area of 36,000 sq.m)
Taquari, Brazil	Ownership	Production	Real estate of 492 dunam (built-up

			area of 68,000 sq.m)
Netzahuálcoyotl, Mexico	Ownership	Production, formulation and packaging	
Poncitlán, Mexico	Ownership	Formulation and packaging	
Barranquilla, Columbia	Rental	Production, formulation and packaging	
Pasadena, Texas, USA	Rental	Formulation and packaging	
Ocilla, Georgia, USA	Ownership	Formulation and packaging	
Tifton, Georgia, USA	Ownership	Formulation and packaging	
Madrid, Spain	Ownership	Formulation and packaging	
Vigonovo, Italy	Ownership	Formulation and packaging	
Maniago, Italy	Ownership	Formulation and packaging	
Inofyta Viotias, Greece	Ownership	Formulation and packaging	
Brzeg Dolny, Poland	Rental	Production, formulation and packaging	
Jeonrabuk, South Korea	Ownership	Formulation and packaging	
Dahej, India	Rental	Formulation and packaging	
Hyderabad, India	Rental	Offices, research and development	

19.2 Agreements for construction of power plants

For information on Agan's engagement with Ashdod Energy Ltd. ("**Ashdod Energy**") in an agreement for the establishment of a power plant for generating electricity and steam using natural gas, see Note 19A(5) to the financial statements. For details regarding Makhteshim's engagement with Ramat Negev Energy Ltd. for setting up and running a

power plant at Neot Hovav, see Note 19A(6) to the financial statements.

19.3 Equipment

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

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

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

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

(d) Civil engineering and iron or concrete constructions.

At December 31, 2014, the depreciated cost of machinery and fixtures totaled USD 617 million.

19.4 Investments in Production Facilities

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

In 2014, the Company invested a total sum of USD 96.7 million in facilities and machinery. The Company intends to continue expanding its production capacity by investing in production facilities, as and to the extent required, subject to various applicable legal restrictions and requirements.

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

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

For further details regarding benefits to the Company's plants under the Law for the Encouragement of Capital Investments, 1959. In this regard, see Note 17 to the Financial Statements.

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

The balance of the depreciated cost of fixed assets in the Company's consolidated financial statements as of December 31, 2014, net of investment grants, totals some USD 766.5 million (for further information see Note 9 to the financial statements.)

20 PRODUCTION CAPACITY

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

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

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

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

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

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

21 HUMAN CAPITAL

21.1 At December 31, 2014, the Group employed 4,791 employees. During the two years prior to the Report date, the employees were employed according to the following breakdowns*:

	December 31, 2014	December 31, 2013
Production	1,967	1,839
R&D	238	205
Sales and Registration	2,082	2,012
Management & Administration	504	508
TOTAL	4,791	4,564

	December 31, 2014**	December 31, 2013
North America	370	1,340
Latin America	1,160	973
Israel	1,329	990
Europe	977	372
Rest of the World	955	889
TOTAL	4,791	4,564

* Does not include employees of companies which are treated according to the book value method.

21.2 Organizational changes

On May 12, 2014 the Company's Board of Directors approved changes to the Company's organizational structure, so as to enable the Company to best implement its strategy. These changes were completed during the latter half of 2014. For further information, see section 1.4.4 above.

The organizational changes included the adjustment of the Company's management to include, among other things, additional officers from within the organization who will manage the clusters and the establishment of a committee from among the Company's management to follow the Company's performance. As part of the foregoing organizational changes, in 2014 changes were made in the number of senior officers, or

in the authority or duties of some of the senior officers in the Company, as set out below:

1. Mr. Shaul Friedland, who serves as manager of the Americas region, was appointed as CCO and is in charge of a few clusters.

2. Mr. Ignacio Dominguez, who serves as CCO and manager of the global products and marketing division, will continue serving in these positions and is in charge of a number of clusters.

3. Mr. Danny Harari, who serves as VP for Strategy, Innovation and Knowledge Management, was appointed as VP for Strategy and Resources, and as such is in charge of strategic planning, human resources, information and digital technologies.

4. Mr. Anders Harfstrand, who serves as manager of the Europe region, terminated his employment at the end of 2014.

5. Ms. Shiri Eilon was appointed on July 1, 2014 as VP for Corporate Business Development and as Head of Integration in China (as part of her position as Head of Corporate Business Development).

6. Ms. Rony Patishi-Chillim was appointed on September 30, 2014 as CEO of the subsidiary, LycoRed (as part of her position as VP for Corporate Business Development and Communications).

7. Mr. Amos Rabin was appointed on July 1, 2014 to manage the Company's organizational processes in China (as part of his position as VP Human Resources).

8. Mr. Uri Shani and Mr. David Habel will continue their activities in the Company, however they ceased their terms of office as officers as of July 1, 2014 and December 31, 2014, respectively.

21.3 At the reporting date, approximately 36% of the Company's total workforce are employed under a collective agreement.

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

Makhteshim

From time to time Makhteshim signs special collective agreements for fixed periods with the Company's Workers Council and with the New General Federation of Labor - Negev District in Beer Sheva, that regulate, among other things, their terms and conditions and wage hikes, as well as other benefits.

At reporting date the working relations between Makhteshim's management and employees are correct and in 2014 there were no strikes or labor disputes.

For details on the highlights of the agreements between the Company and the Histadrut Haclalit and Workers Council, of October 2010, including the Company's commitment to continue to engage in manufacturing activity, in volumes and in certain production lines in the plants of the subsidiaries in Israel, until the date designated, as well as the agreement on voluntary retirement of employees, see Note 19A(10) to the Financial Statements.

During 2012, a special collective agreement was signed, which extends, subject to several changes stipulated in the agreement, the period of the existing collective agreements at Makhteshim until the end of 2013, and for two additional years if prior notice is not served by one of the parties. As no such notice was given, the agreements were extended until the end of 2015.

In 2014 a special collective agreement was signed regulating the employment of new employees who began or will begin working at Makhteshim.

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

Agan

Labor relations in Agan are governed by a special collective agreement signed in 1973 on behalf of employees by the Ashdod Workers' Council. From then on, Agan and the Histadrut Ashdod District and the Workers' Council signed special collective agreements, usually for periods of two years each time, which update select issues included in the historical agreement and introduce new arrangements. The current agreement, which was signed in December 2014, extends the terms of the collective agreements at Agan, subject to changes set out in the agreement, until December 31, 2016 and regulates, among other things, the following issues: a lump sum bonus, per hour wage hike and other increases, as well as the workers commitment to maintain industrial peace throughout the agreement period with regard to the issues settled in the agreement.

For details on the highlights of the agreements between the Company and the Histadrut Haclalit and Workers Council, of October 2010, including the Company's commitment to continue to engage in manufacturing activity, in volumes and in certain production lines in the plants of the subsidiaries in Israel, until the date designated, as well as the agreement on voluntary retirement of employees, see Note 19A(10) to the financial statements.

At the reporting date, labor relations between Agan management and employees are correct, with no strikes or labor disputes in 2014.

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

In 2014, Mr. David Ben-Simon was appointed as CEO of Agan, in addition to his term of office as CEO of Makhteshim. As part of his position, Mr. Ben-Simon was put in charge of operations in Israel.

Adama Brazil

The employment conditions of the employees of the Company's subsidiary in Brazil, Adama Brasil S.A. ("**Adama Brazil**"), must comply with the Labor Act (CLT - Consolidação das Leis Trabalhistas), which governs all private employment aspects in Brazil. As of the date of this Report, Adama Brazil complies with the all those labor rules.

All of Adama Brazil's workers are also subject to biannually renewed collective bargaining agreements, entered by and between Adama Brazil and the labor union. At the reporting date, Adama Brasil maintains regular labor relations with its workforce and, to the best of the Company's knowledge, no significant labor disputes have been raised against it in recent years. The Company's CEO and the CFO are engaged 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 rules prescribed by the relevant authorities in India.

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

21.5 Investments in Training, Employee Development and Incentives

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

The Company has measurable criteria for bonus allocation as part of the Company's general policy of compensating non-executive, senior and junior management Company employees, in reference to both annual bonuses and long-term compensation programs. These criteria are subject to the framework of an allocation budget to be annually approved as part of the Company's work plan. The extent of the bonus, should there be any, is a function of employee performance and Company results.

21.6 Executives and Senior Management

At the publication date of this Report, the Company's senior management team comprises 7 members, mostly employed in its offices in Israel and abroad (sometimes through a management services agreement).

The agreements with our other executive officers contain provisions regarding prior notice, non-competition (for periods of 3-12 following termination of employment), confidentiality of information and certain agreements contain also provisions regarding assignment of inventions.

Since February 7, 2014, Mr. Chen Lichtenstein serves as president and CEO of the Company, after Mr. Erez Vigodman, who had served as president and CEO of the Company since January 1, 2010 notified the Company of the termination of his term of office on February 6, 2014. On April 24, 2014 and May 11, 2014, the Company's compensation committee, Board of Directors and shareholders approved the terms of employment of Mr. Chen Lichtenstein as present and CEO of the Company, which became effective from the commencement of his employment (February 7, 2014) and based on the Company's compensation policy. For further information, see Regulation 21 in Chapter D of this Periodic Report.

Pursuant to the provisions of section 267A of the Companies Law, following the approval of the Compensation Committee and Board of Directors of the Company on December 11, 2013 and December 24, 2013 (respectively), the shareholders of the Company approved the adoption of a policy for the terms of office and employment of officers and senior managers who are not officers ("the Compensation Policy"). For details see immediate report dated December 25, 2013 (Ref. No. 2013-01-107488). On November 9, 2014, the Company's general meeting approved an amendment to the compensation policy, following its approval by the Company's compensations committee and Board of Directors on the same date. Part of the amendments to the compensation policy (primarily amendments relating to remuneration of directors) did not come into force due to the postponement of the Public Offering (see section 1.4.3 above). For further details, see immediate report dated November 10, 2014 (Ref. No 2014-01-191292).

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

21.7 Long Term Incentive Plans

For information regarding the stock options plan and the supplement to it, adopted by the Company on December 24, 2013, and options allotted to employees and officers of the Company and the subsidiaries based on the plan, see Section C(1) to the Board of Directors' report and Note 21 to the financial statements.

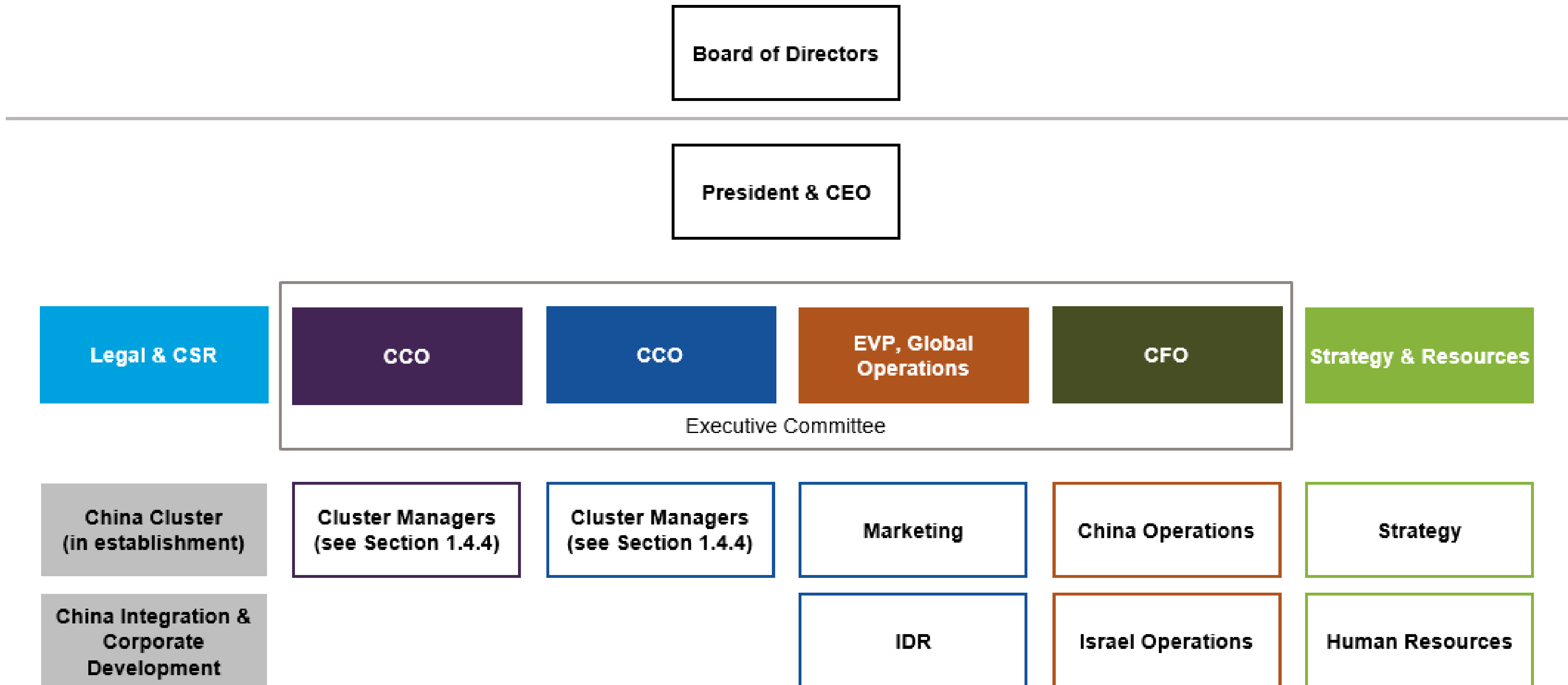
21.8 <u>Senior Executives' Indemnification and Insurance</u>

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

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

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

21.11 Diagram of the Company's organizational structure at reporting date:



22 WORKING CAPITAL

22.1 General

Company Working Capital in 2014:

Quick ratio	Current ratio	Working capital balance
1,198,319	1.65	0.98

22.2 Customer Credit

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

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

The Company usually extends days of credit to its customers according to the credit terms common in the markets in which it operates. Accordingly, the increase in Company sales in developing countries where the extent of credit days is greater, has led to and could continue to involve an increase in the total credit days extended by the Company. Recently, in view of the economic situation, large ethical companies began to increase the credit days to customers, which compelled and will continue to compel the Company to increase also the credit days that it extends to its customers in certain regions.

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

	2014	2013	2012
The average customer credit days*	145	138	137

* The data refers to annual average (rather than the number of credit days as of the end of the reporting period. The average includes current and non-current clients

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

The customer credit days in the northern hemisphere countries are lower than the average for Company customers, and the customer credit days in southern hemisphere countries are higher than the Company customer average. Due to these seasonal factors, for the most part, the average credit days on June 30 of every year is lower. Sales in Brazil, which accounted for 16% of the Company's sales in 2014, are affected mainly in the third and fourth quarters, and collections are made mainly in the second quarter of the subsequent year.

The Company's trade receivables at December 31, 2014 totaled USD 1,086 million. For additional details, see Note 4 to the Financial Statements.

The Company's bad debts expenses totaled some USD 6,740 thousand in 2014.

22.3 Customer Debt Securitization

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

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

22.4 Inventory and Raw Material Policy

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

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

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

Average Inventory and inventory days in the three years prior to reporting date:

	2014	**2013**	**2012**
Average inventory (*) ($K's)	1,249,024	1,201,680	1,147,613
Inventory days (regarding historical sales)	208	208	216

(*)includes current and non-current inventory.

In every period, the Company evaluates the need for recording inventory impairment. The total inventory for December 31, 2014 has grown and was USD 1,251.5 million (as opposed to USD 1,243.4 million in 2013).

22.5 Supplier Credit

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

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

	2014	2013**	2012**
Average trade payables ($K's)*	627,881	533,079	554,776
Supplier credit days	114	102	109

* not including suppliers of fixed assets.

** recalculated to reflect supplier credit due to COGS (excluding additional expenses).

23. FINANCING AND CREDIT

The Company finances its business activity with its equity as well as with outside financing, mainly long and medium term bonds issued by the Company (as detailed in Subsection 23.3 below), whose balance as of December 31, 2014 was USD 1,004.7 million. For further information regarding the issue of bonds (Series B) subsequent to the balance sheet date, see Section 32 below. Under the bond terms, the Company is not required to comply with any financial covenants.

The additional share of the Company's external funding comes from: (1) long-term bank credit, whose balance at the reporting date (including current maturities) was some USD 338.4 million, and under the terms of which the Company has undertaken to comply with certain financial covenants, as described in Note 20C to the financial statements; (2) short-term bank credit, the balance of which as of December 31, 2014 (excluding current maturities), was USD 142.4 million; (3) customer debt securitization, with a balance as of December 31, 2014 of USD 154.5 million, as described in section 22.3 of this Report; and (4) supplier credit.

On the other hand, as of December 31, 2014, the Company had liquid cash and cash-equivalent balances amounting to USD 405.3 million.

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

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

23.1 Long-term loans

Presented below are details on the average interest rate and long-term bank loan amounts, broken down according to the main financing currency, for 2014:

Long-term bank loans (including current maturities)			
	Weighted interest rate on 31.12.2014	**Effective interest rate (%)**	**December 31, 2014**
	%	**%**	**USD thousands**
USD	4.16%	4.23%	334,809
Brazilian Real	5.18%	5.28%	3,075
Other currencies	5.52%	5.63%	531
Total			**338,415**

Commencing January 1, 2015, until proximate to the publication date of the Report, the Company did not take out long-term bank loans.

For details regarding the projected amounts that the Company will have to pay in the future according to the terms of the aforementioned loans, in each of the five years subsequent to the balance sheet date, see note 14 of the Financial Statements.

23.2 Short-term Loans and Variable Interest Credit

Presented below are details on the average interest rate and amount of short-term bank loans broken down according to main financing currencies in 2014:

Short-term bank credit			
	Weighted interest rate 31.12.2014	**Effective interest rate**	**December 31, 2014**
	%	**%**	**USD thousands**
Overdraft:			
EURO	1.67%	1.69%	2,689
Other currencies	3.11%	3.15%	7,525
Total			10,234
Short-term credit:			
USD	2.36%	2.39%	128,215
NIS	2.09%	2.11%	17,010
Euro	1.81%	1.82%	46,232
AUD	4.68%	4.79%	12,899
PLN	3.81%	3.88%	19,500
GBP	2.29%	2.32%	17,339
BRL	6.27%	6.47%	16,719
Other currencies	13.11%	14.00%	28,673
Total			**286,587**

During the period from January 1, 2015 until proximate to the publication date of the Report, the Company assumed new short-term bank loans in a total amount of USD approximately USD 200 million, which as of the publication date of the Report approximately USD 20 million have been paid.

23.3 Company Bonds / Debentures

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

For details about the bonds issued by the Company, see Note 15 to the financial statements and the appendix to the Directors' Report. For further information relating to the issue of debentures (Series B) by way of Series expansion and the issue of options exercisable for debentures (Series B), subsequent to the balance sheet date see section 32 below.

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

23.4 Credit Restrictions

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

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

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

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

(b) Restrictions by virtue of Securitization Agreement

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

In addition to the above, the Company has undertaken, within the framework of the financing documents, to meet further terms that, according to the Company's estimate at the time of this Report, do not restrict its operations materially. See note 21F of the financial statements for details about the Company's dividend-related undertakings.

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

As of December 31, 2014 and to the best of the Company's knowledge proximate to the report's publication date, the Company complies with all the covenants imposed on it by the financing documents and the securitization agreement (the Company also complied with all the covenants imposed on it by the financing documents and the securitization agreement during 2012). Notwithstanding the aforesaid, a worsening in the Company's results due to the occurrence of an unforeseen event beyond the Company or non-materialization of the Company's forecasts could cause the Company to be in non-compliance with the covenants prescribed in the financing documents or securitization agreements.

23.5 Further Credit Restrictions on the Company as a Borrowing Group Member

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

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

23.6 The Company's and its debentures Credit Rating

See the appendix to the Directors' Report.

23.7 Variable Interest Credit

Below are details of the range of stated interest rates for variable-interest loans in 2014, as well as the rate proximate to the publication date of the Report:

Type of Credit	Currency	Credit amount at December 31, 2014 (in USD thousands)	Variation Mechanism	Interest Rate proximate to date of publication of the report	Interest Range in 2014
Short Term Loan	USD	151,324	3 M Libor	0.26	0.222-0.26
Overdraft	EUR	2,689	1 M EUR	0.01	-0.003-0.25
Overdraft	OTHERS	7,545	PLN	1.86	1.74-2.52
Short Term Credit	USD	128,215	3 M Libor	0.26	0.22-0.26
Short Term Credit	EUR	46,232	3 M Libor	0.06	0.05-0.32
Short Term Credit	INR	20,238	INR	8.54	8.32-10.13
Short Term Credit	PLN	19,500	PLN	1.86	1.74-2.52
Short Term Credit	AUD	12,899	AUD	2.77	2.52-2.81
Short Term Credit	GBP	17,339	GBP	0.56	0.52-0.57
Short Term Credit	ILS	17,010	ILS	0.25	0.02-0.96
Short Term Credit	BRL	16,719	BRL	12.2	10.05-12.2
Short Term Credit	OTHERS	8,435	-	-	-

24. TAXATION

24.1 Tax Laws Applicable to the Company

The Group develops, purchases, manufactures and markets its products through many companies worldwide. More than 96% of the Group's sales in 2014 were affected in international markets outside of Israel and therefore, the Group operates through approximately 50 subsidiaries operating in 100 countries, with each of the companies being independent and playing a different role and contributes differently to the Group's operations, and they are assessed according to the local tax laws, as described below.

It is noted that what follows is an extremely concise description based on tax laws as they exist at the reporting 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), 1961 ("the Ordinance" or "the Income Tax Ordinance") and its regulations.

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

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

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

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

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

<u>Taxation of Foreign Income in Israel</u>

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

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

"Indirect credit" in Israel: According to the current legislation, the Israeli company will be entitled to choose to be liable for the current corporate tax rate (26.5% in 2014) on all income out of which dividends have been distributed and receive an "indirect credit" for the foreign corporate tax imposed on that income from which dividends were distributed in addition to the credit in the amount of tax deducted at source by the foreign entities, so long as the Israeli company holds 25% or more of the means of control in the foreign subsidiary which distributes the dividends. Israeli companies are entitled to such indirect credit for corporate tax imposed on foreign sub-subsidiaries, so long as they hold 25% or more of the means of control in the foreign subsidiary, while the latter directly holds more than 50% of the foreign sub-subsidiary which is the source of the income out of which the dividends have been distributed.

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

Transfer Prices

According to Section 85a of the Income Tax Ordinance and the Income Tax Regulations (Market Terms Determination), - 2006, ("Transfer Price Regulations"), transfer prices, a cross-border transaction (in which one of the parties involved is not an Israeli resident), in which the two parties have a "special relationship" (as defined therein), will report according to market terms and be taxed accordingly. The Transfer Price Regulations apply to various cross-border transactions, including the initial stages of manufacturing a product up to selling it, concluded on and from the day they came into effect. Rules for ongoing reports have been formulated by virtue of these regulations, and the assessment authorities have also been authorized to demand market studies.

Section 85a and the Transfer Price Regulations adopt the market pricing principle by stating that price appropriateness and the terms of cross-border transactions between parties who have a special relationship will be evaluated by comparing them to similar transactions between parties with no such relationship. According to Regulation 2(a), in order to determine whether a cross-border transaction is indeed a market terms transactions, a market study will be conducted to compare the transaction in question with similar transactions by the assessed party, as defined in the Transfer Pricing Regulations.

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

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

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

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

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

24.2 Effective Tax Rate

According to the financial statements as of December 31, 2014 and Note 17 thereto, in 2014, the Company's pre-tax income amounted to USD 192.9 million, and tax expenses calculated based on the statutory tax rate should have been approximately USD 51.1 million. However, actual tax expenses to the consolidated company, according to said Note, amounted to USD 46.9 million.

To the best of the Company's knowledge, the statutory corporate tax rates in effect on December 31, 2014 were 45% in Italy, 30% in Spain, 33% in France and 38.4% in the US; in Latin American countries, the rates vary between 25% and 35%; in other countries where the Group operates, they range between 16% and 40%, while some Group companies are incorporated in foreign territories where the rates are less than 5%.

The losses for tax purposes transferred to the following year – whose adjusted total on balance day is some USD 525 million (mainly due to the operations in South America and in Israel) – can be realized over a period of several years. The Company has a deferred tax asset for accrued losses totaling some USD 40.5 million, based on the Company's estimate that there is a high likelihood for the realization of the losses regarding which it has a deferred tax asset over the next few years. The (consolidated) effective tax rate in 2014 was 24%.

Some of the Company's surpluses come from income of Approved Enterprises in Israel (see Note 17 to the financial statements) and of its foreign subsidiaries. Distributing these surpluses could, on certain conditions, create a tax liability. Since the Group's policy is to use most of the operational surpluses to expand Group operations, and as stated in Note 3 to the financial statement, when calculating the deferred taxes, the taxes that would have been levied had investments in the held companies would be realized were not taken into account since at the time of this Report, the Company intends to hold these investments rather than realize them. Moreover, the Group may be liable to additional tax in case of dividend payout among Group members. This additional tax was also not taken into account when calculating the deferred taxes in the financial documents, due to the policy of not allocating dividends if this entails a material increase in tax rates. At the time of this Report, the Company has no information about the extent of liability, if any, for the said dividend distributions, but based on its preliminary estimate, should the Company be required to distribute said surpluses under certain

circumstances (contrary to its said policy and as a function of the amounts involved), this liability could prove material. See Note 17 to the financial statements for further details and explanations about the tax provisions applicable to the Company and the difference between its statutory and effective tax rates.

24.3 Tax Assessments

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

25. ENVIRONMENTAL RISKS AND ENVIRONMENTAL REGULATION

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

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

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

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

Among the environmental laws imposed on the Company's activities are, inter alia, the Prevention of Nuisances Law, 1961; Business Licensing Law, 1968; Water Law, 1959, Prevention of Sea Pollution from Land-Based Sources Law, 1988; Hazardous Materials Law, 1993; Israel Clean Air Law. 2008 ("Clean Air Law"), and the regulations related to them, etc.

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

Air quality: The Company's plants are subject to atmospheric emissions regulation, whether by virtue of the terms provided in the business licenses or under the Clean Air Law. The Company's plants required to file application for emission permits under the Clean Air Law (Agan plant in Ashdod and Makhteshim plant at Neot Hovav), filed their applications in 2014.

As at reporting date, these permits have not yet been received. Two of the Company's new facilities operate under emissions permits. One facility operated during 2013 and the second facility received an emissions permit at the end of 2014. It is possible that in this framework, a more stringent environmental requirements will be imposed on the plants than those now imposed on the plants, but at this stage, the Company is unable to assess the essence of the requirements and whether they will have a material effect on it.

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

In May 2012, the Company signed a preliminary unique agreement with the class of residents of Nir Galim. Pursuant to the agreement, which received the validity of a court ruling, the Company is taking action according to the recommendations made by the authorized experts to prevent potential future nuisances for residents of the settlement, including an undertaking to invest substantial sums. The Company is taking action to implement the agreement.

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

Sewage and permits to flow sewage to the sea: The Prevention of Sea Pollution from Land-Based Sources Law requires obtaining a permit from the Ministry of Environmental Protection to flow waste or sewage to the sea from land-based sources. The Agan plant holds such a permit, valid through June 2016, the terms of which are periodically added to. The terms of the permit have become more stringent during its term, as part of the generally more rigorous trend adopted by the Ministry of Environmental Protection in the issuance and terms of permits for flowing pollutants to the sea.

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

The Agan plant in Ashdod was required by the Ministry of Environmental Protection and the Water Authority to carry out various soil surveys and surveys of the ground water monitoring wells. Once the surveys were submitted to the Ministry of Environmental Protection and the Water Authority, Agan was required to submit a soil rehabilitation plan. Agan submitted its detailed response to the Ministry of Environmental Protection. Agan also submitted a detailed plan to the Water Authority for treating the ground water and was required to submit various supplements in this regard.

Makhteshim's plant in Beer Sheva was required, by the Ministry of Environmental Protection, to conduct a historic soil survey and test a soil gas sample. To date, the plant has not been instructed by any of the authorities to take additional measures in this regard.

Under the integrated environmental regulation, the Makhteshim plant at Neot Hovav is required to submit a historic soil survey. This survey was submitted to the Ministry of Environmental Protection at the beginning of 2015. At this stage the Company has no way of assessing whether these requirements will be imposed, their substance or if they will have material effect on it.

In the past, pollution of subterranean water was discovered in the Neot Hovav Council, and as a result, the Council took measures to halt the spreading of the pollution and to pump, treat and guard the subterranean water. Presently, the Company is not required to incur expenses to treat the pollution. It is possible that the Council will, in the future, demand that the Company participate in the costs of these actions, but at this stage, the Company is unable to assess whether such a demand will be raised, nor its scope.

In August 2011, the bill to Prevent Soil Pollution and Soil Rehabilitation Law – 2011 was approved in a first reading in the Knesset. The bill prohibits, inter alia, the taking of actions that cause soil pollution, and imposes an obligation on the owners and holders of the land and the holders of hazardous materials to prevent pollution of the soil and to rehabilitate the treated soil. As at reporting date, the bill has not yet been approved. To the extent the bill is passed, it is possible, as a result, that obligations will be imposed on the Company to perform soil surveys and based on their findings, additional obligations could be imposed to treat the pollution found and to rehabilitate the soil. In 2014 the Ministry of Environmental Protection published draft policies regarding contaminated soil to establish arrangements relating to surveys and restoration of contaminated soil as an interim measure until legislation is completed.

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

25.2 Environmental Investments

	USD Millions		
	2012	**2013**	**2014**
Total investment in environmental facilities	26	29	40
Current costs (before depreciation)	46	52	47

The Company intends to continue investing in environmental protection, as much as required and beyond, to pursue its Best Available Technology policy. The Company estimates that, at the reporting date, according to the existing work plan, environmental costs in 2015 are expected to total USD 58 million, in 2016 USD 60 million and in 2017 USD 60 million (an estimated amount only, that assumes increased support for new facilities being built, maintenance and other costs).

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

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

25.3 Adama Brazil's Plants in Brazil

Adama Brazil – the Company's subsidiary in Brazil – operates two main plants in that country: the larger one, is near Taquari, and the other is in Londrina, both in southern region of the country. To the best of the Company's knowledge, at the reporting date no environmental permits or licenses held by Adama Brazil have been denied.

Since 1996, Adama Brazil invests in safety and environment protection facilities in its two plants, including conducting independent environmental tests for the assurance of its compliance with its permits, tests of the surrounding underground water sources and monitoring atmospheric emissions based on advanced technology. Periodic testing of the atmospheric emissions and water sources evidence that Adama Brazil meets the requirements set forth by the law and the public authorities.

As part of its ecological process improvement policy, Adama Brasil also invests in remediation, changes in production processes, sewage facilities, as well as in byproduct storage and recycling. Adama Brazil is also associated to a private entity which takes voluntary action to remove and recycle pesticide packages.

25.4 Environment-Related Legal Proceedings

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

25.5 The Company's environmental risk management policy

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

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

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

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

26. REGULATION AND CONTROL OF COMPANY OPERATIONS

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

26.1 Registering active materials, products and dietary supplements - The Company's operations involve the production and marketing of active materials and crop protection chemicals. Producing and marketing these products and materials usually require undergoing a statutory registration process. See section 15 above for details.

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

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

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

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

26.6 Law for the Encouragement of Capital Investments, its provisions and related regulations, as well as approvals granted for the Company's various investments. For details, see note 17 of the Financial Statements.

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

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

27. SUBSTANTIAL AGREEMENTS

27.1 See sections 1.1 and 2.1 above and Note 19A(7) to the financial statements for details about the Merger Agreement.

27.2 For further information regarding the Acquisition Transaction in China, see section 1.4.2 of the report.

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

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

27.5 See section 23.3 and 23.4 for details about capital raised and finance agreements.

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

28. COLLABORATION AGREEMENTS

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

28.2 On September 30, 2014 the Company's audit committee, Board of Directors and shareholders approved engaging in a trade collaboration agreement with Sanonda Ltd. Under this agreement, the Company and Sanonda Ltd. will collaborate on crop protection product production, distribution, marketing and technologies, including the global distribution of Sanonda Ltd. products by the Company, the establishment of a distribution platform for selling products of the Company and of Sanonda Ltd. on the Chinese domestic market, and sharing know-how to improve and develop processes and technologies.

29. CORPORATE GOVERNANCE

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

29.1 Code of Ethics

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

29.2 Internal enforcement plan

- In accordance with the provisions of the Effective Compliance Proceedings in the Securities Authority (Legislative Amendments) Law, 2011, and the organizational culture of compliance with and honoring companies and securities law and the principles of corporate governance, on May 10, 2012, the Company's Board of Directors approved an outline for adoption of an internal enforcement plan and its integration in the Company and in the regions it operates internationally and in its subsidiaries. On that date, the Company's Board of Directors also ratified the appointment of the Company's CFO, Mr. Aviram Lahav, as head of internal enforcement in the Group, and the appointment of the audit committee as the designated board for coordinating the matters of compliance and enforcement in the Group. According to that outline, the Company's audit committee approved several procedures that will outline the norms applicable to all the officials operating in the Group and will constitute a guiding tool for the Group's officers and employees during their day-to-day work. The Company is modifying additional work procedures to convert them to part of the Company's overall compliance plan, and took measures during the reporting period to assimilate the internal compliance plan.
- On August 9, 2012, the Company's Board of Directors ratified the adoption of a zero tolerance policy toward bribery and corruption by the Company and on August 7, 2014, the Board of Directors of the Company approved the adoption of an enforcement program regarding Anti-Bribery and Anti-Corruption. The enforcement program is in the process of implementation in the Group companies.
- On November 15, 2012, the Company's Board of Directors ratified the adoption of an anti-trust enforcement plan, in order to integrate these laws in Company's processes.

29.3 Negligible transactions and criteria for classification of negligible transactions

For details on the negligible transactions procedure, see Note 28 to the financial statements as at December 31, 2014.

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

On February 26, 2015, 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.

29.5 Corporate Responsibility Report

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

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

In the past the Company received a legal opinion from an external legal counsel, according to which the Company is not a "third tier company", as this term is defined in the Concentration Law.

In addition to the foregoing, in June 2014, Regulations to Promote Competition and Reduce Concentration (Classification of a Company as a Tier Company), 2014 (the "Concessions Regulations") came into effect, under which concessions were granted to certain corporations considered to be third tier companies can upgrade the composition of their Board of Directors to adapt it to the requirements of the Concentration Law. On October 23 and 30, 2014 Koor received letters of clarification from the Securities Authority, on behalf of the Ministry of Justice, according to which the Securities Authority would not intervene regarding the opinion that states that the Concessions Regulations are applicable to the Company with regard to the composition of the Company's Board of Directors.

29.7 Agreement to prevent concerns of conflict of interest

Further to the appointment of Mr. Chen Lichtenstein as president and CEO of the Company, Mr. Lichtenstein ceased serving as president and CEO of CNAC on March 7, 2014 and it was agreed that Mr. Lichtenstein would not be entitled to any remuneration for his service at CNAC, as of January 1, 2014. For details regarding arrangement for the prevention of conflict of interest, see note 28A of the Financial Statements.

30. LEGAL PROCEEDINGS

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

31. BUSINESS OBJECTIVES AND STRATEGY

31.1 Company strategy - general

The Company is among the leading multinationals companies in the field of crop protection products. In addition, the Company engages in additional activities, based on its core abilities (in the fields of chemistry and agriculture), in non-material extents. At the time of this Report, the Company's objective is to continue to be a global leader in the field of crop protection products. The Company is working on creating simplicity in

agriculture - providing farmers with accessible and easy to use solutions that will simplify their lives and improve their agricultural yields.

As at reporting date, in view of the postponement of the Public Offering, the Company is taking measures, together with its shareholders, to promote the business combination of the operations of the Chinese Companies with the Company's operations and creating tradability for its shareholders (see sections 1.4.2 and 1.4.3 above).

31.2 Business strategy

The Company's strategic emphasis in the coming years is to position the Company as a unique leading company in the agrochemicals industry, with the aim of offering high-quality, simple, efficient, differentiated and accessible crop protection solutions to farmers worldwide, to help them increase productivity of yields, while achieving a profitable growth of the Company. The Company estimates that the better it is able to adapt its operational structure and create a unique business model in the industry, then the higher the value it will be able to generate from the basic trends in the agricultural industry in general and in the agrochemicals industry in particular (including due to the accelerated rate of patent expiry and the frequent growth in the off-patent market's share of the global agrochemicals industry), in addition to maximizing the growth potential in the emerging markets of Asia, South America, Africa and Eastern Europe.

At the same time, the Company continues to strengthen and focus its development and licensing of new products, which support its global organic growth, in order to continue improving and differentiating its product portfolio and adapt it to the changing market conditions and key agricultural trends. In this framework, the Company offers farmers a hybrid mix of branded products, comprised of non-patent protected products, as well as more innovative products, in increasing percentages, based on unique mixtures and formulations (see section 7.3 above). Furthermore, the Company is working to develop and promote a diversity of innovative technologies designed for agriculture, including in the seed and biotechnology sectors, and is examining the option of entering other complementary agricultural sectors. As at reporting date, these projects are in preliminary stages and the Company estimates that it will take several years before they are ready to launch on the market (if at all).

As part of its strategic goals, the Company continues to examine joint ventures or acquisitions of companies, operations and products in the fields of chemistry, agriculture and seed traits, which are the Company's core businesses. See section 1.5 above for details on acquisitions made by the Company.

31.3 Company's plans following closing of the Merger Transaction and concerning the business integration of the assets in China

The Company estimates that the Merger Transaction that was closed in October 2011 provides the Company with more tools, infrastructures, abilities and resources, enabling it to realize its business goals.

The Company is working intensively to realize the potential inherent in the Merger. Based on the Company's long term strategy, it is taking measures to position itself as a leading global company in the crop protection products industry, with significant presence in China. Taking this strategy into account, in 2013 the Company completed a tender offer to acquire 10.6% of Sanonda Ltd. shares. In 2014 the Company engaged in the Acquisition Transaction in China, as set out in section 1.4.2 above. The Company estimates that completing of the business integration with the Chinese Companies will provide it with a unique advantage in the Chinese market that will have a positive effect, in the mid-and-long term, both on its local operations in China and on its global operations.

The Company estimates that the operation basis it will generate in China, as well as its relations with ChemChina, will provide it, in the long term, an exclusive advantage in penetrating the Chinese market (which is one of the largest and fastest growing agrochemical markets worldwide). The Company estimates the business integration with the Chinese Companies will position it as one of the few suppliers of crop protection products with substantial operational and commercial infrastructures in China.

Furthermore, the Company estimates that the business integration with the Chinese Companies will enable it, in the long term, to develop and market differentiated products more efficiently, improve its cost structure with regard to certain materials, optimize its global supply chain and support the growth of the Company's sales, while improving its profitability.

The Company estimates that it is not expected to achieve all its strategic goals in China in the short term. For that purpose, the Company will be required to make further investments in developing the operations of the Chinese Companies, including by way of complementary acquisitions, entering into partnerships, investing in licensing, workforce recruitment, relocating and adapting sites, and making capital investments with the aim of upgrading existing plants and systems and establishing new plants. Furthermore, the Company will be required to obtain licenses in countries in which it intends to sell products for which ingredients manufactured by the Chinese Companies are used in production. The Company estimates that this process will be gradual and take several years and that during that time the Company may be exposed to significant risks in

China before it is able to fully realize the benefits inherent in the transaction. The Company estimates that, subject to the business combination with the Chinese Companies, it may incur non-recurring expenses for integrating the Company's operations with the operations of the Chinese Companies, which will total an amount of up to USD 40 million over the next two to three years, part of which will be capital investments due to operational adjustments.

The Company's management estimates that completing the actions deriving from the Company’s strategic plan (including the actions taken by the Company to consummate the business combination with the Chinese Companies and maximize the potential of the Merger Transaction) (see sections 1.4.2 and 1.4.3 above) will enable the Company to maximize the potential inherent in its assets and holdings, while dealing with key issues and challenges it faces. Completing the strategic plan will help the Company's continued growth, while improving its profitability and exploiting appropriate opportunities in the global market of crop protection products.

The Company is evaluating additional business opportunities in China that may support the creation of significant research, operational and commercial infrastructure in this country. However, during the reporting period, negotiations conducted with Shenzhen Noposion Agrochemicals Co. Ltd. with regard to establishing a joint company and collaboration in distribution operations in China, ended without results (See also the immediate report of August 27, 2013, Ref. 2013-01-128526.)

The estimations of the Company management regarding the advantages of the business combination with the Chinese Companies and the effect of the Merger Transaction and the Acquisition Transaction in China on its operations constitute forward-looking statements, based on the information that the Company’s management has at this time. The Company's assessments may not materialize, inter alia, due to the timing of the business integration with the Chinese companies and/or changes in the operating results of the Company or the Chinese companies, including as a result of the actions of the Company's potential competitors and changes in the market in which it operates.

31.4 The Company prepares a multi-annual plan, which is evaluated and updated annually, that expresses the Company's business development, based on the following principles:

(1) Ongoing consistent growth in revenues, inter alia, in view of the growing demand for food (as a multi-annual trend), the projected realistic multi-annual increase in agricultural commodity prices (despite the attrition which began in 2014), the improvement in usage of advanced technologies in agriculture and the growth in the Company's global dispersal.

(2) Improvement and change in the Company's product mix, in a way that is expected to increase the Company's revenues and its gross margin in the long term, inter alia, by increasing the weight of products which yield higher margins and innovative and of differentiated products in its product mix, continuation of the advancement of collaborations with companies in the industry, advanced approach to chemical R&D and development of marketing capabilities and a marketing view at the crop level.

(3) Creation of a unique business model in the industry, inter alia, through ongoing optimization of the global operational system (manufacturing and supply chain), an advanced global research and development platform (Israel, India and China), exhausting the growth potential in emerging markets and subject to completing the business integration with the Chinese companies, creating a significant base in China by leveraging the Company's commercial and operational infrastructure in China to solidify its leading position in the local crop protection market, and generating business integration between the operations of the Chinese Companies and the Company's global operations.

31.5 Company goals

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

Accordingly, based on the information available to the Company and its estimations as to economic and technological developments in its area, the Company has set certain objectives (which may change from time to time) in order to obtain a competitive edge in the global crop protection products market, which are based, as of the reporting date, on the following principles:

- ✓ The Company's marketing and sales objectives include reinforcement and bolstering of its current position in the markets in which it operates, as well as expanding its shares in markets with high growth potential (such as Western and Eastern Europe, Asia focusing on China and India, Africa and Central and Latin America focusing on Brazil). To this end, the Company is working to solidify its local marketing platforms in its main operational regions; and initiates and strives for collaborations with local and international entities to leverage mutual product development, registration and distribution capabilities.
- ✓ The Company's objectives regarding its products include growth based on its current products portfolio, involving the development of new registrations for these

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

In recent years, the Company has been taking action to diversify its products portfolio, in a manner based on non-patent protected products, mainly the complex ones, on unique formulations and mixtures, and on a selective basis, even on innovative active ingredients. In this context, the Company is taking measures to change its sales mix so as to increase the percentage of innovative, differentiated and products that maintain higher profit margins.

- ✓ The Company's goals with respect to expanding its areas of activity include selective entry into the field of seeds and novel agricultural technologies that will be integrated into the Company's core businesses.
- ✓ The Company continuously strives to enhance its production abilities and competitiveness by operational optimization of all its supply chain elements. The Company sees as a primary objective the constant investment in, and improvement of, its facilities, production processes and working environment, so as to meet high safety and environmental protection standards.
- ✓ The Company continuously assesses business opportunities in the crop protection products area, by acquiring products and/or obtaining product rights and acquiring companies in the industry so as to enable it to decentralize its distribution and marketing networks, access new customers and markets, as well as expand its products portfolio and production capacity.
- ✓ Creation of a significant platform in China, based on the business combination with the Chinese Companies.
- ✓ Evaluating the possibilities of utilizing technological developments in telecommunications, in order to improve and advance the Company’s interface with the farmers.

- ✓ The Company continues reviewing acquisitions and joint ventures that offer opportunities to improve its position in the market, as well as enhancing its existing product mix. As part of this, the Company intends focusing on high growth geographic regions, particularly in emerging markets in which the Company seeks to increase its market share. The Company estimates that such future acquisitions have a significant role in further solidifying its leading position in the non-patent protected crop protection products industry.

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

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

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

32.1 On February 1, 2015, the Company completed the issue of NIS 533,330,000 par value debentures (Series B) and 2,666,650 options exercisable for NIS 266,665,000 par value debentures (Series B). For further information see the Company's immediate reports dated January 20, 2015, January 22, 2015, January 28, 2015 and February 2, 2015 (Ref.Nos.: 2015-01-015484, 2015-01-017053, 2015-01-020440 and 2015-01-023371), included herein by way of reference, and Note 32 to the financial statements. For details regarding exercise of options, see section 20 of Chapter D of this report.

33. RISK FACTORS

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

33.1 Macroeconomic Risk Factors

☑ Exchange rate fluctuations

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

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

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

☑ Business operations in emerging markets

The Company conducts business – mainly product sales and raw material procurement – inter alia, in emerging markets such as Latin America (particularly in Brazil, the largest market 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 and value of local currencies; 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 market consolidation by large-scale competitors. Developments in these regions could have a significant effect on the Company's operations. Economic harm in these markets could impair the ability of the Company's customers to purchase its products or to market them at international market prices, and 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 contributes to diversifying such risks and to reducing its dependency on particular economies. In addition, changes in registration requirement or customers' preferences in developed western countries, which will limit the use of raw materials purchased from emerging economies, will require redeployment of the Company's procurement organization, which might negatively effect its profitability for a certain period.

33.2 Industry Risk Factors

☑ Operating in a competitive market

The crop protection products industry is highly competitive. As at reporting date, approximately 70% of the industry's global market is held by six leading ethical

companies, which are based in Europe or North America, including Monsanto, DuPont, Dow, Bayer, BASF and Syngenta, which develop, manufacture and market patent-protected products and off-patent products. The Company competes with ethical products with the aim of maintaining and increasing its market share. In view of the scope of operations of the ethical companies and their market share, the Company's ability (as a mainly off-patent company) to effectively compete with them involves continuous efforts and significant investments in new products development and timely registration, ongoing marketing and sales of existing products, and maintaining accessibility to external distributors (which are often permitted to only distribute a limited number of similar products). The ethical companies have resources enabling them to compete aggressively, in the short-to-medium term, on price and profit margins, to gain market share. Loss of market share or inability to acquire additional market share from the ethical companies can affect the Company's position in the market and adversely effect its financial results.

Moreover, the Company also competes in the more widespread off-patent market, with other off-patent companies and smaller-scale ethical companies, which have significantly grown in number and are significantly changing the face of the crop protection products industry, and most of which have yet to deploy global distribution networks at the reporting date, and are active only locally. These companies price their products aggressively and at times are even willing to make do with lower profit margins than the Company, which could be harmful to the volume of the Company's sales and product prices. The Company's ability to maintain its revenues and profitability from a certain product in the long term is effected by the number of companies producing and selling comparable generic products and the date 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 off-patent competitors (whether by the expansion of their product range, granting license to other off-patent manufacturers (including manufacturers in China and India) to operate in additional markets, turning their distribution network into a global one or increasing the competition for distribution access) might affect the Company's total sales in its core activity area, affect its global position and cause attrition of prices. For further details about the competition in the Company's areas of activity, see Section 13 of the Report.

☑ Decline in scope of agricultural activities; extraordinary changes in weather conditions

The scope of agricultural activities may be negatively affected by many exogenous factors, such as extreme weather conditions, natural disasters, significant decrease in agricultural commodity prices, government policies and farmers' economic condition. A decline in the scope of agricultural activities necessarily causes a decline in the demand for the Company's products, attrition in its prices and collection difficulties, which could 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. In the Company's estimation, should a few such bad seasons occur in succession, without favorable seasons in between, the Company's results may sustain significant negative impact.

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

Many aspects of the Company's areas of operation are strictly regulated, including in connection with production and trading, and particularly in relation to the storage, treatment, manufacturing, transport, usage and disposal of its products, their ingredients and byproducts some of which are considered hazardous. The Company's activities include hazardous materials, as defined in the Hazardous Materials Law, 1993. Defective storage or handling of hazardous materials could 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 imposed on the Company vary from product to product and from market to market, and tend to become stricter with time. In recent years, both government authorities and environmental protection organizations have been applying growing pressure, including through increasingly stricter legislative proposals and class action suits related to companies and products which may potentially pollute the environment. Compliance with foregoing legislative and regulatory requirements and protection against such legal actions requires that the Company spend considerable financial resources (both in terms of ongoing costs and in terms of material one-time investments) as well as human resources in order to meet mandatory environmental standards. In some cases, this results in delaying the introduction of Company products into new markets, affecting its profitability.

In addition, toughening, materially changing or revocation, of environmental licenses or permits, or their terms, or the inability to obtain such licenses and permits, might significantly affect the Company's ability to operate its production plants which might have material adverse effect on the finances and business results of the Company. The Company could have to bear significant civil liability (including due to class actions) or criminal liability (including high penalties and/or high compensation payments and/or costs of environmental monitoring and rehabilitation), due to a violation of environmental, health and safety regulations, while some of the existing legislation could impose obligations on the Company for strict liability, whether or not negligence or malice is proven.

Although 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 would satisfy or meet future requirements, should these be significantly updated or upgraded. In addition, the Company is unable to predict with any certainty the extent of future costs and investments it may incur to meet the requirements of the environmental authorities in Israel or in other countries in which it operations because, among other things, the Company is unable to estimate the extent of potential pollution hazards, their clean-up, the measures required from the Company for treating them, the division of accountability among other parties and the amounts re-coverable from third parties.

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

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

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

Most materials and products marketed by the Company require licensing at various stages of their development, production, import, uses and marketing, and are also subject to strict regulatory oversight in each country. Compliance with registration requirements, which vary from country to country, some of which are becoming stricter with time, involves significant investments of time and resources, and rigorous matching of licensing demands with each and every product. Noncompliance with these regulatory requirements might materially adversely affect the scope of the Company's expenses, its cost structure and profit margins, as well

as penetration of its products in the relevant market, and could even lead to suspension of sales of the relevant product or to legal actions. Moreover, to the extent that new regulatory requirements are imposed on registered products (requiring additional investment or leading to the existing registration's revocation) and/or the Company is required to compensate another for its use of the latter's product registration data, these amounts might amount to significant sums, considerably increasing the Company's costs and adversely affecting its results and reputation. Nevertheless, in the company’s estimation in countries where the Company has competitive edge, any toughening of registration requirements may increase this edge, since it will make it difficult for its competitors to penetrate the same market, whereas in countries in which the Company has a small market share, if any, such toughening could make penetration of the Company's products into that market difficult. See Section 15 above for further details on Company product registration.

☑ Product liability

Product and producer liability represent a risk factor 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, potentially affecting its profits. The Company has a third-party and defective product liability insurance cover of up to 350 million dollars in aggregate annual damages. Nevertheless, there is no certainty that the scope of insurance cover is sufficient. Any future product liability lawsuit or series of lawsuits could materially affect Company operations and results, should the Company lose the lawsuit or should its insurance cover not suffice or apply in a particular case. In addition, and even though on the reporting date, the Company is having no difficulty renewing that insurance policy, there is a possibility that it will face difficulties in renewing an insurance policy for third party liability and defective products on terms acceptable to the Company.

☑ Successful market penetration and product diversification

The Company's growth and profit margins are affected, among other things, by the extent of its success in developing differentiated products and obtaining licenses for them, to enable it to gain market share ahead of its competitors. Usually being first to launch a certain off-patent product gives the Company continuing advantage, also 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 said product ahead of the launch of a comparable product by its competitors.

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

☑ Intellectual property rights of the Company and of third parties

The Company's ability to develop off-patent products depends, among other things, on its ability to deal with patents of an ethical company or other third parties, or to develop products that do not otherwise infringe intellectual property rights, in a way that could involve significant legal and other costs. Ethical companies might try to delay the manufacture 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 ethical product. The ethical companies could also change the branding and marketing method of their product. Such actions could increase the Company's costs and its risk, and adversely affect, 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 could involve time, costs, substantial damage 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 knowledge, up to reporting date, such lawsuits that have ended were in immaterial amounts.

Furthermore, although the Company protects its brands and trade secrets with patents, trademarks and other means, these protection 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 prices

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

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

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

Nevertheless, the fact that the Company itself markets Glyphosate acts to mitigate this exposure (albeit only in terms of marketing margins). For further details about this technological innovation and its implications, see Subsection 5 above.

☑ Operational risks

Company operations, including its manufacturing activities, rely, among other things, on state-of-the-art computer systems. The company continually invests in upgrading and protecting these systems. Any unexpected failure of these systems, as well as the assimilation of new systems, could involve substantial costs and adversely affect the Company's operations until these are repaired or assimilated. In the event of substantial failure that cannot be repaired within a reasonable time frame, it could also affect the Company's operations and its results. At the reporting date, the Company has a property and loss-of-profit insurance policy covering up to USD 1,456 million in aggregate annual damages.

33.3 Company-Specific Risk Factors

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

Lack of raw materials or other inputs used for manufacturing Company products might prevent the Company from supplying its products or significantly increase their production costs. Moreover, the Company imports raw materials to its production facilities in Israel and/or abroad, from where it exports its products to its Subsidiaries abroad for formulation and/or marketing purposes, as the case may be. Disruptions in the supply of raw materials from regular suppliers could adversely affect the Company's operations until it is able to engage with an alternative supplier. 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 infrastructural defects in the operating of a relevant port, and the Company is unable to engage with an alternative supplier at the usual terms and in accordance with product licensing requirements, this could adversely affect the Company's results, significantly affect its ability to obtain raw materials in general, or to obtain them at reasonable prices, as well as limit its ability to supply its products and/or meet supply deadlines. These might negatively affect the Company and its finances, customer relations and operating results. In order to reduce this risk, it is the Company's practice to occasionally adjust the volume of its product inventories and occasionally uses air freight.

☑ Failed mergers and acquisitions; difficulties encountered in assimilating acquired operations (including with regard to the Acquisition Transaction in China)

The Company's strategy includes growth through mergers, acquisitions, investments and collaborations designed to calculatedly expand its product portfolio and deepen its presence in certain 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 and conditions (or at all); difficulties in realizing the expected benefits from acquisitions and investments; and restrictions on ability to finance the transactions due to the terms of existing debt of the Company.

Transactions for the sale of assets in which the Company may engage, could also involve risks, including the risk that such transactions will yield lower returns than expected (or even a loss); 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 the ability to realize projections, maintain profitability and adapt to certain market and competitive conditions.

It is possible that problems will arise in the assimilation of the acquired operation, owing, perhaps, to difficulty in adaptation between organizations in different geographical locations; assimilation of joint systems and controls; integration of workers with different cultural and business backgrounds; 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, licenses, financial expenses and costs related to environmental quality, 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.

With regard to the Acquisition Transaction in China, in addition to such foregoing difficulties, problems may arise in the business combination with the Chinese Companies, also due to: (a) unexpected changes in the policies of governmental authorities, due to the business combination of the Chinese Companies with a global company; (b) difficulty in obtaining governmental approvals and third party confirmations, including problems in obtaining licenses in various countries allowing the Company to use different active ingredients and raw materials obtained from the Chinese Companies; (c) legislative registrations and the specific legal environment in China.

Failure to achieve these could mean not fully achieving the added value projected, losing customers, exposure to unexpected liabilities, reduced value of the intangible assets included in the merger or acquisition as well as the loss of professional and skilled human resources.

With regard to the Chinese Companies, the process of integrating them and the managerial resources involved could harm other operations of the Company. The Company estimates that it is not expected to achieve all strategic goals in China in the short term. This process will be gradual and take several years, and during that time the Company may be exposed to significant risks in China before it is able to fully realize the benefits inherent in the transaction. The Company estimates that failure to combine the business of the Chinese Companies could have significant adverse effect on its business, financial situation and results of operations.

☑ Production concentrated in a few plants

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

☑ International taxation

Over 95% of Company sales are in markets outside Israel, through its consolidated subsidiaries worldwide. These play various roles in the Company's operational structure (sometimes in relation to the same product), including production, knowledge maintenance and development, as well as procurement, logistics, marketing and sales of the Company's various products. These firms are assessed according to the tax laws in their countries of residence 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; changing the essence (also regarding the location of control and administration) 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 assessment method could lead to a substantial increase in the Company's applicable tax rates and have a material adverse effect on its financial situation, the results of its operations and its cash flows.

For further details, as well as regarding the tax laws applicable to the Company, see Section 24 of the report. The Company's financial statements do not include a material provision for exposure for international taxation, as aforesaid, based on an opinion it has received.

☑ Risks arising from the Company's debt

The Company finances its business operations from its equity and through loans from external sources (mainly debentures and bank credit). The Company's main source for servicing the debt and its operating expenses is from the profits of the operations of the Group's companies. Restrictions applying to the Group companies regarding to distribution of dividends to the Company could affect the Company's ability to finance its operations and service its debt.

For the purposes of the Israeli banking system, the Company is part of the IDB Development Corp. Ltd. "borrower group" (see subsection 23.5 above). Consequently, it might be not be able to raise bank credit unrestrictedly, and close certain deals with companies that received substantial credit from Israeli banks.

In addition, the Company's financing 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, as well as should it not obtain the agreement of its funders to extend or update these financial covenants according to its abilities, could lead the funders to oblige the Company to immediately repay its liabilities (or part thereof).

☑ Exposure to credit risks of customers

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

As a rule, such problems arise more often in developing countries where the Company is less familiar with its customers, their collaterals are of doubtful value and the insurance cover of such customers is likely to be limited. For additional information, see the explanations of the Board of Directors and the Company's financial statements. Credit default by any of its customers might affect 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 its ordinary course of it business. In view of the Company's growth and considering the main growth areas, the Company's broad product mix and investments in manufacturing infrastructures, the Company has considerable financing and investment needs. The Company continually works at improving the state and management of its working capital and in the past three years it has recorded positive cash flow from operating activities.

It should be noted that, in 2013, the Company's cash flows from operating activities less the cash flow used in investment activities, amounted to USD 41 million, and in 2014 to USD 33 million. Although at the reporting date the Company is in compliance with all its financial covenants, significant deterioration of its operating results could in the future cause the Company to fail to comply with its financial covenants and it could 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 could be harmed.

☑ Risks relating to the Acquisition Transaction in China

The Company estimates that it could be exposed to several specific risks relating to the Acquisition Transaction in China, the main ones being as follows:

- Economic, political and social environment and governmental policies in China - the business environment in China is very different from the business environment in developed countries, including due to the political structure, extent of government intervention, growth rates, foreign currency controls and resource allocation. The Chinese government adopts various measures for encouraging economic growth and directs allocation of resources, part of which could in the future adversely affect the results of the Chinese Companies.
- Judicial environment in China - the Chinese Companies are subject to legislation and regulation in China. Legal proceedings in China could be prolonged and could involve substantial costs and managerial expenses. The judicial system in China is partially based on government policies, internal regulations and regulatory interpretations, which could be applied retroactively. Consequently, the Company may not be aware of potential violations of the law (including regarding licensing, permits and certain approvals) by the Chinese Companies. Historically, enforcement by the authorities in China regarding certain violations of the law (including regarding various approvals, licenses and permits) was relatively low, however it is uncertain that this won't be increased in the future, in a way that could expose the Chinese Companies to sanctions as long as they do not have all the required licenses and permits for their operations under Chinese law.

- Extent of the liabilities of the Chinese Companies - the Acquired Companies may have far greater liabilities and risks than the Company expected, including with regard to environmental matters, health, safety, product licensing, relocation requirements and other contingent liabilities, or their extent may be uncertain or the amounts reserved for them may be insufficient. According to the provisions of the acquisition agreement, CNAC and the Seller undertook to cooperate with the Purchaser, to handle with certain risks recognized in the due diligence carried out by the Company. The agreement also provides that the Seller and CNAC will be obliged to indemnify the Purchaser for certain damages and losses, up to the maximum indemnification amount as set out in the Asset Acquisition Report; however, it is not certain that the amount of the indemnification will fully cover the costs that the Company will actually incur (particularly with regard to relocation). For further details, see the Assets Acquisition Report.
- Changes in legislation, standards and regulations in China - the Chinese Companies are subject to extensive regulation in China, including with regard to licensing, production, distribution, pricing, taxation, import and export, environmental matters, health and safety. Historically, the chemical industry in China enjoyed favorable government policy, however it is not at all certain that this policy will not change, or that the legal and economic environment (including with regard to required licensing and permits) that affects the operations of the Chinese Companies and the industry, will not change.
- Foreign currency controls - the Company may be required, for the needs of its operations, to convert its income from the Chinese Companies 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 obligations relating to Sanonda Ltd. - Under the partial tender offer for Sanonda Ltd. shares[3], the Company undertook, inter alia, (a) to act to reduce the horizontal competition with Sanonda Ltd. in the Chinese market (see section 9.3(A) to the Assets Acquisition Report); (b) to act to minimize interested party transactions with Sanonda Ltd. (see section 9.3(b) to the Assets Acquisition Report). These commitments may restrict the integration of the operations of the Chinese Companies, limit the Company or require the Company to perform certain actions, including to consolidate its operations in China under Sanonda Ltd.

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

Risk Factor	Potential impact on the Company's overall operations		
	High	Medium	Low
Macro risks			
Exchange rate fluctuations		+	
Interest rate, CPI and NIS exchange rate fluctuations		+	
Business operations in emerging markets	+		
Industry risks			
Competition		+	
Decline in scope of agricultural activities; extraordinary changes in weather conditions	+		
Legislating and regulatory changes (environment, health and safety)	+		
Legislating and regulatory changes (product registration)		+	
Product liability	+		
Market penetration and product diversification		+	
IP rights of the Company and of third-parties			+
Fluctuations in raw material inputs and prices and in sales prices	+		
Developments in the genetically modified seeds market		+	
Operational risks		+	
Company-specific risks			
Disruptions in raw material supply shipping & port services		+	
Failed M&A's; difficulties in assimilating acquired operations		+	
Production concentrated in a few plants	+		
International taxation		+	
Risks arising from the Company’s debts	+		
Exposure to customer credit risks		+	
Company’s working capital needs and cash flows	+		
Risks regarding the Acquisition Transaction in China		+	

אדמה פתרונות לחקלאות בע"מ
ADAMA Agricultural Solutions Ltd.

Chapter B

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

ADAMA Agricultural Solutions Ltd.

Board of Directors Report for Year ended December 31, 2014

The Board of Directors is pleased to present the Directors' Report on the State of the Company's Affairs for the period ended December 31, 2014.

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

1. Brief description of the corporation and its business environment

ADAMA Agricultural Solutions Ltd. and its subsidiaries ("the Company") specialize in the chemical industry and focus primarily on the agriculture-related chemical industry (agrochemicals). In this context, the Company develops, manufactures and markets crop protection products. In addition, the Company has other complementary operations which are based on its core capabilities (in the agricultural and chemical industries), the scope of which is insignificant. As of the reporting date, the Company is the leading off-patent active ingredients crop protection solutions company in the world by sales, and sells its products in approximately 100 countries worldwide. The Company's key success factors are primarily an integrated business model which spans world-wide end market access, local product development, registration expertise in over 100 countries and global research and development and manufacturing capabilities, the Company's broad portfolio of specialty products adapted to the farmer's needs globally, its goodwill, know-how, high level of experience and agronomic ability, excellent technological-chemical capabilities, first-rate research and development capacities, adherence to stringent environmental standards, tight quality control, global marketing and distribution system, comprehensive operating infrastructure from R&D through manufacturing, cooperation with multinational companies for the manufacturing and marketing of the products, financial robustness and available cash resources. A steady and consistent investment in development facilitates the launching of new active products, mixtures and formulations at opportune times.

For a description of ADAMA's business and material events during 2014, see Chapter A of this periodic report.

For a description of the Company's business strategy and goals, including its plans following the completion of the merger transaction with China National Agrochemical Corporation ("CNAC") from the China National Chemical Corporation group ("**CC**") and following the transaction to purchase several companies from CNAC, the agreement for which that was signed by the Company on October 1st. 2014, see section 31 of Chapter A of this periodic report.

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

In 2014 the Company presented record results in its sales, its operating profit and its EBITDA and a significant improvement in several additional aspects in its business results compared to the previous year; and thus the Company presented better results than the results of most of the of the main competitors in the sector.

The improvement in the results also included an increase in all profit lines and especially a significant in the gross profit and gross margin. Also a positive free cash flow. These improvements stemmed mainly from an increase in quantities sold as well as from a better product mix, and in spite of a decrease in agriculture commodities' prices during the year, the weakening of currencies in every region in which the company operates compared to the US Dollar and significant expenses related to the launch of the ADAMA global brand.

In the fourth quarter of 2014, which is the quarter with the lowest level of sales throughout each year due to the seasonality of the agriculture sector, the Company continued to grow in spite of the weakening of currencies as mentioned above, and managed to present similar results as in the fourth quarter of the previous year.

In 2014, the crop protection market and the Company's operations were influenced by the following trends:

a. An increase in crop yields caused an accumulation of inventory and a decrease, during the year, of agriculture commodities prices globally. Despite the aforesaid the Company managed to significantly increase its products' sales.

b. A weakening of currencies in every region in which the company operates compared to the US Dollar, led to a lower rate of increase in the Company's sales and in its gross margin, which was moderated by the effect of currencies' hedging performed by the Company.

c. A significant decrease in the price of oil and its derivatives in the second half of 2014. The Company estimates that the decrease oil prices may have a positive effect on its production costs, its land and marine transportation costs and its procured raw and intermediate material costs, however such positive effect, may be felt especially in the second half of 2015, due to the lapse of time until selling the current inventory that was produced in the costs environment before the decrease in oil prices.

d. Mergers and acquisitions of small and medium size companies that took place in the agrochemical market.

The Company estimates that, assuming on one-time unusual material events will not occur, and taking into consideration the trends of the market, as described above, including the expected relatively low level of agriculture commodities' prices in 2015 (compared multi-annually) and the weakening of currencies around the world compared to the US Dollar, the improvement in the Company's results in 2015, shall be moderated with an expected decline in the first half, due to the high volume of sales in that period in Euro, that was weakened compared to the USD compared to the same period in the previous year.

The Company's estimations as to the impact on the Company's results in 2015 constitute forward-looking information as it is defined in the Securities Law, which is based on the current trends in the global agrochemical market and on the estimations of the Company's management. The Company's estimation may not materialize, or materialize in a different manner inter alia, due to factors which are out of the Company's control, such as developments in the crop protection products market, changes in demands to the Company's products, in currencies and in oil prices and other macro-economic trends in the world.

For additional details regarding the effect of trends and external factors on the agrochemical market see section 5 to this periodical report.

2. Results of Operations – Condensed and adjusted Statement of Income

Adjusted Statement of Income for 2014 (in USD millions):

	%	2014	%	2013	Change	% of change
Revenue		3,221.3		3,076.4	144.9	*4.7%
Gross profit	31.8%	1,025.5	31.5%	968.1	57.2	5.9%
Operating expenses	22.1%	712.5	21.4%	659.1	53.4	8.1%
Operating profit (EBIT)	9.7%	312.8	10.0%	309.0	3.8	1.2%
Finance expenses, net	3.7%	120.5	4.6%	140.6	(20.1)	(14.3%)
Pre-tax profit	6.2%	198.2	4.6%	171.6	26.6	15.5%
Net Profit	4.7%	151.3	4.1%	127.1	24.2	19.1%
EBITDA	14.9%	480.0	15.1%	466.0	14.0	3.0%

*The Company's revenue in 2014, eliminating currency effects, increased by 6.1% compared to 2013.

Adjusted statement of Income for the Fourth Quarter of 2014 (in USD millions)

	%	10-12/2014	%	10-12/2013	Change	% of change
Revenue		674.2		655.7	18.5	*2.8%
Gross profit	27.4%	184.6	28.4%	186.0	(1.4)	(0.8%)
Operating expenses	25.8%	174.2	26.7%	174.9	(0.7)	(0.4%)
Operating profit (EBIT)	1.5%	10.4	1.7%	11.1	(0.7)	(6.3%)
Finance expenses, net	4.8%	32.3	5.7%	37.7	(5.4)	(14.4%)
Pre-tax profit	3.3%	(22.2)	4.3%	(28.2)	6.0	21.4%
Net profit	4.8%	(32.6)	4.4%	(29.1)	(3.5)	11.9%
EBITDA	7.8%	52.7	7.9%	51.5	1.2	2.3%

*The Company's revenue in the fourth quarter of 2014, eliminating currency effects, increased by 6.0% compared to the corresponding quarter last year.

In its non-adjusted financial statements as of December 31, 2014, the profit and loss items are presented without adjustments that are due to one-time expenses related to preparations made by the Company towards an IPO and a one-time provision recorded during the third quarter attributed to early retirement of employees. Here are the said items, as presented in the financial statements (USD Millions) for 2014: Operating expenses -714.3 (22.2%), Operating profit (EBIT)-311.0 (9.7%), Finance expenses, net- 124.0 (3.7%), Pre-tax profit- 192.9 (6.2%), Net profit- 146.0 (4.5%) and EBITDA-478.2 (14.8%). Here are the said items, as presented in the financial statements (USD Millions) for Q4 2014: Finance expenses, net- 35.8 (5.3%), Pre-tax profit- 25.7 (3.8%), and Net loss- 36.1 (5.4%).

3. Analysis of business results

The analysis in this report relates to the adjusted results, as presented in the tables in section 2 above.

Company's Sales

The Company's sales in 2014 amounted to USD 3,221.3 million, compared to USD 3,076.4 million in 2013, an increase of USD 144.9 million. This increase at a rate of 4.7% or 6.1% when eliminating currency effects, is in all of the main regions in which the Company operates, and is within the highest growing rates among the main companies in the sector.

The Company's sales in the fourth quarter of 2014 amounted to USD 674.2 million, compared to USD 655.7 million in the corresponding quarter last year, an increase of USD 18.5 million. The quarterly growth rate, when eliminating currency effects, is 6.0%, which is similar to the annual growth rate, when eliminating currency effects.

The increase in total sales in 2014 stemmed mainly from an increase at a rate of 6.6% in quantities sold.

See below for a specific description of trends relating to the principal regions of operation.

A. Geographical split of revenues

Following are the details regarding the Company's geographical split of revenues of the fourth quarter of 2014 and for the whole of 2014. According to the decision of the Company's Board of Directors from November 6 2014 and due to the change in its organizational structure that took place during 2014, as from 2015 the Company shall adjust the way it presents its split of revenues in its reports, according to the following Geographical split: (1) North America; (2) Latin America; (3) Europe, Middle east and Africa; and (4) Asia –Pacific (including China), instead of the current split as presented in this report.

Geographical split of annually revenues (in USD millions):

	%	2014	%	2013	Change	% of Change*
Europe	36.9%	1,186.7	37.1%	1,140.3	46.4	4.1%
North America	16.9%	544.8	16.8%	516.2	28.6	5.5%
Latin America	25.5%	822.5	24.6%	757.5	65.0	8.6%
Asia Pacific and Africa	17.5%	564.0	18.0%	553.2	10.8	2.0%
Israel	3.2%	103.3	3.5%	109.2	(5.9)	(5.4%)
Total	**100%**	**3,221.3**	**100%**	**3,076.4**	**144.9**	**4.7%**

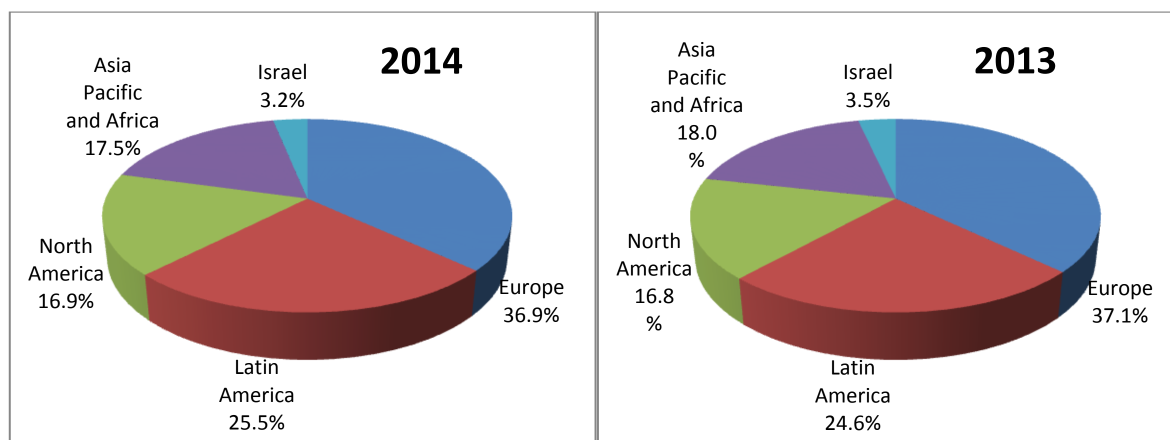
*The Company's revenues in 2014, split by geographical regions, eliminating currency effects, increased compared to 2013, by the following rates: Europe 4.9%, North America 6.3%, Latin America 9.1%, Asia Pacific and Africa (including Israel) 4.8%.

Geographical split of quarterly revenues (in USD millions)

	%	10-12/2014	%	10-12/2013	Change	% of Change*
Europe	20.8%	140.2	20.8%	136.2	4.0	2.9%
North America	19.9%	134.0	19.2%	126.0	8.0	6.3%
Latin America	39.2%	264.7	38.4%	251.8	12.9	5.1%
Asia Pacific and Africa	16.6%	112.0	17.4%	114.2	(2.2)	(1.9%)
Israel	3.5%	23.3	4.2%	27.5	(4.2)	(15.3%)
Total	**100%**	**674.2**	**100%**	**655.7**	**18.5**	**2.8%**

*The Company's revenues in the fourth quarter of 2014, split by geographical regions, eliminating currency effects, increased compared to the corresponding period last year, by the following rates: Europe 11.4%, North America 6.5%, Latin America 5.8%, Asia Pacific and Africa (including Israel) 0.6%.

Geographical split of quarterly sales by percentage:



Europe:

Sales In 2014, in Europe, amounted to USD 1,186.7 million compared to USD 1,140.3 million in the corresponding period last year, an increase of USD 46.4 million.

The increase in sales in 2014 stemmed mainly from an increase in quantities sold and a raise in selling prices that were partially offset by lower effective currencies then in 2013.

Sales in the fourth quarter of 2014 amounted to USD 140.2 million, compared to USD 136.2 million in the corresponding quarter last year, an increase of USD 4.0 million.

The increase in sales in the quarter stemmed primarily from an increase of approx. USD 15.4 Million (11.3%) in quantities sold, that was mostly offset by effects of currencies in the amount of approx. USD14.4 Million (10.5%).

North America:

Sales in 2014, in North America, amounted to USD 544.8 million compared to USD 516.2 million in 2013, an increase of USD 28.6 million.

The increase in sales in 2014 stemmed mainly from an increase of approx. USD 41.1 Million (8.0%) in quantities sold, partially offset mainly by lower selling prices.

Sales in the fourth quarter of 2014 amounted to USD 134.0million, compared to USD 126.0 million in the corresponding quarter last year, an increase of USD 8.0 million.

The increase in sales in the quarter stemmed mainly from an increase of approx. USD 13.3 Million (10.6%) in quantities sold, offset by lower selling prices.

Latin America:

Sales in 2014, in Latin America, amounted to USD 822.5 million compared to USD 757.5 million in 2013, an increase of USD 65.0 million.

Sales in the fourth quarter of 2014 amounted to USD 264.7 million, compared to USD 251.8 million in the corresponding quarter last year, an increase of USD 12.9 million.

The increase in sales in 2014 and in the fourth quarter stemmed mainly from an increase of approx. and USD 99.4 Million and USD 30.9 Million, respectively (13.1% and 12.3% respectively) in quantities sold.

Asia Pacific and Africa:

Sales in Asia Pacific and Africa in 2014 amounted to 564.0 million compared to USD 553.2 million in 2013, an increase of USD 10.8 million.

The increase in sales in 2014 stemmed primarily from an increase in quantities sold and in selling prices, partially offset by currencies' effect.

Sales in the fourth quarter of 2014 amounted to USD 112.0 million, compared to USD 114.2 million in the corresponding quarter last year, a decrease of USD 2.2 million.

Israel:

Sales in Israel in 2014 amounted to USD 103.3 million compared to USD 109.2 million in 2013, a decrease of USD 5.9 million.

Sales in the fourth quarter of 2014 amounted to USD 23.3 million, compared to USD 27.5 million in the corresponding quarter, a decrease of USD 4.2 million.

The decrease in sales in 2014 and in the quarter stemmed primarily from currencies' effect of NIS vis-à-vis USD.

B. Gross profit

Gross profit in 2014 amounted to USD 1,025.3 million (31.8% of sales) compared to USD 968.1 million (31.5% of sales) in 2013.

The increase in gross profit and gross margin in 2014 stemmed mainly from an increase in quantities sold, and from an improved product mix, which were partially offset by the effect of currencies and a decrease in selling prices.

Gross profit in the fourth quarter of 2014 amounted to USD 184.6 million (27.4% of sales), compared to USD 186.0 million (28.4% of sales) in the corresponding quarter last year.

The decrease in gross margin in the quarter stemmed from currencies' changes and from a decrease in selling prices, which were partially offset by an increase in quantities sold, from an improvement in the Company's product mix and from a decrease in production costs.

C. Operating income

Operating income in 2014 amounted to USD 312.8 million (9.7% of sales) compared to USD 309.0 million (10.0% of sales) in 2013.

Operating income in the fourth quarter of 2014 amounted to USD 10.4 million (1.5% of sales) compared to USD 11.1 million (1.7% of sales) in the corresponding quarter last year.

Operating expenses in 2014 amounted to USD 712.5 million (22.1% of sales) compared to USD 659.1 million (21.4% of sales) in 2013.

Operating expenses in the fourth quarter of 2014 amounted to USD 174.2 million (25.8% of sales), compared to USD 174.9 million (26.7% of sales) in the corresponding quarter last year.

R&D expenses: R&D expenses in 2014 amounted to USD 33.6 million (1.0% of sales) compared to USD 33.7 million (1.0% of sales) in 2013. In the fourth quarter of 2014, R&D expenses amounted to USD 7.5 million (1.1% of sales), compared to USD 8.8 million (1.3% of sales) in the corresponding quarter last year.

Selling expenses: Selling expenses in 2014 amounted to USD 570.6 million (17.7% of sales) compared to USD 522.1 million (17.0% of sales) in 2013. In the fourth quarter of 2014, selling expenses amounted to USD

140.1 million (20.8% of sales), compared to USD 136.0 million (20.7% of sales) in the corresponding quarter last year.

The increase in selling expenses in 2014 and in the fourth quarter stemmed, inter alia, from an increase in variable expenses resulting from an increase in quantities sold as well as from marketing expenses including due to the launching of the global brand.

General and administrative expenses: General and administrative expenses in 2014 amounted to 111.9 million (3.5% of sales) compared to USD 114.5 million (3.7% of sales) in 2013.

In the fourth quarter of 2014, general and administrative expenses amounted to USD 28.3 million (4.2% of sales), compared to USD 31.4 million (4.8% of sales) in the corresponding quarter last year.

D. Financing expenses

Financing expenses (net) in 2014 amounted to USD 120.5 million compared to USD 140.6 million in 2013.

The financing expenses in 2014 decreased mainly due to a decrease in the Consumer Price Index ("CPI") and from the purchase of the minority holdings in an held company that reduced the value update of a PUT option.

Financing expenses (net) in the fourth quarter of 2014 amounted to USD 32.3 million, compared to USD 37.7 million in the corresponding quarter last year.

The decrease in financing expenses in the quarter stemmed mainly from changes in the capitalization rate of the Company's obligations due to benefit plans for employees and from a decrease in financing expenses due to value updates of PUT option regarding certain subsidiaries of the Company compared to the corresponding quarter last year.

E. Income tax

Tax expenses in 2014 amounted to USD 46.9 million compared to USD 44.5 million in 2013.

The decrease in the effective tax rate in 2014 stemmed mainly from timing difference due to unrealized inventory surpluses in the selling entities that caused tax incomes which offset the tax expenses in the period.

Tax expenses in the fourth quarter of 2014 amounted to USD 10.3 million compared to USD 0.9 million in the corresponding quarter last year that was effected by a tax income that did not return in the fourth quarter of 2014.

F. Net (Loss) profit

Net profit in 2014 amounted to USD 151.3 million (4.7% of sales) compared to USD 127.1 million (4.1% of sales) in 2013 a significant increase of 19.1%.

Net loss in the fourth quarter of 2014 amounted to USD 32.6 million (4.8% of sales), compared to USD 29.1 million (4.4% of sales) in the corresponding quarter last year. The difference is due to a lower income tax rate in the corresponding quarter last year.

G. EBITDA

EBITDA in 2014 amounted to USD 480.0 million (14.9% of sales) compared to USD 466.0 million (15.1% of sales) in 2013, an increase of USD 14.0 million.

EBITDA in the fourth quarter of 2014 amounted to USD 52.7 million (7.8% of sales), compared to USD 51.5 million (7.9% of sales) in the corresponding quarter last year.

H. Revenues split by operating segment

Split of sales in 2014 by operating segment (in USD millions)

	%	2014	%	2013	Change	% of Change
Crop protection (Agro)	94.0%	3,028.8	93.5%	2,876.2	152.6	5.3%
Other (Non Agro)	6.0%	192.5	6.5%	200.2	(7.7)*	(3.8%)

*The change is due to, inter alia, a one-time income during 2013.

Split of sales in the fourth quarter of 2014 by operating segment (in USD millions)

	%	10-12/2014	%	10-12/2013	Change	% of Change
Crop protection (Agro)	93.7%	631.4	92.7%	607.7	23.7	3.9%
Other (Non Agro)	6.3%	42.7	7.3%	48.0	(5.3)	(11.0%)

4. Financial Condition and Liquidity

A. Cash flow

The Company's un adjusted net profit in 2014 amounted to USD 146 million and the un adjusted net profit before depreciation and amortization amounted to USD 313 million compared to a net profit of USD 127 million in 2013 and a net profit before depreciation and amortization of USD 284 million, an increase of USD 19 million and USD 29 million, respectively.

However, in 2013 and 2014, hedging transactions, made mainly due to the company's debt in NIS, had material effect on the Company's free cash flow;
On December 31, 2014 the company had Debentures in NIS of approx. NIS 3.9 Billion. Since the operating currency of the Company is the USD, the Company conducts hedging transactions with regard to the NIS exposure. The described change in the Company's cash flow from operating activities for 2014 compared to 2013 stemmed mainly from a negative effect on the 2014's operating activities cash flow due to payments made for hedging transactions (related to a 12% Depreciation in the NIS/USD exchange rate, followed by a matching decrease in the Company's USD Indebtedness as reflected in the Company's balance sheet) on the one hand, and from a positive effect on the 2013's operating activities cash flow due to realizing hedging transactions (related to a 7% Appreciation in the NIS/USD exchange rate, followed by a matching increase in the Company's USD Indebtedness as reflected in the Company's balance sheet) on the other hand.
In addition, the described change in the Company's cash flow from operating activities for 2014 compared to 2013 stemmed also from an increase in the Company's working capital during 2014, which is due to, inter alia, preparations for the expected growth in the Company's sales in 2015.

In accordance to the above, the Company's cash flow from operating activities in 2014 was USD 179.1 million compared to a cash flow of USD 362.5 million in 2013, while, as aforesaid, most of the change is due to currency's hedging transactions.

The Company's free cash flow in 2014 amounted to USD 33.1 million (and net of a USD 52.5 Million deposit the terms of which were amended and is now classified as cash the free cash flow amounted to a negative cash flow of USD 19.4 million) compared to a free cash flow in 2013 of USD 41.0 million (and net of a USD 52.5 Million long term deposit the free cash flow in 2013 amounted to USD 93.5 Million).

The Company's un adjusted net profit before depreciation and amortization in the fourth quarter of 2014 amounted to USD 6 million compared to a net profit of USD 11 million in corresponding quarter last year, a

decrease of USD 5 million. The decrease stemmed mainly from the effect of a tax income in the fourth quarter of 2013. For all the reasons mentioned, the effect of hedging transactions, the increase in the Company's working capital and timing difference, the Company's cash flow from operating activities in the fourth quarter of 2014 was USD 44.2 million, compared to a cash flow of USD 195.9 million in the corresponding quarter last year.

The Company's free cash flow in the fourth quarter of 2014, amounted to USD 4.9 Million compared to a free cash flow of USD 102.7 Million in the corresponding quarter last year.

The Company's investments in the fourth quarter of 2014 amounted to USD 39.3 million, compared to investments of USD 93.3 million in the corresponding quarter last year. These investments included primarily investments in product registrations, intangible assets and fixed assets. The investments in fixed assets, which included investment in plant and equipment, including facilities for the maintenance and protection of environmental standards, amounted to USD 14.3 million, compared to USD 16.0 million in the corresponding quarter last year. In the corresponding quarter last year the Company investments also included the purchasing of 10.6% of the outstanding share capital of Hubei Sanonda Co. Ltd.in the amount of approx. USD 58 million.

The Company's investments in 2014 (net of a USD 52.5 Million deposit the terms of which were amended and is now classified as cash) amounted to USD 198.5 million compared to investments (net of a USD 52.5 Million long term deposit) of USD 269.0 million in 2013. These investments included primarily investments in product registrations, intangible assets and fixed assets. The investments in fixed assets, which included investment in plant and equipment, including facilities for the maintenance and protection of environmental standards, amounted to USD 100.5 million, compared to USD 84.9 million in 2013. In 2013 the Company investments also included the purchasing of 10.6% of the outstanding share capital of Hubei Sanonda Co. Ltd. in the amount of approx. USD 58 million.

B. Current assets

Total current assets as of December 31, 2014 amounted to USD 3,049.9 million compared to USD 2,740.6 million on December 31, 2013.

C. Investments in fixed assets

See the section on cash flow above.

D. Cash, current liabilities and long-term loans

The Company's total financial credit (bank loans and debentures) as of September 30, 2014 amounted to USD 1,831.1 million (of which 29.8% was short term), compared to USD 1,882.6 million (of which 31.6% was short term) on September 30, 2013 and USD 1,738.0 million (of which 26.6% was short term) on December 31, 2013.

The Company's balances of cash and short-term investments as of September 30, 2014 amounted to USD 534.9 million, compared to USD 446.4 million on September 30, 2013 and USD 390.4 million on December 31, 2013.

The Company's net debt (short term bank loans including the receivables financing facility, long term bank loans, short term debentures, long term debentures, the effects of hedging transactions attributed to debt, net of cash, short-term investments and long term deposits) as of December 31, 2014 amounted to USD 1,332.7 million, compared to USD 1,271.7 million on December 31, 2013.

According to the bank finance documents for the long-term loans of the Company and its subsidiaries, the Company is required to comply with financial covenants towards certain banks ("the Finance Documents"), the principal of which at December 31, 2014 and at the date of publication of this report, are as follows:

(1) The ratio between the Company's interest-bearing financial liabilities (net debt) and its equity will not exceed 1.25. At December 31, 2014, the actual ratio was 0.7.

(2) The ratio between the Company's interest-bearing financial liabilities (net debt) and its earnings before finance expenses, taxes, depreciation and amortization (EBITDA) for 12 months will not exceed 4. As of December 31, 2014, the ratio between the Company's interest-bearing financial liabilities (net debt) and EBITDA for 12 months was 2.5.

(3) The Company's equity will be no less than USD 1.22 billion. As of December 31, 2014, equity totaled USD 1.598 billion.

(4) The Finance Documents of one of the banks further provide that the balance of Company's surpluses or of its retained earnings according to the financial statements for every date shall not be less than USD 700 million. As of December 31, 2014, the Company's surplus balance is USD 1,113.9 million.

The receivables financing facility of the Company and its subsidiaries (as detailed in section 22.3 in Chapter A of the Periodic Report for 2014) ("the Receivables Financing Facility Agreement") includes undertakings by the Company to comply with financial covenants, of which the key covenants are:

(1) The ratio between the Company's interest-bearing financial liabilities (net debt) and its equity will not exceed 1.25. At December 31, 2014, the ratio was 0.7.

(2) The ratio between the Company's interest-bearing financial liabilities (net debt) and EBITDA for 12 months will not exceed 4. As of December 31, 2014 the ratio was 2.5.

(3) The Company's equity will be no less than USD 1 billion. As of December 31, 2014 the equity totaled USD 1.598 billion.

As of December 31, 2014 and during 2014 and as of the date of this report, the Company was in compliance with the financial covenants applicable to it under the Finance Documents and the Receivables Financing Facility Agreement.

For more information, see section 23.4 in Chapter A of the Periodic Report for 2014, and Note 20 to the financial statements as of December 31, 2014.

According to the arrangement with the bank with which the Company signed the Receivables Financing Facility Agreement and with the banks towards which the Company is required to fulfill financial covenants pursuant to the Finance Documents, the outstanding debt under the Receivables Financing Facility Agreement is not included as part of the financial liabilities for the purpose of reviewing the financial covenants, even though the Company changed its accounting treatment regarding the Receivables Financing Facility Agreement after having applied IFRS 10, and includes the outstanding debt under the Receivables Financing Facility Agreement within its balance sheet.

E. Equity

The Company's Equity as of December 31, 2014 amounted to USD 1,598.4 million, compared to USD 1,404.2 million on December 31, 2013. Equity as a proportion of the total assets was 33.7% as of December 31, 2014, and 31.5% on December 31, 2013.

The Company's issued and paid-up share capital as of December 31, 2014 is 137,990,881 ordinary shares of NIS 3.12 par value each.

F. Financial ratios

	December 31 2013	December 31 2014
Ratio of current assets to current liabilities (current ratio)	1.69	1.65
Ratio of current assets, excluding inventory, to current liabilities (quick ratio)	0.94	0.98
Ratio of financial liabilities to total assets	39.0%	34.6%
Ratio of financial liabilities to total equity, gross	123.8%	102.6%

G. Financing sources

The Company finances its business operations from its equity and from external funding sources. For details please see section 23-Financing and Credit, and also section 22.2-Customer Credit and section 22.5-Supplier Credit in Chapter A of this report.

H. Warning Signs

The Board of Directors of the Company reviewed the existence of Warning Signs in the Company, as these are defined in Article 10B(4) of the Securities regulations (Periodic and Immediate Reports), 1970. In view of the consolidated financial structure of the Company and its subsidiaries and based on the financial data appearing 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 problem, and accordingly, as of the date of the report, there are no Warning Signs in the Company.

The main considerations behind the resolution of the Board of Directors include, inter alia, the following:

1. The Company's consolidated financial statements reflect a positive level of working capital. Furthermore, the consolidated annual financial statements reflect consistent positive cash flow from operating activities. This positive working capital, which includes, at the reporting date, a cash balance of USD 405.3 million, is the principal source for the repayment of the Company's liabilities.
2. Based on the structure of the operations of the Group, the manufacturing subsidiaries in Israel, ADAMA Makhteshim and ADAMA Agan ("the Manufacturing Companies") are the principal manufacturers of the Group's products that are sold by the Group's marketing companies all over the world, so that there is a current liability of the marketing companies towards the Manufacturing Companies.
3. The proceeds from the debentures issued by the Company were granted as loans to the manufacturing Companies on the same terms as the terms of the debentures, including the dates of payment.

5. Sensitivity tests

The tables below summarize the sensitivity tests for changes in currencies exchange rates as shown in the appendix to this report (in USD thousands):

USD/NIS

	Profit (loss) from changes		**Base Asset**	Profit (loss) from changes	
	+10%	+5%		-5%	-10%
Price	4.278	4.083	3.889	3.695	3.500
Total	**20,554**	**8,331**	**(217)**	**(4,352)**	**(3,048)**

EUR/USD

	Profit (loss) from changes		**Base Asset**	Profit (loss) from changes	
	+10%	+5%		-5%	-10%
Price	1.093	1.154	1.215	1.276	1.336
Total	**(3,146)**	**686**	**94,849**	**(2,217)**	**(3,934)**

USD/BRL

	Profit (loss) from changes		**Base Asset**	Profit (loss) from changes	
	+10%	+5%		-5%	-10%
Price	2.922	2.789	2.656	2.523	2.391
Total	**(2,553)**	**(690)**	**3,221**	**(159)**	**123**

GBP/USD

	Profit (loss) from changes		**Base Asset**	Profit (loss) from changes	
	+10%	+5%		-5%	-10%
Price	1.403	1.481	1.559	1.637	1.715
Total	**43**	**22**	**(2,402)**	**(22)**	**(43)**

USD/PLN

	Profit (loss) from changes		**Base Asset**	Profit (loss) from changes	
	+10%	+5%		-5%	-10%
Price	3.858	3.683	3.507	3.332	3.156
Total	**4,331**	**2,273**	**981**	**(2,273)**	**(4,331)**

USD/ZAR

	Profit (loss) from changes		**Base Asset**	Profit (loss) from changes	
	+10%	+5%		-5%	-10%
Price	12.713	12.135	11.557	8.062	7.637
Total	**(236)**	**(77)**	**(199)**	**77**	**236**

B. Market Risks – Exposure and Risk Management

1. General

The Company conducts its business in environments that operate 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, change 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 (such as options, forward contracts and swaps) for hedging against exposure to exchange rate fluctuations and a rise in the CPI stemming from the Company's operations. 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.

For details relating to credit risk and liquidity risk, see Note 29 to the consolidated financial statements of the Company as of December 31, 2014.

Exchange rate data for the Company's principal functional currencies vis-à-vis the US dollar and LIBOR:

	December 31			10-12 average			1-12 average		
	2014	2013	Change	2014	2013	Change	2014	2013	Change
EUR/USD	1.215	1.378	(11.8%)	1.249	1.361	(8.2%)	1.327	1.328	(0.0%)
USD/BRL	2.656	2.343	13.4%	2.545	2.277	11.8%	2.354	2.158	9.1%
USD/PLN	3.507	3.012	16.4%	3.374	3.073	9.8%	3.155	3.159	(0.1%)
USD/ZAR	11.557	10.531	9.7%	11.213	10.141	10.6%	10.836	9.631	12.5%
AUD/USD	0.819	0.894	(8.3%)	0.855	0.927	(7.8%)	0.901	0.965	(6.6%)
GBP/USD	1.559	1.654	(5.7%)	1.583	1.619	(2.2%)	1.647	1.564	5.3%
USD/ILS	3.889	3.471	12.0%	3.824	3.521	8.6%	3.571	3.607	(1.0%)
USD L 3M	0.26%	0.25%	3.3%	0.24%	0.24%	(2.3%)	0.23%	0.27%	(12.8%)

The exchange rate fluctuations of these currencies during the fourth quarter and during 2014 impact various sections in the Company's financial statements. 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 as noted above.

2. Risk Management Officer

The Company's Chief Financial Officer ("CFO"), Mr. Aviram Lahav, is responsible for the Company's market risk management. For information about his education, qualifications and business experience, see section 26A in Chapter D of the Periodic Report for 2014.

3. Description of Market Risks

The Company's market risk management policy

The Company's policy is to maintain as high as possible correlation between the currency in which it sells its products and the currency with which it purchases its raw materials. The Company continually examines its balance sheet and economic exposures 12 months in advance, based on forecasts of its income and expenses. As at the date of approval of the financial statements, the Company hedges most of its balance

sheet exposure and part of its economic exposure with respect to the principal currencies in which the Company operates, while there is no contradiction between them .

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

Currency Risks

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

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

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

In addition, crop protection product sales depend directly on agricultural seasons and the cyclical nature of agriculture, therefore the Company's income and its exposure to the various currencies is not evenly distributed over the year. Countries in the northern hemisphere have similar agricultural seasons and therefore, in these countries, the highest sales are usually during the first half of the calendar year. During this period the Company is substantially exposed to the Euro, PLN and GBP. In the southern hemisphere, the seasons are opposite and most of the local sales (with the exception of Australia) are carried out during the second half of the year. During these months, most of the exposure generated pertains to the BRL. The Company has more sales in markets in the northern hemisphere and therefore, the Company's sales volume during the first half of the year is higher than the sales volume during the second half of the year.

For further information, see Note 29 to the Company's financial statements as at December 31, 2014.

Exposure to CPI Linkage

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

Risk in Raw Material Prices (in Source Currency)

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

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

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

Interest risks

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

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

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

5. Sensitivity tests

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

C. Corporate Governance

1. Remuneration of senior officers

A. Adoption of a remuneration policy by the Company

On December 24, 2013 the Company shareholders approved (subsequent to approval by the Company's Board of Directors and Remuneration Committee on December 11, 2013 and December 24, 2013, respectively) a policy with regard to the terms of office and employment of the Company's officers, pursuant to the provisions of Amendment 20 to the Companies Law (Terms of Office and Employment in Public Companies and Debenture Companies), 2012.

As set out in the remunerations policy, the remunerations paid to the Company's senior officers are based on all or part of the following components: basic wage (including provisions for social and ancillary benefits), variable compensation based on goals and results (including annual

bonuses based on results and conditioned upon goals and special bonuses) and long term compensation (share-based compensation and/or other long term compensation).

For information pertaining to the Company's remuneration policy see Immediate Reports dated December 25, 2013 and November 10, 2014 (Ref. No. 2013-01-107488 and 2014-01-191292 respectively).

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

As part of the 2014 financial statement approval process the Company's Board of Directors discussed in depth, the employment and remuneration terms of each of the Company's executive officers, including those as set out under Regulation 21 in the Securities Regulations (Periodic and Immediate Reports), 1970, all in accordance with the principles and criteria set in the Company's remuneration policy.

After examining the remuneration awarded to each of the senior officers as set forth in Regulation 21 in Chapter D of this periodic report, and after being presented with the contribution of each officer during 2014 as well as comparable data, the Board of Directors came to the conclusion that such remuneration comply with the remuneration policy and are appropriate, fair and reasonable considering the size of the Company, the scope and complexity of its business activities, the duties and responsibilities of each of the senior officers who devote their best efforts and time in promoting the Company's businesses and their contribution to the development of the Company's businesses, the challenge in recruiting and retaining top rate human resources in the Company's global competitive environment and its essence as a private debenture company.

C. Long term Compensation Plan

On December 24, 2013, the Company's shareholders and its Board of Directors (after approval by the Company's Remunerations Committee on December 16, 2013) approved adopting a long-term incentive plan for the officers and other employees in the Company ("the LTI Plan"), which is composed of: (a) an options plan under which the Company may grant, gratis, to officers, management members who are not officers and senior employees in Israel and abroad, of the Company and companies under its control, non-tradable options that may be exercised for shares of the Company ("the Options Plan") and (b) a long term cash incentive plan supplementing the options plan (due to restrictions imposed by the authorities in China with regard to the annual value of share-based compensation), under which the Company may grant an additional cash payment to officers and management members who are not officers of the Company ("the Supplementary Plan"). For further information regarding the LTI Plan and allotment of options and long term cash incentives, see the outline of proposed securities for employees and Immediate Reports issued by the Company on December 25, 2013 (Ref. No. 2013-01-107488 and 2013-01-107494) and Immediate Report dated January 30, 2014 (Ref. No. 2014-01-028075).

2. **Directors with accounting and financial expertise**

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

3. **Independent directors**

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

As of the date of approval of the financial statements, the Company's Audit Committee confirmed that Mr. Jiashu Cheng, who was appointed on March 12, 2015 is an independent director, as this term is defined in the Companies Law, 1999.

4. **The Internal Auditor**

A. **Particulars of the Internal Auditor**

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

B. **The internal auditor's compliance with regulatory requirements**

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

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

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

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

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

E. **Additional functions of the internal auditor in the Company**

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

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

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

G. **Appointment of the internal auditor:**

Mr. Yehoshua Hazenfratz was appointed to serve as the Company's internal auditor at the recommendation of the Company's Audit Committee on November 1, 2007 and the Company's Board of Directors resolution of November 6, 2007. In the Company's Audit Committee and Board of Directors meetings Mr. Yehoshua Hazenfratz was appointed as the internal auditor of the Company after his

qualifications and years of experience were examined in depth. Mr. Hazenfratz was found suitable to serve as the Company's internal auditor, inter alia considering the scope and complexity of the Company's operations.

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

H. The identity of the internal auditor's superior

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

I. Audit plan

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

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

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

J. Material transactions

The internal auditor receives an invitation, together with background material, to the Company's Audit Committee meetings and is present at the Committee meetings at which transactions are examined and approved, as set forth in section 270 of the Companies Law, 1999. In addition, the internal auditor receives, upon request, minutes of the meetings of the Company's Board of Directors at which such transactions are approved.

K. Auditing abroad and auditing of investees

The internal auditor also serves as the internal auditor of the subsidiaries ADAMA Makhteshim and ADAMA Agan. The auditing of subsidiaries abroad is carried out by the accounting firm Deloitte & Touche.

In the matter of the auditing of material investees, the Company's multi-year audit plan is designed to include a range of auditing topics, once every few years, for each subsidiary.

L. Scope of the internal auditor's service

The scope of the internal auditor's service is determined by the Audit Committee based on the audit plan that is approved by the Board of Directors. In 2014 the number of internal audit work hours at the

Company and its subsidiaries totaled to approx. 3,608 hours, according to the distribution presented in the table below. The scope of the work is set according to the needs of the audit plan and is not limited by the audited body.

	Work hours
Internal audit in the Company and in subsidiaries	3,608
Internal audit in the Company's investees	3,055
Internal audit of operations in Israel	2,632
Internal audit of operations outside of Israel	976

Of the total internal audit working hours as aforesaid, approximately 2,632 auditing hours were spent by the internal auditor on audits in Israel and 976 auditing hours were spent by the internal auditor on audits abroad.

The scope of the auditing work hours in the Company and its subsidiaries is set based on the audit plan proposed by the internal auditor in conjunction with the management and approved by the Audit Committees of the various boards of directors.

M. Professional standards guiding the audit

The internal auditor and the team of employees under him are required to carry out the audit while strictly complying with the criteria prescribed for conducting a professional, reliable, independent audit that is not dependent on the audited body. The Board of Directors relied on the internal auditor's reports concerning his compliance with the professional standards according to which the audit is carried out.

N. Free access for the Internal auditor

The internal auditor of the Company has free coordinated access to relevant documents, information and information systems of the Company and of the subsidiaries, including financial and other information as well as an independent status. With regard to the subsidiaries abroad, the internal auditor of the Company examines whether audits have been conducted in each subsidiary and that there is a work plan for the following year, based on reports received from the auditors of each subsidiary abroad.

O. The internal auditor’s report

During 2014 the Audit Committee met 13 times. Subsequent to the balance sheet date another 4 meetings were held. At these meetings, inter alia, the internal audit reports which were submitted in writing to the Chairman of the Audit Committee and to the Company's CEO were discussed, as follows:

On February 10, 2014 the Audit Committee discussed a report issued in February 2014; on June 16, 2014 the Audit Committee discussed a report issued in June 2014; On July 14, 2014 the Audit Committee discussed two reports issued in July 2014; On October 29, 2014 the Audit Committee discussed a report issued in October 2014; On December 3 2014 and on a continuance meeting on December 15, 2014, the Audit Committee discussed two reports issued in November 2014; On January 19, 2015 the Audit Committee discussed a report issued in January 2015 and On February 16, 2015 the Audit Committee discussed two reports issued in February 2015.

P. The Company's Board of Director's assessment of the internal auditor's activities

In the opinion of the Company's Board of Directors, the scope, nature and continuity of the internal auditor's activities and his work plan are reasonable under the circumstances and they fulfill the Company's internal audit goals.

Q. Remuneration of the Internal Auditor

The remuneration paid to the internal auditor of the Company and its subsidiaries in Israel is based on working hours and according to the work plan that is approved by the Board of Directors. At the beginning of each year the auditor submits a proposal for the annual audit plan which includes the planned number of work hours. The Board of Directors determines the audit work plan and the number of work hours. The auditor cannot exceed the number of work hours without the consent of the Board of Directors. In the event that additional tasks are allocated to the auditor during the course of the audit year, the Board of Directors will determine the number of work hours for the additional tasks. In 2014 the internal auditor's remuneration for his work in Israel amounted to approx. USD 147.4 thousands. The total payment for audit activities abroad amounted to approx. USD 199 thousands.

The Company estimates that since the remuneration is based on working hours, such remuneration does not affect the professional considerations of the internal auditor.

5. Donations

The Company sees contribution and assistance to the community in Israel and in the countries, in which it operates abroad, as a very important component that should be integrated into its activities. The Company sees its 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 production plants, and worldwide with regard to communities in the vicinity of its plants, as a key tier in its business vision. The Company believes that it has a responsibility towards the community everywhere that it operates and this since recognizing that business leadership goes together with social-value leadership.

The social responsibility, the involvement with and contribution to the community are strategic goals that are an inseparable part of the Company's working program, which allocates financial resources for this issue in the annual work program. The community activities are carried out with the involvement of the employees and the assimilation of social responsibility and ecological values.

The Company has decided to focus on activities for the benefit of the community in education and environmental protection together with activities connected to health, culture, art, sport, heritage, welfare, and in Israel also with regard to those serving in the IDF.

Implementation of the social investment policy

(1) Allocation of financial resources for the benefit of the community: donations in the field of education, gaps reduction and encouragement of excellence among children and teenagers; granting of scholarships in south line communities and for outstanding students; donations for the purchase of medical equipment for welfare institutions and in Israel, also for IDF soldiers.

(2) Establishment of partnerships for contributions to the community: promotion of educational projects in the fields of agriculture, chemistry, culture, arts and environmental protection, together with municipal education departments, institutions and organizations at kindergartens, elementary and high schools and academic institutions.

The donation is given as part of an approved program that is built in collaboration with the supported organization and the Company. After approving the program, a steering committee is established for joint and continuous control, supervision and monitoring regarding the Company's attainment of its contribution goals. Furthermore, the Company maintains regular contact and dialogue with dozens of social partners, inter alia, by way of indirect aid for promoting educational and cultural activities, allowing exposure to and expansion of potential audiences.

(3) Employee involvement in community volunteering: the Company initiates and encourages many of its employees to volunteer in areas such as: absorption of new immigrants, education and encouragement of children and teenagers to attain excellence and in welfare activities. The employees donate money and time for the benefit of the community. The Company believes in nurturing volunteering and aiding values also among the children of its employees by employing them during the summer vacation in community services, work that expresses educational values of volunteering for the benefit of the community.

In 2014 the Company donated an amount of approx. USD 2,036 thousand of which approx. USD 1,449 thousand in Israel.

6. Company's Auditor

A. Particulars of the Auditor

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

B. Auditors' fees

The fees paid to KPMG in 2014 for auditing services, services connected to the audit, including auditing the effectiveness of the internal control, tax consultancy services concerning the Company's financial statements in Israel amounted to USD 1,069 thousand (for 21.1 thousand work hours) compared to USD 1,108 thousand (for 17.9 thousand hours) in 2013. KPMG's fees for services in Israel, related to the preparations of the Company towards an IPO in 2014 amounted to USD 350 thousand (for 6 thousand work hours). KPMG's fee in 2013 for other services outside of Israel was USD 8 thousand (for 0.1 thousand hours).

Fees paid to KPMG in 2014 outside of Israel for auditing services amounted to USD 3,028 thousand (for 27.6 thousand working hours), compared to USD 2,568 thousand (for 25.7 thousand hours) in 2013.

KPMG's fees for services outside of Israel, related to the preparations of the Company towards an IPO in 2014 amounted to USD 763 thousand (for 5.6 thousand work hours). KPMG did not perform additional services outside Israel during 2013.

The fees for auditing services are more than half of the total paid to the auditors by the Company in the reporting year. The fees are paid on the basis of working hours. The Company's Board of Directors, which is authorized by the general meeting, approves the auditors’ fees.

7. Approval process of the financial statements

Since February 27, 2012, the Company has a Financial Statements Review Committee (the "Committee") the members of which are the members of the Audit Committee – Messrs. Gustavo Traiber (an independent external director with accounting and financial expertise) who acts as Chairman of the Committee, Dalit Braun (independent external director with accounting and financial expertise), and Jiashu Cheng (independent director with accounting and financial expertise) ("the Committee Members"). All the Committee Members gave a declaration prior to their appointment, concerning their education and experience, as noted in section 26 of Chapter D of the Periodic Report for 2014, based on which the Company regards them as having accounting and financial expertise or as having the ability to read and understand financial statements, as the case may be. As part of the process for approval of the financial statements as of December 31, 2014, the CFO presented to the Committee a detailed presentation of the financial results, and the committee discussed them as reflected in the financial statements, as well as the assessments and estimates made in connection with them, the internal controls relating to the financial statements, the integrity and appropriateness of the disclosure in them, and the accounting policy adopted and the accounting treatment applied in matters that are material to the Company. The committee also discussed other material issues. The committee met on March 12, 2015 to review the financial statements for the year ended December 31, 2014. Other than the Committee Members, the meeting was attended by interested parties and senior officers Aviram Lahav (CFO), Michal Arlosoroff – SVP and General Counsel, and Keren Yonayov (Controller).

The Committee Members and the members of the Board of Directors received a draft of the financial statements several days prior to the meeting.

Representatives of the Company's auditors, who are invited to the meetings of the Committee and of the Board of Directors at which the financial statements are discussed and approved, provided their comments and responded to questions from the Committee Members and members of the Board of Directors on material issues arising from the data presented in the financial statements under discussion,. The Company's Internal Auditor was notified of the Committee's and of the Board of Directors meetings and invited to attend. After discussing the financial statements, the Committee drafted its recommendations concerning their approval of the financial statements and submitted them in writing to the Board of Directors three business days prior to the date of the Board's discussions.

On March 19, 2015, when presenting the financial statements to the Board of Directors, the Company's Chief Executive Officer ("CEO"), Mr. Chen Lichtenstein, presented the main results of the Company's operations during the period under review and referred to key initiatives and material events that occurred during the period. In addition, the CFO, Mr. Aviram Lahav, gave a detailed presentation of the Company's financial results in the period under review, while comparing them with prior periods and highlighting material issues arising from them. During the reviews, the Company's management responded to questions from the members of the Board of Directors on all areas of the Company's operations.

The Board of Directors of the Company discussed the Company's financial statements as of December 31, 2014 and resolved to approve them.

D. Disclosure relating to the financial reporting of the Company

1. Linkage balances

See Note 29 to the Company's financial statements as of December 31, 2014.

2. Critical accounting estimates

The preparation of the financial statements according to generally accepted accounting principles obligates the Company's management to make estimates and assessments that influence the reported values of the assets, liabilities, income and expenses, and disclosure relating to contingent assets and liabilities.

For further information concerning the critical accounting estimates used by the Company in its financial statements, see Note 2 to the financial statements.

3. Events Occurring Subsequent to the Date of the Financial Statements

- For further information regarding events subsequent to the balance sheet date see Note 32 to the financial statements as of December 31, 2014.
- For further information concerning legal proceedings see Note 19 to the financial statements as of December 31, 2014.

E. Buyback

The Company did not buy back Company securities during the reporting period.

F. Information pertaining to the Company's Debentures

For information concerning debentures held by the public at reporting date, see the table attached herewith as an appendix.

The Company's Board of Directors and management express their gratitude to the Company's officers, the managements of the various companies in the Group and their employees, and thank them for their respected contribution, willingness, dedication and for meeting the many challenges that the Group faced in 2014.

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

March 19, 2015

Appendix – Details of the Company's Debentures as to 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, 2014 (NIS)	Dates of interest payments	Dates of principal payments	Linkage basis	Nominal par value at December 31, 2014 (in NIS millions)	CPI-linked nominal par value at December 31, 2014 (in NIS millions)	Carrying value of debenture balances at December 31, 2014 (in USD millions)	Carrying value of interest payable on December 31, 2014 (in USD millions)	Fair value at December 31, 2014 (in USD millions)
Series B (1)(3)(4)(5)(8)	Dec. 06	ilAA- (9)	1,650	CPI-linked annual interest	5.15%	4.2%	3,592.7 (10)	Twice a year on May 31 and on Nov, 30 in each of the years 2006-2036	Nov. 30 of each of the years 2020-2036	CPI for October 2006	2,683.1 (10)	3,235.5 (10)	800.6 (10)	3.5 (10)	923.8 (10)
	Jan. 12		514												
	Jan. 13		600												
	Feb. 15		533.33												
Series D (2)(3)(5)(6)(7)	Dec. 06	-ilAA (9)	235	Annual interest	6.50%	1.2%	839.4	Twice a year on May 31 and Nov. 30 of each of the years 2006-2016	Nov. 30 of each of the years 2011-2016	Unlinked	777.1	777.1	204.0	1.1	215.8
	Mar. 09		472												
	Jan.12		541												
	Feb.14		488												

(1) The trustee for Debentures (Series B) is Aurora Fidelity Trust Company Ltd., 12 Menachem Begin Road, Ramat Gan (Tel: 03-6005946; Fax: 03-6120675). Contact person: Adv. Iris Shlevin, CEO. E-mail: ishlevin@aurorafidelity.com. **Series B is considered a material liability of the Company.**

(2) The trustee for Debentures (Series D) is Hermetic Trust (1975) Ltd., 113 Hayarkon Street, Tel Aviv, Israel; (Tel: 03-5274867, Fax: 03-5271736). Contact person: Dan Avnon or Meirav Ofer. Email: hermetic@hermetic.co.il. **Series D is considered a material liability of the Company.**

(3) 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.

(4) 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 dated January 6 and 8, 2013 (Refs. 2013-01-004971 and 2013-01-008559).

(5) On January 16, 2012 the Company issued, by way of series expansion under a shelf prospectus published by the Company in May 2010, NIS 513,527,000 par value debentures (Series B) and NIS 540,570,000 par value of debentures (Series D). For more details, see the Company's immediate report dated January 17, 2012 (Ref: 2012-01-017373) and the amending report of the same date (Ref: 2012-01-018225).

(6) On March 25, 2009 the Company issued, by way of series expansion under a shelf prospectus published by the Company in May 2008, NIS 472,000,000 par value of debentures (Series D). For more details, see the Company's immediate report dated March 26, 2009 (Ref: 2009-01-067944).

(7) On February 11, 2014 the Company issued, in a private placement by way of series expansion, NIS 487,795,000 par value of debentures (Series D). For more details, see the Company's immediate report dated February 12, 2014 (Ref: 2014-01-038191).

(8) On February 2, 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 dated 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). As to the date of this report, 438,520 options were exercised and converted into NIS 43,852,000 par value of Debentures (Series B) of the Company.

(9) On September 15, 2013 Maalot confirmed a rating of ilA+ for the Company's Debentures (Ref. 2013-01-146784). On February 3, 2014, Maalot confirmed a rating of ilA+ for the Company's Debentures (series D) issued upon a private placement of up to NIS 550 million (Ref. 2014-01-030130). On July 1, 2014, Maalot announced that it has raised the rating for the Company's Debentures (B and D series) from ilA+ to a rating of ilAA- with stable outlook (ref. 2014-01-104136). On January 22, 2015, 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).

(10) Net of debentures purchased by a wholly-owned subsidiary, which holds 67,909,858 debentures (Series B), which as to the end of the reported Year, accounts for 2.47% of total issued debentures (Series B).

Appendix - Sensitivity Analysis Tables

Effect of exchange rate changes on balance sheet hedging transactions (in USD thousands):

	Profit (loss) from changes		Fair value	Profit (loss) from changes	
	+10%	+5%		-5%	-10%
EUR/USD	11,925	8,221	(45,761)	(9,753)	(19,005)
GBP/USD	2,337	1,200	568	(1,324)	(2,713)
USD/ZAR	1,719	900	684	(900)	(1,719)
USD/PLN	2,963	1,589	6,725	(1,589)	(2,963)
USD/ILS	(103,927)	(53,909)	(133,231)	57,888	121,434
USD/BRL	13,069	7,121	34	(7,970)	(15,499)

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	(113)	(54)	(45,761)	50	96
GBP/USD	(7)	(3)	568	3	6
USD/ZAR	0	0	684	0	0
USD/PLN	(7)	(3)	6,725	3	6
USD/ILS	(84)	(41)	(133,231)	38	72
USD/BRL	(33)	(16)	34	16	32

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	(36)	(18)	(45,761)	18	36
GBP/USD	(2)	(1)	568	1	2
USD/ZAR	16	8	684	(8)	(16)
USD/PLN	15	8	6,725	(8)	(15)
USD/ILS	(60)	(30)	(133,231)	30	60
USD/BRL	71	35	34	(35)	(71)

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	4	2	(45,761)	(2)	(4)
GBP/USD	3	1	568	(1)	(3)
USD/ZAR	(2)	(1)	684	1	2
USD/PLN	(4)	(2)	6,725	2	4
USD/ILS	69	35	(133,231)	(35)	(69)
USD/BRL	(3)	(1)	34	1	3

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	44,948	22,073	35,197	(21,967)	(95,992)
GBP/USD	4,479	2,240	879	(2,240)	(4,479)
USD/PLN	4,701	2,462	3,466	(2,462)	(4,701)
USD/ILS	(20,603)	(10,793)	(6,394)	10,834	20,721

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	84	43	35,197	(43)	(84)
GBP/USD	0	(0)	879	0	(0)
USD/PLN	0	0	3,466	0	0
USD/ILS	1	0	(6,394)	(0)	(1)

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	(193)	(96)	35,197	96	193
GBP/USD	(9)	(4)	879	4	9
USD/PLN	21	10	3,466	(10)	(21)
USD/ILS	(49)	(24)	(6,394)	24	49

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	53	26	35,197	(26)	(53)
GBP/USD	9	4	879	(4)	(9)
USD/PLN	(6)	(3)	3,466	3	6
USD/ILS	84	42	(6,394)	(42)	(84)

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

	Profit (loss) from changes		Base Asset	Profit (loss) from changes	
	+10%	+5%		-5%	-10%
Price	4.278	4.083	3.889	3.695	3.500
Cash and cash equivalents	(2,157)	(1,078)	21,569	1,078	2,157
Short term investments	(2)	(1)	22	1	2
Customers	(3,491)	(1,745)	34,909	1,745	3,491
Financial assets	(1,713)	(857)	17,132	857	1,713
Current tax assets	(6)	(3)	55	3	6
Investments, long term loans and debit balances	(3)	(2)	32	2	3
Total assets	(7,372)	(3,686)	73,719	3,686	7,372
Bank and other credit	1,703	851	17,029	(851)	(1,703)
Trade payables	13,972	6,986	139,722	(6,986)	(13,972)
Other payables	9,149	4,574	91,488	(4,574)	(9,149)
Current tax liabilities	461	230	4,609	(230)	(461)
Debentures	100,466	50,233	1,004,660	(50,233)	(100,466)
Other long term liabilities	21	10	205	(10)	(21)
Employee benefits	6,082	3,041	60,820	(3,041)	(6,082)
Total liabilities	131,853	65,927	1,318,533	(65,927)	(131,853)
Difference	124,481	62,241	(1,244,814)	(62,241)	(124,481)
Instruments for hedging cash balances					
Options	(26,594)	(13,401)	389,915	16,296	39,732
Forward contracts	(57,677)	(30,212)	638,655	30,212	57,677
CCS	(19,656)	(10,296)	216,027	11,380	24,024
Total	(103,927)	(53,909)	1,244,597	57,888	121,434
Difference	20,554	8,331	(217)	(4,352)	(3,048)
Instruments for hedging projected transactions					
Options	(830)	(435)	20,234	475	947
Forward contracts	(19,773)	(10,358)	157,068	10,358	19,773
Total	(20,603)	(10,793)	177,302	10,834	20,721

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

	Profit (loss) from changes		Base Asset	Profit (loss) from changes	
	+10%	+5%		-5%	-10%
Price	1.093	1.154	1.215	1.276	1.336
Cash and cash equivalents	(8,783)	(4,392)	87,830	4,392	8,783
short term investments	(1)	(1)	10	1	1
Customers	(16,674)	(8,337)	166,735	8,337	16,674
Financial assets	(1,258)	(629)	12,580	629	1,258
Current tax assets	(255)	(127)	2,546	127	255
Investments, long term loans and debit balances	(259)	(129)	2,588	129	259
Total assets	(27,229)	(13,614)	272,289	13,614	27,229
Bank and other credit	4,892	2,446	48,920	(2,446)	(4,892)
Trade payables	11,470	5,735	114,700	(5,735)	(11,470)
Other payables	7,833	3,917	78,330	(3,917)	(7,833)
Current tax liabilities	311	156	3,112	(156)	(311)
Bank loans (including current maturities)	3	2	30	(2)	(3)
Other long term liabilities	80	40	798	(40)	(80)
Put options for non-controlling interests	527	263	5,268	(263)	(527)
Employee benefits	395	197	3,946	(197)	(395)
Total liabilities	**25,510**	**12,755**	255,104	**(12,755)**	**(25,510)**
Difference	(1,719)	(859)	17,185	859	1,719
Instruments for hedging cash balances					
Options + Forward contracts	11,925	8,221	(55,859)	(9,753)	(19,005)
Difference	10,207	7,362	(38,674)	(8,893)	(17,287)
*Inventories	(13,352)	(6,676)	133,523	6,676	13,352
Difference including inventory	**(3,146)**	**686**	94,849	**(2,217)**	**(3,934)**
Instruments for hedging projected transactions					
Options	14,647	6,922	(177,480)	(6,817)	(14,228)
Forward contracts	35,702	17,851	(389,567)	(17,851)	(87,165)
Total	44,948	22,073	(567,047)	(21,967)	(95,992)

* The accounting hedging for inventories was carried out against the inventory in the customer's country for selling in Euro to the end customer.

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

	Profit (loss) from changes		Base Asset	Profit (loss) from changes	
	+10%	+5%		-5%	-10%
Price	2.922	2.789	2.656	2.523	2.391
Cash and cash equivalents	(2,781)	(1,391)	27,811	1,391	2,781
Trade receivables	(18,482)	(9,241)	184,817	9,241	18,482
Financial assets	(1,293)	(647)	12,933	647	1,293
Investments, long term loans and debit balances	(2,107)	(1,053)	21,068	1,053	2,107
Total assets	(24,663)	(12,331)	246,629	12,331	24,663
Bank and other credit	1,672	836	16,719	(836)	(1,672)
Trade payables	2,739	1,369	27,386	(1,369)	(2,739)
Other payables	3,006	1,503	30,064	(1,503)	(3,006)
Current tax liabilities	639	319	6,389	(319)	(639)
Bank credit (including current maturities)	308	154	3,075	(154)	(308)
Other long term liabilities	678	339	6,775	(339)	(678)
Total liabilities	9,041	4,520	90,408	(4,520)	(9,041)
Difference	(15,622)	(7,811)	156,221	7,811	15,622
Instruments for hedging cash balances					
Options	1,912	1,278	(28,000)	(2,127)	(4,341)
Forward contracts	11,158	5,844	(125,000)	(5,844)	(11,158)
Total	13,069	7,121	(153,000)	(7,970)	(15,499)
Difference	(2,553)	(690)	3,221	(159)	123

Sensitivity to USD/BPS exchange rate changes (in USD thousands):

	Profit (loss) from changes		Base Asset	Profit (loss) from changes	
	+10%	+5%		-5%	-10%
Price	1.403	1.481	1.559	1.637	1.715
Cash and cash equivalents	(1,564)	(782)	15,638	782	1,564
Trade receivables	(3,700)	(1,850)	37,000	1,850	3,700
Financial assets	(23)	(11)	225	11	23
Total assets	(5,286)	(2,643)	52,863	**2,643**	5,286
Bank and other credit	17,339	17,339	17,339	17,339	17,339
Trade payables	173	87	1,734	(87)	(173)
Other payables	690	345	6,904	(345)	(690)
Current tax liabilities	(11)	(6)	(114)	6	11
Total liabilities	864	432	25,863	(432)	(864)
Difference	(4,423)	(2,211)	27,000	2,211	4,423
Instruments for hedging cash balances					
Options	307	245	(7,000)	(327)	(683)
Forward contracts	2,030	1,015	(22,402)	(1,015)	(2,030)
Total	2,337	1,260	(29,402)	(1,342)	(2,713)
Difference	(2,085)	(951)	(2,402)	869	1,710
Instruments for hedging projected transactions					
Forward contracts	4,479	2,240	(45,701)	(2,240)	(4,479)
Total	4,479	2,240	(45,701)	(2,240)	(4,479)

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

	Profit (loss) from changes		Base Asset	Profit (loss) from changes	
	+10%	+5%		-5%	-10%
Price	3.858	3.683	3.507	3.332	3.156
Cash and cash equivalents	(2,298)	(1,149)	22,976	1,149	2,298
Trade receivables	(1,922)	(961)	19,222	961	1,922
Financial assets	(167)	(83)	1,666	83	167
Total assets	(4,386)	(2,193)	43,864	2,193	4,386
Bank and other credit	2,711	1,356	27,111	(1,356)	(2,711)
Trade payables	64	32	640	(32)	(64)
Other payables	377	189	3,774	(189)	(377)
Other long term liabilities	91	46	913	(46)	(91)
Current tax liabilities	27	14	271	(14)	(27)
Employee benefits	4	2	40	(2)	(4)
Total liabilities	3,275	1,637	32,749	(1,637)	(3,275)
Difference	(1,113)	(557)	11,133	557	1,113
Instruments for hedging cash balances					
Forward contracts+Options	2,963	1,589	(34,957)	(1,589)	(2,963)
Total	2,963	1,589	(34,957)	(1,589)	(2,963)
Difference	1,850	1,033	(23,824)	(1,033)	(1,850)
*Inventories	2,481	1,240	24,805	(1,240)	(2,481)
Difference including inventory	4,331	2,273	981	(2,273)	(4,331)
Instruments for hedging projected transactions					
Forward contracts	4,701	2,462	(55,368)	(2,462)	(4,701)
Total	4,701	2,462	(55,368)	(2,462)	(4,701)

* The accounting hedging for inventories was carried out against the inventory in the customer's country for selling in PLN to the end customer

Sensitivity to USD/ZAR exchange rate changes (in USD thousands):

-	Profit (loss) from changes		Base Asset	Profit (loss) from changes	
-	+10%	+5%		-5%	-10%
Price	12.713	12.135	11.557	10.979	10.401
Cash and cash equivalents	(122)	(61)	1,221	61	122
Trade receivables	(1,791)	(895)	17,907	895	1,791
Financial assets	(101)	(51)	1,013	51	101
Total assets	(2,014)	(1,007)	20,141	1,007	2,014
Trade payables	19	9	188	(9)	(19)
Other payables	39	20	390	(20)	(39)
Current tax liabilities	2	1	17	(1)	(2)
Total liabilities	60	30	595	(30)	(60)
Difference	(1,955)	(977)	19,546	977	1,955
Instruments for hedging cash balances					
Forward contracts	1,719	900	(19,745)	(900)	(1,719)
Total	1,719	900	(19,745)	(900)	(1,719)
Difference	(236)	(77)	(199)	77	236

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

Changes in linked NIS interest rates

	Profit (loss) from changes		Fair value	Profit (loss) from changes	
	+10%	+5%		-5%	-10%
Debentures Series B	35,159	17,846	(923,809)	(18,398)	(37,369)
CPI/USD transaction	(19)	(10)	(26,783)	10	19
Total	35,140	17,836	(950,592)	(18,388)	(37,350)

Changes in unlinked NIS interest rates

	Profit (loss) from changes		Fair value	Profit (loss) from changes	
	+10%	+5%		-5%	-10%
Debentures Series D	340	170	(215,843)	(170)	(341)
Total	340	170	(215,843)	(170)	(341)

Changes in USD interest rates

	Profit (loss) from changes		Fair value	Profit (loss) from changes	
	+10%	+5%		-5%	-10%
CPI/USD transaction	12	6	(26,783)	(6)	(12)
USD loans	846	425	(82,203)	(430)	(865)
USD investments	(18)	(9)	1,616	9	18
Total	858	431	(108,986)	(436)	(877)

Changes in BRL interest rates

	Profit (loss) from changes		Fair value	Profit (loss) from changes	
	+10%	+5%		-5%	-10%
Investments in BRL	(225)	(114)	4,980	117	238
Loans in BRL	47	24	(2,763)	(24)	(49)
Total	(178)	(90)	2,218	93	189

אדמה פתרונות לחקלאות בע"מ

ADAMA Agricultural Solutions Ltd.

Chapter C

Financial Statements as at December 31, 2014

Adama Agricultural Solutions Ltd.

Consolidated Financial Statements
as of December 31, 2014
in US Dollars

Financial Statements as of December 31, 2014

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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, 2014. These control components were determined as explained in the following paragraph. The Company's Board of Directors and Management are responsible for maintaining effective internal control over financial reporting and for their assessment of the effectiveness of the Company's internal control components over financial reporting accompanying the periodic report as of the above date. Our responsibility is to express an opinion on the Company's internal control components over financial reporting based on our audit.

Audited Internal control components over financial reporting were determined in accordance with Auditing Standard 104 of the Institute of Certified Public Accountants in Israel "Audit of Internal Control Components over Financial Reporting" and its amendments (hereinafter "Auditing Standard 104"). These components are: (1) Entity level controls, including controls over the preparation and closure of the financial reporting process and information technology general controls; (2) controls over sales; (3) controls over purchase; (4) controls over inventory; (5) controls over financial derivatives (all these hereinafter are named together – "audited control components").

We conducted our audit in accordance with Auditing Standard 104. This standard requires us to plan and perform the audit to identify the audited control components and to obtain reasonable assurance about whether these control components were effective in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, identifying the audited control components, assessing the risk that a material weakness exists in the audited control components, and testing and evaluating the design and operating effectiveness of those control components based on the assessed risk. Our audit, regarding those control components, also included performing such other procedures as we considered necessary in the circumstances. Our audit referred only to the audited control components, as opposed to internal control over all significant processes related to financial reporting, therefore our opinion refers to the audited control components only. Our audit also did not refer to mutual effects between audited control components and non-audited control components, therefore our opinion does not take into account these possible effects. We believe that our audit provides a reasonable basis for our opinion in the context described above.

Because of its inherent limitations, internal control over financial reporting as a whole, and internal control components in particular, may not prevent or detect misstatements. Also, projections of any current evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Somekh Chaikin, an Israeli partnership and a member firm of the KPMG
network of independent member firms affiliated with KPMG International
Cooperative ("KPMG International"),
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In our opinion, the Company maintained, in all material respects, effective audited control components as of December 31, 2014.

We have also audited, in accordance with generally accepted auditing standards in Israel, the Company's consolidated financial statements as of December 31, 2014 and 2013 and for each of the three years in the period ended December 31, 2014 and our report dated March 19, 2015 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 19, 2015

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

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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, 2014 and 2013 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, 2014. 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 5.7% of the total consolidated assets as of December 31, 2014 and 2013, respectively, and whose revenues constitute 9.1%, 8.6% and 9% of the total consolidated revenues for the years ended December 31, 2014, 2013 and 2012, respectively. Furthermore, we did not audit the financial statements of equity accounted investees the investment in which amounted to approximately USD 7,126 thousand and USD 6,442 thousand as of December 31, 2014 and 2013, respectively, and the Group's share in their profits amounted to approximately USD 1,820 thousand, USD 405 thousand for the years ended December 31, 2014 and 2013, 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, 2014 and 2013 and their results of operations, changes in equity and cash flows, for each of the three years in the period ended December 31, 2014, 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, 2014, and our report dated March 19, 2015 expressed an unqualified opinion on the effectiveness of such components.

Somekh Chaikin
Certified Public Accountants (Isr.)

March 19, 2015

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

Consolidated Statements as of Financial Position as of December 31

	Note	2014 $ thousands	2013 $ thousands
Current assets			
Cash and cash equivalents		**405,276**	379,386
Short-term investments		**11,008**	11,063
Trade receivables	4	**1,073,735**	979,497
Prepaid expenses		**18,268**	16,991
Financial and other assets, including derivatives	5	**298,297**	122,986
Tax deposits less provision for taxes	17	**13,720**	12,481
Inventories	6	**1,229,591**	1,218,200
Total current assets		**3,049,895**	2,740,604
Long-term investments, loans and receivables			
Investments in equity-accounted investee companies		**76,993**	73,307
Other financial investments and receivables	7	**45,143**	87,451
Non-financial investments and other receivables, including non-current inventory	8	**22,548**	26,546
		144,684	187,304
Fixed assets			
Cost	9	**1,574,623**	1,485,631
Less – accumulated depreciation		**808,167**	762,437
		766,456	723,194
Deferred tax assets	17	**79,623**	82,101
Intangible assets			
Cost	10	**1,609,214**	1,546,382
Less – accumulated amortization		**905,323**	822,684
		703,891	723,698
Total non-current assets		**1,694,654**	1,716,297
Total assets		**4,744,549**	4,456,901

	Note	2014 $ thousands	2013 $ thousands
Current liabilities			
Loans and credit from banks and other lenders	11	**371,206**	397,143
Current maturities of debentures	15	**102,022**	65,378
Trade payables	12	**650,829**	641,525
Other payables	13	**659,814**	415,742
Current tax liabilities	17	**34,321**	39,458
Put options to holders of non-controlling interests		**33,384**	63,703
Total current liabilities		**1,851,576**	1,622,949
Non-current liabilities			
Long-term loans from banks	14	**264,139**	248,187
Debentures	15	**902,638**	1,027,340
Other long-term liabilities	16	**29,161**	40,990
Deferred tax liabilities	17	**19,695**	19,450
Employee benefits	18	**70,457**	86,038
Put options to holders of non-controlling interests		**8,434**	7,795
Total non-current liabilities		**1,294,524**	1,429,800
Total liabilities		**3,146,100**	3,052,749
Equity			
Share capital		**125,595**	125,595
Share premium		**623,829**	623,829
Capital reserves		**(265,354)**	(307,096)
Retained earnings		**1,113,992**	960,823
Equity attributable to the owners of the Company		**1,598,062**	1,403,151
Non-controlling interests		**387**	1,001
Total equity	21	**1,598,449**	1,404,152
Total liabilities and equity		**4,744,549**	4,456,901

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

Date of approval of the financial statements: March 19, 2015

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

Consolidated Statements of Income for the year ended December 31

	Note	2014 $ thousands	2013 $ thousands	2012 $ thousands
Revenues	22	**3,221,298**	3,076,355	2,834,503
Cost of sales	23	**2,195,993**	2,108,282	1,934,916
Gross profit		**1,025,305**	968,073	899,587
Other income		**(4,711)**	(12,815)	(3,897)
Selling and marketing expenses	24	**570,581**	522,050	487,073
General and administrative expenses	25	**111,933**	114,485	101,520
Research and development expenses	26	**33,554**	33,667	30,128
Other expenses		**2,947**	1,697	3,172
		714,304	659,084	617,996
Operating income		**311,001**	308,989	281,591
Financing expenses		**252,693**	273,176	232,261
Financing income		**(128,724)**	(132,611)	(122,010)
Financing expenses, net	27	**123,969**	140,565	110,251
Share of income (losses) of equity-accounted investee companies		**5,885**	3,197	(9,603)
Profit before taxes on income		**192,917**	171,621	161,737
Income taxes	17	**46,902**	44,550	39,164
Profit for the year		**146,015**	127,071	122,573
Attributable to:				
The owners of the Company		**146,405**	127,248	122,463
Holders of non-controlling interests		**(390)**	(177)	110
Profit for the year		**146,015**	127,071	122,573

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

Consolidated Statements of Comprehensive Income for the year ended December 31

	2014	2013	2012
	$ thousands	$ thousands	$ thousands
Profit for the year	**146,015**	127,071	122,573
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 in respect of foreign operations	**(25,499)**	(16,691)	10,695
Effective portion of change in fair value of cash flow hedges	**56,426**	(19,145)	(16,982)
Net change in fair value of cash flow hedges transferred to the statement of income	**14,356**	(13,174)	(26,692)
Taxes in respect of other comprehensive income items that were or will be transferred to the statement of income in succeeding periods	**(3,023)**	118	3,974
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	**42,260**	(48,892)	(29,005)
Other comprehensive income that will not be transferred to the statement of income			
Re-measurement of defined benefit plan	**935**	170	(4,946)
Taxes in respect of other comprehensive income items that will not be transferred to the statement of income	**(53)**	(47)	670
Total other comprehensive income (loss) for the year that will not be transferred to the statement of income, net of tax	**882**	123	(4,276)
Total comprehensive income for the year	**189,157**	78,302	89,292
Total comprehensive income attributable to:			
The owners of the Company	**189,592**	78,351	89,149
Holders of non-controlling interests	**(435)**	(49)	143
Total comprehensive income for the year	**189,157**	78,302	89,292

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)	960,823	1,403,151	1,001	1,404,152
Total comprehensive income for the year							
Profit for the year	–	–	–	**146,405**	**146,405**	**(390)**	**146,015**
Other comprehensive income							
Foreign currency translation differences in respect of 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 (loss) for the year, net of tax	–	–	**42,305**	**882**	**43,187**	**(45)**	**43,142**
Total comprehensive income (loss) 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)**	**1,113,992**	**1,598,062**	**387**	**1,598,449**

(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, 2013							
Balance as of January 1, 2013	125,595	623,829	(257,662)	836,378	1,328,140	636	1,328,776
Total comprehensive income for the year							
Profit for the year	–	–	–	127,248	127,248	(177)	127,071
Other comprehensive income							
Foreign currency translation differences in respect of foreign operations	–	–	(16,819)	–	(16,819)	128	(16,691)
Effective portion of change in fair value of cash flow hedges	–	–	(19,145)	–	(19,145)	–	(19,145)
Net change in fair value of cash flow hedges transferred to the statement of income	–	–	(13,174)	–	(13,174)	–	(13,174)
Re-measurement of defined benefit plan	–	–	–	170	170	–	170
Taxes on other comprehensive income	–	–	118	(47)	71	–	71
Other comprehensive income (loss) for the year, net of tax	–	–	(49,020)	123	(48,897)	128	(48,769)
Total comprehensive income (loss) for the year	–	–	(49,020)	127,371	78,351	(49)	78,302
Dividends to holders of non-controlling interests holding a put option	–	–	–	(2,926)	(2,926)	–	(2,926)
Transactions with holders of non-controlling interests	–	–	(414)	–	(414)	414	–
Balance as of December 31, 2013	125,595	623,829	(307,096)	960,823	1,403,151	1,001	1,404,152

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

The 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, 2012							
Balance as of January 1, 2012	125,595	623,829	(229,110)	720,627	1,240,941	657	1,241,598
Total comprehensive income for the year							
Profit for the year	–	–	–	122,463	122,463	110	122,573
Other comprehensive income							
Foreign currency translation differences in respect of foreign operation	–	–	10,662	–	10,662	33	10,695
Effective portion of change in fair value of cash flow hedges	–	–	(16,982)	–	(16,982)	–	(16,982)
Net change in fair value of cash flow hedges transferred to statement of income	–	–	(26,692)	–	(26,692)	–	(26,692)
Re-measurement of defined benefit plan	–	–	–	(4,946)	(4,946)	–	(4,946)
Taxes on other comprehensive income	–	–	3,974	670	4,644	–	4,644
Other comprehensive income (loss) for the year, net of tax	–	–	(29,038)	(4,276)	(33,314)	33	(33,281)
Total comprehensive income (loss) for the year	–	–	(29,038)	118,187	89,149	143	89,292
Dividends to holders of non-controlling interests holding a put option	–	–	–	(2,436)	(2,436)	–	(2,436)
Holders of non-controlling interests in respect of acquisition of activities	–	–	–	–	–	643	643
Acquisition of non-controlling interests	–	–	410	–	410	(807)	(397)
Liability in respect of dividend to holders of non-controlling interests	–	–	76	–	76	–	76
Balance as of December 31, 2012	125,595	623,829	(257,662)	836,378	1,328,140	636	1,328,776

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

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

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

	2014	2013	2012
	$ thousands	$ thousands	$ thousands
Cash flows from operating activities			
Profit for the year	**146,015**	127,071	122,573
Adjustments			
Depreciation and amortization	**167,180**	157,001	148,314
Impairment of assets	–	–	1,111
Gain on sale of investment	–	(3,619)	–
Loss (gain) on realization of fixed and other assets, net	**258**	(442)	64
Amortization of discount/premium and debt issuance costs	**(2,813)**	667	(228)
Share of losses (income) of equity-accounted investee companies	**(5,885)**	(3,197)	9,603
Share-based payments expenses	**7,984**	–	–
Changes due to put options to holders of non-controlling interests	**3,185**	10,878	1,327
Adjustment of long-term liabilities	**(132,639)**	106,599	37,182
SWAP transactions	**(481)**	(7,882)	(5,481)
Change in provision for income tax and tax deposits, net	**(7,395)**	11,461	5,482
Decrease (increase) in deferred taxes, net	**(370)**	(8,060)	1,594
Changes in assets and liabilities			
Increase in trade and other receivables	**(252,736)**	(139,548)	(112,553)
Decrease (increase) in inventories	**(22,668)**	10,648	(187,636)
Increase in trade and other payables	**299,319**	98,787	35,914
Change in employee benefits	**(19,834)**	2,161	1,583
Net cash from operating activities	**179,120**	362,525	58,849
Cash flows from investing activities			
Acquisition of fixed assets	**(100,525)**	(84,867)	(99,592)
Additions to intangible assets	**(101,009)**	(113,554)	(103,373)
Short-term investments, net	**(1,136)**	(9,456)	1,619
Long-term investments, net	**52,208**	(52,429)	2,459
Proceeds from sale of fixed and intangible assets	**3,925**	1,616	2,337
Investment grant received	–	–	3,074
Investment in equity-accounted investee company	**(6,528)**	(58,294)	(4,907)
Dividend from equity-accounted investee company	**7,288**	2,097	–
Transition from proportionate consolidation to the equity method	**(261)**	(1,603)	–
Proceeds from sale of investment	–	4,508	–
Acquisition of subsidiaries net of cash acquired	–	(9,568)	(9,164)
Net cash used in investing activities	**(146,038)**	(321,550)	(207,547)

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

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

	2014	2013	2012
	$ thousands	$ thousands	$ thousands
Cash flows from financing activities			
Receipt of long-term loans from banks	**97,237**	118,304	235,998
Repayment of long-term loans and liabilities from banks and others	**(109,974)**	(130,649)	(164,750)
Repayment of debentures	**(99,909)**	(160,959)	(147,230)
Increase (decrease) in short-term liabilities to banks, net	**(1,426)**	15,191	(178,844)
SWAP settlements	–	21,309	12,242
Dividend to holders of non-controlling interests	**(2,185)**	(2,412)	(2,436)
Issuance of debentures, net of issuance costs	**146,806**	177,215	276,183
Acquisition of non-controlling interests	**(30,000)**	–	(397)
Payment of contingent consideration – in respect of business combination	**(5,000)**	–	–
Fundraising costs	**(2,741)**	–	–
Net cash from (used in) financing activities	**(7,192)**	37,999	30,766
Net increase (decrease) in cash and cash equivalents	**25,890**	78,974	(117,932)
Cash and cash equivalents at the beginning of the year	**379,386**	300,412	418,344
Cash and cash equivalents at the end of the year	**405,276**	379,386	300,412

Additional information:

	2014	2013	2012
Interest paid in cash	**(96,384)**	(95,215)	(90,442)
Interest received in cash	**29,786**	21,878	22,166
Taxes paid in cash, net	**(47,798)**	(29,257)	(20,372)

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 the Arava Building in Airport City Park. The Group's consolidated financial statements as of December 31, 2014, 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, 2014 and 2013, 60% of the Company's shares were held by China National Agrochemical Corporation (hereinafter – "CNAC") and 40% of the Company's shares were held by Koor Industries Ltd. ("Koor"). The Company is a reporting entity.

   As part of the process of establishing a new branding and marketing strategy by the Group, the Company's name was changed from "Makhteshim Agan Industries Ltd." to "Adama Agricultural Solutions Ltd." on January 23, 2014.

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) The Company	–	Adama Agricultural Solutions Ltd.
(2) The Group	–	Adama Agricultural Solutions Ltd. and its investee companies.
(3) Subsidiaries	–	Companies of which the financial statements are fully consolidated, directly or indirectly, with the financial statements of the Company.
(4) Investee companies	–	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) Related party	–	As defined in IAS 24 (2009) "Relating Party Disclosures".
(6) Interested parties	–	As defined in Paragraph (1) of the definition of an "Interested Party" in Section 1 of the Israeli Securities Law, 1968.
(7) CPI	–	The Consumer Price Index in Israel as published by the Central Bureau of Statistics.
(8) Dollar	–	The United States dollar.
(9) NIS	–	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 19, 2015.

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 through profit and loss.

– Inventory measured at the lower of cost or net realizable 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. By their nature, in view of the preliminary stage of the clarification of the legal claim, the actual outcome could be different from the assessment made before the claim was filed.

  For further information regarding the Company's exposure to claims – see Note 19 regarding contingent liabilities.

- Impairment of assets – the Company evaluates the need for recording a provision for impairment of goodwill once a year, 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 accounts 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 for tax purposes where utilization thereof may be spread over a number of years in those cases where there is a high level of probability of utilization of these losses in the foreseeable future. Changes in these assumptions could lead to material changes in the book values of the tax assets and tax liabilities and in the operating results.

  For additional information regarding deferred taxes and taxes on income – see Note 17.

- Employee benefits – the Group's 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, inflationary risks and interest 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 length of the period 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 2 - Basis for Financial Statement Preparation (cont'd)

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

<u>Change in estimates</u>

On November 25, 2014, the Securities Authority published Accounting Staff Position Paper No. 21-1, according to which a deep market for high-quality corporate debentures exists in Israel (hereinafter – "the Position Paper") for purposes of determining the discount rate of a NIS-denominated defined benefit obligation and other long-term benefits in accordance with IAS 19, *Employee Benefits*. According to the Position Paper, the proper manner of implementing the transition from use of the yield rate on government debentures to use of the yield rate on high-quality corporate debentures is on a prospective basis.

The impacts of the changes in the discount rate are as follows:

- A decrease in the defined benefit obligation and an adjustment of the deferred tax balances as at December 31, 2014, in the amounts of $8,121 thousand and $908 thousand, respectively, which were recognized against other comprehensive income; and

- A decrease in the liability for other long-term benefits and an adjustment of the deferred tax balances as at December 31, 2014 in the amounts of $2,714 thousand and $272 thousand, respectively, which were recognized against profit or loss.

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) **<u>Business combinations</u>**

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 acquirer recognizes a contingent liability assumed in a business combination if there is a present obligation resulting from past events and its fair value can be reliably measured.

The consideration transferred includes the fair value of any contingent consideration. After the acquisition date, the Group recognizes changes in the fair value of contingent consideration classified as a financial liability in profit or loss.

Note 3 - Significant Accounting Policies (cont'd)

A. Basis for Consolidation (cont'd)

(1) **Business combinations (cont'd)**

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.

(4) **Structured entities**

The Group operates with a structured entity for purposes of securitization of certain financial assets. The Group does not have any direct or indirect holding in the shares of that entity. The structured entity, which was established for purposes of securitization of such financial assets, is included in the consolidated financial statements since the Group has control over the entity as control is defined in Paragraph (1) above.

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

Associated companies are entities with respect to which the Group has significant influence over the financial and operating policies, but where control or joint control over them has not been achieved. There is a presumption whereby a holding at the rate of 20% to 50% in the investee entity confers significant influence. When examining the existence of significant influence, account is taken of potential voting rights that may be exercised or converted immediately for shares of the investee company.

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

Investments in associated companies 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 of investee companies accounted for using the equity method of accounting, from the date on which the significant influence or joint control exists and up to the date on which there is no longer significant influence or joint control.

Note 3 - Significant Accounting Policies (cont'd)

A. Basis for Consolidation (cont'd)

(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 either fair value, or at their proportionate interest in the identifiable assets and liabilities of the acquiree, on the basis of every transaction considered separately.

Allocation of 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.

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.

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 period, 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 since January 1, 2007, the transition date to IFRS, and are presented in equity as part of a capital reserve for translation of foreign activities (hereinafter – "Translation Reserve").

When a foreign operation is a subsidiary that is not wholly owned by the Company, the proportionate share of the exchange rate 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 trade and other receivables and cash and cash equivalents.

Derecognition of financial assets
Financial assets are derecognized when the contractual rights of the Group to the cash flows deriving from the financial asset expire, or the Group transfers the rights to receive the contractual cash flows deriving from the financial asset in a transaction in which all the risks and rewards of ownership of the financial asset are effectively transferred.

Regular way sales of financial assets are recognized on the trade date, meaning on the date the Group undertook to sell the asset.

Classification of financial assets into categories and the accounting treatment of each category

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to the initial recognition, loans and other receivables are measured at amortized cost using the effective interest method, less any impairment losses. Loans and receivables include cash and cash equivalents and trade and other receivables.

Cash and cash equivalents include cash balances available for immediate use and call deposits. Cash equivalents include highly-liquid short-term investments having original maturities of up to three months, that are readily convertible into known amounts of cash, and which are exposed to insignificant risk of changes in value.

Offset of financial assets and liabilities
A financial asset and a financial liability are offset and the amounts are presented net in the statement of financial position when the Group has a currently enforceable legal right to offset the amounts and intends to settle the asset and the liability on a net basis or to realize the asset and settle the liability concurrently.

Note 3 - Significant Accounting Policies (cont'd)

C. Financial Instruments (cont'd)

(2) Non-derivative financial liabilities

Non-derivative financial liabilities include bank overdrafts, loans and borrowings from banks and others, marketable debt instruments, finance lease liabilities and trade and other payables.

Initial recognition of financial liabilities

The Group initially recognizes debt instruments issued on the date that they are 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 plus any directly attributable transaction costs. Subsequent to the initial recognition, financial liabilities are measured at amortized cost using the effective interest method.

Derecognition of financial liabilities
Financial liabilities are derecognized when the obligation of the Group, as specified in the agreement, expires or when it is settled or cancelled.

(3) Derivative financial instruments, including hedge accounting

The Group uses derivative financial instruments to hedge its risks related to foreign currency, inflation and interest rates. The hedge is a cash flow hedge.

Hedge accounting
On the commencement date of the accounting hedge, the Group formally documents the relationship between the hedging instrument and hedged item, including the Group's risk management objectives and strategy in executing the hedge transaction, together with the methods that will be used by the Group to assess the effectiveness of the hedging relationship.

The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, whether the hedge is expected to be "highly effective" in offsetting the changes in the fair value 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)

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. Changes in the fair value of such derivatives are recognized in profit or loss as financing income or expenses.

(4) CPI-linked assets and liabilities not measured at fair value

The value of CPI-linked financial assets and liabilities that are not measured according to fair value are revalued in every period, according to the actual rate of increase/decrease in the CPI.

(5) Share capital

Ordinary shares
Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of ordinary shares and options for shares are recognized as a deduction from equity.

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.

Changes in the obligation to dismantle and remove the items and to restore the site on which they are located, other than changes deriving from the passing of time, are added to or deducted from the cost of the asset in the period in which they occur. The amount deducted from the cost of the asset shall not exceed the balance of the carrying amount, and any balance is recognized immediately in profit or loss.

When 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.

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 capitalized if it is probable that the future economic benefits associated with them will flow to the Group and their cost can be measured reliably. The carrying amount of the replaced part of a fixed asset item is derecognized. Current maintenance costs of fixed-asset items are recognized in profit or loss as incurred.

(3) Depreciation

Depreciation is a systematic allocation of the depreciable amount of an asset over its useful life. The depreciable amount is the cost of the asset, or other amount substituted for cost, less its residual value.

An asset is depreciated from the date it is ready for use, meaning the date it reaches the location and condition required for it to operate in the manner intended by management.

Note 3 - Significant Accounting Policies (cont'd)

D. 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 is 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 period and adjusted where necessary.

E. Intangible Assets

1. Goodwill

Goodwill that arises upon the acquisition of subsidiaries is presented as part of intangible assets. For information regarding measurement of goodwill upon initial recognition – see Paragraph A(1) of this Note.

In subsequent periods, goodwill is measured at cost less accrued impairment losses.

2. Research and development

Expenditures related to research activities undertaken for the purpose of acquiring know-how and new scientific or technical knowledge are recognized in profit and loss as incurred.

Development activities relate to a plan for the production of new products or processes or significant improvement of existing products or processes.

Expenditures for development activities are recognized as an intangible asset only if: it is possible to reliably measure the development costs; it is technically and commercially possible to implement the product or process; future economic benefit is expected from the product and the Group has intentions and sufficient resources to complete development of the asset and then use or sell it. The expenditures capitalized in respect of development activities include the cost of materials and overhead expenses that can be directly attributed to preparing the asset for its intended use. Other costs for development activities are recognized in profit and loss as incurred.

In subsequent periods, capitalized development costs are measured at cost less accumulated amortization and accrued impairment losses.

Note 3 - Significant Accounting Policies (cont'd)

E. Intangible Assets (cont'd)

3. Other intangible assets

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortization and accrued impairment losses.

4. Subsequent costs

Subsequent costs are recognized as an intangible asset only where they increase the future economic benefit embodied in the asset in respect of which they were expended. All other costs are recognized in profit or loss as incurred.

5. Amortization

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

Amortization is recognized in profit or loss on a straight-line basis 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 upon purchase of products – mainly 20 years.
- Marketing rights – 5 to 10 years.
- Non-competition and confidentiality agreement – 5 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.

The Group examines the estimated useful life of an intangible asset that is not amortized (goodwill) in every reporting year, in order to determine if the events and circumstances continue to support the determination that the intangible asset has an indeterminate lifespan.

Note 3 - Significant Accounting Policies (cont'd)

F. Leased Assets

Leases, including leases of lands from Israel Lands Administration or from other third parties, wherein the Group assumes substantially all the risks and rewards of ownership of the asset are classified as financing leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the future minimum lease payments. Future payments for exercising an option to extend the lease from Israel Lands Administration are not recognized as part of the asset and the corresponding liability since they constitute contingent lease payments that are derived from the fair value of the land on the future renewal dates of the lease agreement. Subsequent to the initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

In a lease of land and buildings, the land and buildings components are examined separately for purposes of classifying the lease, where a significant consideration in classification of the land component is the fact that land normally has an indefinite useful life.

G. Inventory

Inventory is measured at the lower of cost or net realizable value. **The cost of the inventories of raw materials, packaging materials, spare parts, maintenance materials and purchased materials is determined according to 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.

For material financial assets, the need to reduce the value of the asset is examined for each asset individually. For other financial assets, the need for impairment is examined collectively, for groups having similar credit risks.

All impairment losses are recognized in profit or loss.

Note 3 - Significant Accounting Policies (cont'd)

I. Impairment (cont'd)

1. Non-derivative financial assets (cont'd)

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 to which the asset relates 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 associated companies and joint ventures

An investment in an associated company 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 associated company or joint venture, including cash flows from operations of the associated company 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.

An impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of the investment after the impairment loss was recognized, and only to the extent that the investment's carrying amount, after the reversal of the impairment loss, does not exceed the carrying amount of the investment that would have been determined by the equity method if no impairment loss had been recognized.

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.

As of December 31, 2013 and December 31, 2012, the discount rate was determined according to the yield on government bonds in the same currency that have maturity dates approximating the terms of the Group's obligation. Commencing from December 31, 2014, 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 includes actuarial gains and losses and the return on plan assets (excluding interest). The Group records immediately, directly in retained earnings through other comprehensive income, all actuarial gains and losses derived from a defined benefit plan.

Interest costs on a defined benefit obligation and interest income on plan assets that were recognized in profit or loss are presented under financing income and expenses, respectively.

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. As of December 31, 2013 and December 31, 2012, the discount rate was determined according to the yield on government bonds in the same currency that have maturity dates approximating the terms of the Group's obligation. Commencing from December 31, 2014, 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.

Note 3 - Significant Accounting Policies (cont'd)

L. Revenues (cont'd)

(1) Sale of goods (cont'd)

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.

(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, dividend income, changes in the fair value of financial assets presented at fair value through profit or loss, exchange rate gains and gains on hedging instruments recognized in profit or loss. Interest income is recognized as it is accrued, using the effective interest method. Dividend income is recognized when the Group is given the right to receive the payment.

Financing expenses include interest on loans received, changes in the time value of provisions, changes in the fair value of contingent 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.

Foreign currency gains and losses in respect of financial assets and liabilities are reported on a net basis.

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.

Note 3 - Significant Accounting Policies (cont'd)

N. Income Taxes Expense (cont'd)

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.

Uncertain tax positions
A provision for uncertain tax positions, including additional tax and interest expenses, is recognized when it is more probable than not that the Group will have to use its economic resources to settle the obligation.

Deferred taxes
Deferred taxes are recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. The Group does not recognize deferred taxes for the following temporary differences:
- The initial recognition of goodwill;
- The initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable income; and
- Differences deriving from investments in subsidiaries, joint arrangements and associated companies, to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future, either by way of selling the investment or by way of distributing dividends in respect of the investment.

Deferred taxes are measured at the tax rates expected to apply to the temporary differences when they are utilized, based on the laws that have been enacted or substantively enacted as 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, account was not taken of taxes that would apply in the event that investments in the investee companies are realized, since it is the Company's intention to hold these investments and not realize them.

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.

Note 3 - Significant Accounting Policies (cont'd)

N. Income Taxes Expense (cont'd)

Inter-company transactions
Deferred tax in respect of inter-company transactions in the consolidated financial statements is recorded according to the tax rate applicable to the procuring company.

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.

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 and interpretations

(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 the chapter dealing with general hedge accounting requirements issued in 2013.

Note 3 - Significant Accounting Policies (cont'd)

R. New standards and interpretations (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
Under 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 presents 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, 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 has not yet commenced examining the effects of adoption of the standard 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 and interpretations (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, 2017, 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 has not yet commenced examining the effects of adopting the standard on the financial statements.

Note 4 - Trade Receivables

	December 31	
	2014	2013
	$ thousands	$ thousands
Foreign	**1,073,930**	987,027
Domestic (Israel)	**35,476**	39,341
	1,109,406	1,026,368
Less – provision for doubtful accounts	**(35,671)**	(46,871)
	1,073,735	979,497

	December 31	
	2014	2013
	$ thousands	$ thousands
Non-current trade receivables	**12,492**	12,088
Current trade receivables	**1,109,406**	1,026,368
Less – provision for doubtful accounts	**(35,671)**	(46,871)
	1,086,227	991,585

Note 4 - Trade Receivables (cont'd)

In September 2004, the Company and several subsidiaries of the Company (hereinafter – "the Companies") signed a securitization agreement with Rabobank International for sale of customer receivables (hereinafter – "the Securitization Agreement" and/or "the Securitization Transaction").

Pursuant to the Securitization Agreement, the Companies will sell their trade receivables in various currencies to a foreign company that was established for this purpose (hereinafter – "the Acquiring Company"), which is not owned by the Group. The purchase of these trade receivables by the Acquiring Company is financed by an American company, Nieuw Amsterdam Receivables Corporation, which is part of the Rabobank International Group.

The trade receivables included in the Securitization Transaction are receivables that comply with a number of criteria, as stated in the Securitization Agreement.

Every year the credit framework is re-approved pursuant to the Securitization Agreement. As of the date of the report, the credit framework was approved up to July 31, 2015.

On August 1, 2012, the Securitization Agreement was updated such that the maximum securitization amount in every calendar year was adjusted for the seasonal changes in the scope of the Company's activities: in the months April–June, the maximum securitization amount will be $350 million, in the months July–September, the maximum securitization amount will be $300 million, and in the months October–March, the maximum securitization amount will be $250 million. The amounts collected from customers whose debts were sold are used to purchase new trade receivables.

The price at which the trade receivables will be sold is the amount of the debt being sold less a discount calculated on the basis of the period anticipated to pass between the date the debt was sold and the expected repayment date.

In the month following the acquisition date of the debt, the Acquiring Company pays most of the debt in cash and the balance in a subordinated liability that is paid after the debt is collected. If the customer does not pay his debt on the expected repayment date, the Company bears interest up to the earlier of the actual payment of the debt or the date on which the Acquiring Company is indemnified by the insurance company (the actual costs are not significant and are not expected to be significant).

The Group companies bear in the full losses that will be sustained by the Acquiring Company due to non-payment of the trade receivables included in the securitization transaction, up to the amount of the total outstanding balance of the debt, subject to the insurance policy.

The Acquiring Company will not have a right of recourse to the Companies with respect to the amounts paid in cash, except debts for which a commercial dispute arises between the Companies and their customers, namely, a dispute arising from an alleged failure by the seller to fulfil an obligation in the supply agreement for the product, such as: failure to supply the correct product, defect in the product, non-compliance with the supply date, etc.

The Companies service the trade receivables included in the securitization transaction, on behalf of the Acquiring Company.

Under the terms of the agreement, the Company committed to maintain certain financial covenants, mainly, financial liabilities to equity and profitability ratios – see Note 20D.

Note 5 - Financial and Other Assets, Including Derivatives*

	December 31	
	2014	**2013**
	$ thousands	**$ thousands**
Claims from the government in respect of participations and tax refunds	**56,799**	61,895
Receivables in respect of transactions in derivatives	**167,986**	41,583
Financial institutions	**55,505**	–
Income receivable	**1,918**	1,185
Advances to suppliers	**5,422**	3,173
Other	**10,667**	15,150
	298,297	122,986

* 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	
	2014	**2013**
	$ thousands	**$ thousands**
Finished goods and commercial inventory	**770,313**	770,673
Work in progress	**106,052**	126,743
Raw materials	**317,970**	287,569
Packaging materials	**13,725**	10,281
Spare parts and maintenance materials	**21,531**	22,934
	1,229,591	1,218,200
Additional information:		
Merchandise in transit (included in the inventories balance)	**37,776**	54,745

	December 31	
	2014	**2013**
	$ thousands	**$ thousands**
Non-current inventory	**21,938**	25,184
Current inventory	**1,229,591**	1,218,200
	1,251,529	1,243,384

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 $19.7 million and $23.4 million as of December 31, 2014 and 2013, respectively.

Note 7 - Other Financial Investments and Receivables

A. Composition

	December 31	
	2014	2013
	$ thousands	$ thousands
Long-term investments, loans and receivables	**20,142**	21,573
Bank deposits	**–**	52,500
Non-current trade receivables	**12,492**	12,088
Receivables in respect of transactions in derivatives	**9,448**	929
Call options in respect of business combination transaction	**3,068**	3,068
	45,150	90,158
Less – current maturities	**7**	2,707
	45,143	87,451

B. Maturities

The other financial investments and receivables are repayable as follows:

	$ thousands
First year (current maturities)	**7**
Second year	**13,293**
Third year	**593**
Fourth year	**136**
Fifth year and thereafter	**16,039**
Without fixed maturity date	**15,082**
	45,150

Note 8 - Non-Financial Investments and Other Receivables, including Non-Current Inventory

	December 31	
	2014	2013
	$ thousands	$ thousands
Non-current inventory	**21,938**	25,184
Non-financial assets	**610**	1,362
	25,548	26,546

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, 2014	**237,060**	**1,201,596**	**13,004**	**33,971**	**1,485,631**
Additions**	**6,029**	**90,230**	**3,137**	**3,293**	**102,689**
Disposals	**(5,086)**	**(4,743)**	**(2,062)**	**(1,228)**	**(13,119)**
Transition from proportionate consolidation to equity accounted company	**(39)**	**(489)**	**(22)**	**(28)**	**(578)**
Balance as of December 31, 2014	**237,964**	**1,286,594**	**14,057**	**36,008**	**1,574,623**
Accumulated depreciation					
Balance as of January 1, 2014	**103,637**	**630,930**	**5,827**	**22,043**	***762,437**
Additions**	**4,806**	**43,259**	**1,886**	**3,355**	**53,306**
Disposals	**(439)**	**(4,215)**	**(1,535)**	**(1,125)**	**(7,314)**
Transition from proportionate consolidation to equity accounted company	**(6)**	**(244)**	**(7)**	**(5)**	**(262)**
Balance as of December 31, 2014	**107,998**	**669,730**	**6,171**	**24,268**	**808,167**
Depreciated balance at December 31, 2014	**129,966**	**616,864**	**7,886**	**11,740**	**766,456**

** Includes effect of foreign currency translation differences in respect of foreign operations.

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, 2013	230,243	1,146,734	12,094	30,492	1,419,563
Additions**	8,740	74,013	2,925	6,428	92,106
Business combinations	–	706	377	27	1,110
Transition from proportionate consolidation to equity accounted company	(1,825)	(18,879)	(245)	(319)	(21,268)
Disposals	(98)	(978)	(2,147)	(2,657)	(5,880)
Balance as of December 31, 2013	237,060	1,201,596	13,004	33,971	1,485,631
Accumulated depreciation					
Balance as of January 1, 2013	97,203	588,501	5,784	20,536	*712,024
Additions**	7,255	43,876	2,039	4,294	57,464
Business combinations	–	10	67	14	91
Transition from proportionate consolidation to equity accounted company	(724)	(866)	(204)	(302)	(2,096)
Disposals	(97)	(591)	(1,859)	(2,499)	(5,046)
Balance as of December 31, 2013	103,637	630,930	5,827	22,043	762,437
Depreciated balance at December 31, 2013	133,423	570,666	7,177	11,928	723,194

* Including an impairment provision from 2010 of $15.8 million, of which $14.9 million is for facilities and equipment.

** Includes effect of foreign currency translation differences in respect of foreign operations.

Note 9 - Fixed Assets (cont'd)

B. Additional information

1. Adama Makhteshim Chemical Works Ltd.'s (hereinafter – "Makhteshim") facilities are located on land of about 1,086 dunams in Naot Hovav (including buildings, offices facilities and warehouses) under lease agreements for various periods ending between the years 2023–2029 with a right to extend, and on land of about 407 dunams in Be'er Sheva leased from Israel Lands Administration, on which there is a built-up area, including buildings, offices facilities and warehouses. In addition, on the land located in Be'er Sheva, there is a facility of Lycord, a subsidiary of the Company.

   Adama Agan Chemical Manufacturers Ltd.'s (hereinafter – "Agan") facilities are located in Ashdod on a freehold area of about 242 dunams, of which an area of about 90 dunams is registered in the name of Agan and about 112 dunams that will be registered in the name of Agan subject to execution of consolidation and subdivision proceedings, which as of the date of the report had not yet been completed, and approximately 40 dunams are leased from Israel Lands Administration for lease periods ending between the years 2050 and 2054. On the land there is a built-up area, including, among other things, manufacturing facilities, warehouse, storage areas for empty packagings, engineering services, technical equipment, offices, laboratories, platforms, rest areas for the employees and various auxiliary buildings. Furthermore, Adama Agan leases from other lessors, who are third parties unrelated to the Company, areas of about 7 dunams, are located adjacent to the plant area, for purposes of parking and storage, in consideration of amounts that are not significant to the Company.

   In April 2006, the Company signed an agreement with the City of Asdod for a period of 24 years whereby the Company is permitted to make use of an area measuring about 20 dunams for purposes of construction of a facility for wastewater purification. The Company pays an annual usage fee for the land.

   The facilities of investee companies outside Israel are located on freehold land.

2. Regarding liens – see Note 20.

C. Collateral

As of December 31, 2014, fixed asset items totalling $13,949 thousand (2013 – $12,796 thousand) are pledged to secure bank loans (see Note 14 regarding long-term bank loans with respect to terms and repayment dates).

D. Purchase of fixed assets on credit

The Group's credit due to purchases of fixed assets as of December 31, 2014 is $30,771 thousand.

Note 9 - Fixed Assets (cont'd)

E. Investment grants

Investment grants received for the purchase of fixed assets

	Balance as of December 31	
	2014	2013
	$ thousands	$ thousands
Buildings and equipment in the Group's plants	**112,683**	113,032

The investment grants deducted from the cost of the buildings and equipment in the Group's plants. 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 all 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. In 2014 and 2013, no additional grants were received.

F. Capitalized borrowing costs

	Balance as of December 31	
	2014	2013
	$ thousands	$ thousands
Borrowing costs	**22,705**	22,606

G. Additional Information

The Group has fully-depreciated assets that are still in use. The cost of these assets as of December 31, 2014 is $298,047 thousand (December 31, 2013 – $294,465 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(1)	Software	Marketing rights and trademarks	Other(2)	Total
	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands
Cost							
Balance as of January 1, 2014	**798,847**	**245,368**	**329,583**	**52,348**	**71,193**	**49,043**	**1,546,382**
Additions (3)	**83,650**	**(9,115)**	**–**	**10,166**	**(259)**	**(687)**	**83,755**
Disposals	**(3,079)**	**–**	**(9,442)**	**(1,796)**	**(3,173)**	**(2,700)**	**(20,190)**
Transition from consolidation to equity accounted company	**–**	**–**	**–**	**–**	**–**	**(733)**	**(733)**
Balance as of December 31, 2014	**879,418**	**236,253**	**320,141**	**60,718**	**67,761**	**44,923**	**1,609,214**
Accumulated amortization							
Balance as of January 1, 2014	**454,536**	**48,722**	**210,525**	**33,826**	**49,411**	**25,664**	***822,684**
Additions (3)	**70,041**	**(1,239)**	**14,521**	**5,053**	**10,273**	**4,159**	**102,808**
Disposals	**(3,058)**	**–**	**(9,442)**	**(1,796)**	**(3,173)**	**(2,700)**	**(20,169)**
Balance as of December 31, 2014	**521,519**	**47,483**	**215,604**	**37,083**	**56,511**	**27,123**	**905,323**
Amortized balance as of December 31, 2014	**357,899**	**188,770**	**104,537**	**23,635**	**11,250**	**17,800**	**703,891**

(1) Intangible assets on purchase of products includes mainly consideration paid pursuant to agreements from 2001 and 2002 attributed to rights in intellectual property, trademarks, trade name, technological know-how, and information with respect to customers and suppliers of raw materials.
(2) Including primarily lists of customers.
(3) Including effect of foreign currency translation differences in respect of foreign operations.
* Including impairment provision for the decline in value of assets, in the purchase of products, totaling $7.5 million and registration totaling $21 million. The provisions were recorded in 2006, 2007 and 2010.

Note 10 - Intangible Assets (cont'd)

	Product registration	Goodwill	Intangible assets on purchase of products(1)	Software	Marketing rights and trademarks	Other(2)	Total
	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands
Cost							
Balance as of January 1, 2013	714,585	235,229	329,583	50,400	65,702	44,548	1,440,047
Additions (3)	86,009	2,544	–	7,740	5,491	209	101,993
Disposals	(1,559)	–	–	(5,560)	–	–	(7,119)
Business combinations	1,486	7,595	–	–	–	4,390	13,471
Transition from proportionate consolidation to equity accounted company	(1,674)	–	–	(232)	–	(104)	(2,010)
Balance as of December 31, 2013	798,847	245,368	329,583	52,348	71,193	49,043	1,546,382
Accumulated amortization							
Balance as of January 1, 2013	393,742	49,347	195,352	35,110	37,684	21,302	*732,537
Additions (3)	63,472	(625)	15,173	4,480	11,727	4,448	98,675
Disposals	(1,219)	–	–	(5,560)	–	–	(6,779)
Transition from proportionate consolidation to equity accounted company	(1,459)	–	–	(204)	–	(86)	(1,749)
Balance as of December 31, 2013	454,536	48,722	210,525	33,826	49,411	25,664	822,684
Amortized balance as of December 31, 2013	344,311	196,646	119,058	18,522	21,782	23,379	723,698

(1) Intangible assets on purchase of products includes mainly consideration paid pursuant to agreements from 2001 and 2002 attributed to rights in intellectual property, trademarks, trade name, technological know-how, and information with respect to customers and suppliers of raw materials.
(2) Including primarily lists of customers.
(3) Including effect of foreign currency translation differences in respect of foreign operations.
* Including impairment provision for the decline in value of assets, in the purchase of products, totaling $7.5 million and licensing assets totaling $21 million. The provisions were recorded in 2006, 2007 and 2010.

Note 11 - Loans and Credit from Banks and Other Lenders

A. Composition

	December 31 2014	December 31 2013
	$ thousands	$ thousands
Credit from banks		
Overdrafts	**10,234**	6,474
Short-term credit	**286,587**	294,458
	296,821	300,932
Current maturities – other	**109**	121
Current maturities of long-term loans from banks	**74,276**	96,090
	371,206	397,143

B. Currency linkage terms and interest rates (excluding current maturities)

	Weighted interest rate as at the balance sheet date	December 31 2014	December 31 2013
	%	$ thousands	$ thousands
Credit from banks			
Overdrafts:			
In Euros	1.7	**2,689**	2,489
In Polish zlotys	3.1	**7,545**	2,694
In other currencies		**–**	1,291
		10,234	6,474
Short-term credit:			
In US dollars	2.4	**128,215**	126,984
In Euros	1.8	**46,232**	52,905
In Australian dollars	4.7	**12,899**	20,324
In British pounds	2.3	**17,339**	21,963
In Polish zlotys	3.8	**19,500**	20,459
In Brazilian reals	6.3	**16,719**	–
In NIS	2.1	**17,010**	19,371
In other currencies	13.1	**28,673**	32,452
		286,587	294,458
		296,821	300,932

C. Regarding financial covenants – see Note 20C.

Note 12 - Trade Payables

	December 31 2014 $ thousands	December 31 2013 $ thousands
Open accounts	**615,014**	638,905
Post-dated checks	**35,815**	2,620
	650,829	641,525

Note 13 - Other Payables

	December 31 2014 $ thousands	December 31 2013 $ thousands
Liabilities to employees and other liabilities in respect of salaries and wages	**109,415**	122,276
Government institutions	**9,642**	14,395
Payables in respect of transactions in derivatives	**295,554**	23,376
Financial institutions	**6,471**	6,640
Accrued expenses	**81,618**	68,326
Payables in respect of intangibles assets	**9,042**	13,966
Payables in respect of business combination	**827**	5,600
Liabilities for discounts	**92,955**	96,139
Provisions for legal claims	**11,233**	18,651
Other	**43,057**	46,373
	659,814	415,742

Note 14 - Long-Term Loans from Banks

A. Composition

	December 31 2014 $ thousands	December 31 2013 $ thousands
Loans from banks	**338,415**	344,277
Less – current maturities	**74,276**	96,090
	264,139	248,187

Note 14 - Long-Term Loans from Banks (cont'd)

B. Linkage base and interest rates

	Weighted interest rate as at the balance sheet date	December 31	
		2014	2013
	%	$ thousands	$ thousands
In US dollars	4.2	**334,809**	336,434
In Brazilian reals	5.2	**3,075**	4,462
In Euros	–	**–**	1,980
In other foreign currency	5.5	**531**	1,401
		338,415	344,277

C. Repayment dates

	$ thousands
First year (current maturities)	**74,276**
Second year	**90,023**
Third year	**57,949**
Fourth year	**81,777**
Fifth year and thereafter	**34,390**
	338,415

D. Regarding the commitment of the Company and certain subsidiaries to banks to maintain certain financial covenants, mainly debt-equity and profitability ratios – see Note 20C.

Note 15 - Debentures

On December 4, 2006, the Company issued to institutional investors three series of debentures, Series B, C and D, in the aggregate amount of NIS 2,350 million par value, in exchange for their par value.

During 2008, the Company purchased by itself and through a wholly-owned subsidiary, a cumulative total of NIS 80.4 million par value debentures (Series B), at a total cost of $16,425 thousand. Due to the Company's purchase, debentures 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.

Note 15 - Debentures (cont'd)

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.

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

1. Series B debentures, in the amount of NIS 2,763.5 million par value, linked to the CPI and bearing interest at the base annual rate of 5.15%. The debenture principal is to be repaid in 17 equal payments in the years 2020 through 2036. The issuance costs for this series amounted to $3,283 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 is to be 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. The debenture principal of the series issued in 2013 is to be repaid in 4 equal payments in the years 2013 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 May 27, 2008 the Company filed in Israel a shelf prospectus and a prospectus for registration for trading, whereby the Company's debentures (Series B, C and D) were registered for trading. Up to the date of registration for trading, the Company paid additional interest at the rate of 0.25% in respect of the said debentures.

On November 30, 2010 through 2013, the Company repaid a total of NIS 1,126 million par value debentures (Series C), which amounted to about $358.3 million, as payment of the debenture principal of Series C. The principal payment made on November 30, 2013, was the final payment where as a result thereof the principal was repaid in full.

On November 30, 2011 through 2014, the Company repaid a total of NIS 958.3 million par value debentures (Series D), which amounted to about $254.4 million, as payment of the debenture principal of Series D.

Subsequent to the balance sheet date, the Company issued debentures, through an expansion of Series B, and non-marketable options. For additional details – see Note 32.

Note 15 - Debentures (cont'd)

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	2,683,117	800,615
Debentures – Series D	Unlinked	6.50	777,091	204,045
Total			3,460,208	1,004,660

B. Repayment dates:

	$ thousands
First year (current maturities)	102,022
Second year	102,023
Third year	–
Fourth year	–
Fifth year and thereafter	800,615
	1,004,660

Note 16 - Other Long-Term Liabilities

	December 31 2014 $ thousands	December 31 2013 $ thousands
Liabilities in respect of claims	**1,920**	2,922
Long-term transactions in derivatives	**5,865**	10,265
Long-term loans from others	–	6,403
Liability in respect of business combinations	**8,360**	7,206
Liability in respect of payments to the Chief Scientist	**1,730**	2,005
Other provisions and liabilities	**11,286**	12,189
	29,161	40,990

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 2012–2014:
2012 – 25%
2013 – 25%
2014 – 26.5%

On August 5, 2013, the Knesset approved the Law for Change of the Order of National Priorities (Legislative Amendments to Achieve the Budget Targets for 2013 and 2014) – 2013, which provided, among other things, that the increase in the rate of the Companies Tax, commencing from 2014 and thereafter will be 1.5%, such that the rate will be 26.5%.

(2) On February 4, 2010 amendment 174 to the Income Tax Ordinance (New Version) – 1961 (hereinafter – "the Ordinance") was published in the official registrar. The amendment added Section 87A to the Ordinance, which provides a temporary order whereby Accounting Standard No.29 "Adoption of International Financial Reporting Standards (IFRS)" that was issued by the Israel Accounting Standards Board shall not apply when determining the taxable income for the 2007, 2008 and 2009 tax years even if this standard was applied when preparing the financial statements (hereinafter – "the Temporary Order"). On January 12, 2012 Amendment 188 to the Ordinance was issued, whereby the Temporary Order was amended so that Standard 29 will not apply also when determining the taxable income for 2010 and 2011. On July 31, 2014, Amendment 202 to the Ordinance was issued, whereby the Temporary Order was extended to the 2012 and 2013 tax years, this being retroactive to January 1, 2012.

(3) The subsidiaries outside of Israel are assessed based on the tax laws in the country of their residence.

B. Benefits under the Law for the Encouragement of Capital Investments

Industrial enterprises of subsidiaries 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%.

Note 17 - Income Taxes (cont'd)

B. Benefits under the Law for the Encouragement of Capital Investments (cont'd)

The benefit period has ended for some of the enterprises of the subsidiaries and for others will end during years until 2019.

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. 2012 is the last tax year that companies can choose as the year of election, providing that the minimum qualifying investment began in 2010.

The Amendment provides that only companies in Development Area A will be entitled to the grants track. Further, they will be entitled to receive benefits both 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, such as: for a preferred enterprise – in the 2011-2012 tax years – a tax rate of 10% for Development Area A and of 15% for the rest of the country, in the 2013-2014 tax years – a tax rate of 7% for Development Area A and of 12.5% for the rest of the country, and as from the 2015 tax year – 6% for Development Area A and 12% for the rest of the country. On August 5, 2013 the Israeli Parliament of Israel passed the Law for Changes in National Priorities (Legislative Amendments for Achieving Budget Objectives in the Years 2013 and 2014) – 2013, which cancelled the planned tax reduction so that as from the 2014 tax year the tax rate on preferred income will be 9% for Development Area A and 16% for the rest of the country.

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% if it is located in Development Area A or of 8% if it is located in a different area.

The Amendment to the Law further provides that a tax will not be imposed on a dividend that will be distributed out of preferential income to a shareholder that is an Israeli-resident company, at the distributing company level and at the recipient company level. A tax rate of 15% will still apply to a dividend that will be distributed out of preferential income to a taxpayer who is an individual or a foreign resident covered by a treaty to prevent double taxation. As part of the Law for Change of National Priorities (Legislative Amendments for Achieving the Budget Targets for 2013 and 2014), 2013, an increase in the tax rate was provided on a dividend to an individual and to a foreign resident that is distributed commencing from January 1, 2014, and the source of which is preferred income, up to the rate of 20%.

Note 17 - Income Taxes (cont'd)

C. Amendment to the Law for the Encouragement of Capital Investments, 1959 (cont'd)

Likewise, the Amendment to the Law Furthermore, provides relief (hereinafter – "the relief") with respect to the tax on a dividend received by an Israeli company from profits of an approved/alternative/beneficiary enterprise that accrued in the benefits period according to the version of the law before its amendment, if the company distributing the dividend notifies the tax authorities by June 30, 2015 that it is applying the provisions of the Amendment and the dividend is distributed after the date of the notice. Furthermore, a distribution from profits of the exempt enterprise will be subject to tax by the distributing company.

As of the report date, some of the companies in Israel adopted the amendment to the Law and, accordingly, the deferred taxes that are expected to be realized starting from this date, were recorded based on the tax rates in the amended law.

D. Benefits under the Law for the Encouragement of Industry (Taxes), 1969

Under the Israeli Law for the Encouragement of Industry (Taxes) 1969, the Company is an Industrial Holding Company and some of the subsidiaries in Israel are "Industrial Companies". The main benefit under this law is the filing of consolidated income tax returns (the Company files a consolidated income tax return with Adama Makhteshim) and amortization of know-how over 8 years.

Note 17 - Income Taxes (cont'd)

E. Deferred tax assets and liabilities

(1) Deferred tax assets and liabilities recognized

Deferred taxes are calculated at the tax rate expected to be in effect on the date of the reversal, as stated above. Deferred taxes for subsidiaries operating outside of Israel were calculated according to the relevant tax rates in each country.

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, 2013	(67,565)	15,923	39,170	51,053	16,318	54,899
Changes recognized in the statement of income	3,399	(1,167)	(1,448)	(1,584)	9,587	8,787
Business combinations	(801)	(1)	(300)	(1)	262	(841)
Changes recognized in other comprehensive income	(3)	(91)	(68)	(63)	31	(194)
Deferred tax asset (liability) balance as at January 1, 2014	(64,970)	14,664	37,354	49,405	26,198	62,651
Changes recognized in the statement of income	**(2,218)**	**(2,061)**	**2,942**	**4,159**	**(3,038)**	**(216)**
Business combinations	–	–	**(42)**	–	–	**(42)**
Changes recognized in other comprehensive income	**660**	**(264)**	**77**	**107**	**(3,045)**	**(2,465)**
Deferred tax asset (liability) balance as at December 31, 2014	**(66,528)**	**12,339**	**40,331**	**53,671**	**20,115**	**59,928**

	December 31 2014	December 31 2013
	$ thousands	$ thousands
Presented in:		
Deferred tax assets	**79,623**	82,101
Deferred tax liabilities	**(19,695)**	(19,450)
Total	**59,928**	62,651

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, 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 2014	December 31 2013
	$ thousands	$ thousands
Tax losses	**262,757**	284,751

Deferred tax assets have not been recognized in respect of these items, since it is not probable that 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		
	2014	2013	2012
	$ thousands	$ thousands	$ thousands
Current tax expenses (income)			
Current year	**48,250**	50,204	41,590
Adjustments for previous years, net	**(1,564)**	3,133	(4,584)
	46,686	53,337	37,006
Deferred tax expenses (income)			
Creation and reversal of temporary differences	**216**	(17,105)	2,452
Change in the tax rate	–	8,318	(294)
	216	(8,787)	2,158
Total income taxes expenses	**46,902**	44,550	39,164

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 (income) included in the statement of income:

	For the year ended December 31		
	2014	**2013**	**2012**
	$ thousands	**$ thousands**	**$ thousands**
Profit before taxes on income	**192,917**	171,621	161,737
Company's main tax rate	**26.5%**	25%	25%
Tax calculated according to the main tax rate	**51,123**	42,905	40,434
Tax benefits from Approved Enterprises	**(1,668)**	(3,246)	(2,999)
Difference between measurement basis of income for financial statement and for tax purposes	**11,663**	8,106	6,098
Taxable income and temporary differences at other tax rates	**(19,949)**	(14,677)	(17,628)
Taxes in respect of prior years	**(1,564)**	3,133	(4,584)
Temporary differences and losses in the report year for which deferred taxes were not created	**7,545**	9,816	9,299
Reversal of tax asset created in previous years for loss carryforwards	–	–	9,434
Utilization of tax losses from prior years for which deferred taxes were not created	**(1,904)**	(4,235)	(8,027)
Creation of deferred taxes for tax losses from previous years for which deferred taxes were not created in the past	**(5,525)**	(20,288)	(4,506)
Non-deductible expenses and other differences	**7,181**	14,718	11,937
Effect of change in tax rate in respect of deferred taxes	–	8,318	(294)
	46,902	44,550	39,164
Effective tax rate	**24.31%**	25.96%	24.21%

H. Income taxes in respect of other comprehensive income

	For the year ended December 31								
	2014			**2013**			**2012**		
	Before tax	**Tax expense**	**Net of tax**	**Before tax**	**Tax benefit (expense)**	**Net of tax**	**Before tax**	**Tax benefit**	**Net of tax**
	$ thousands								
Effective portion of changes in fair value of cash flow hedges	**56,426**	**(1,500)**	**54,926**	(19,145)	(620)	(19,765)	(16,982)	1,549	(15,433)
Net changes in fair value of cash flow hedges transferred to the statement of income	**14,356**	**(1,523)**	**12,833**	(13,174)	738	(12,436)	(26,692)	2,425	(24,267)
Re-measurement of defined benefit plan	**935**	**(53)**	**882**	170	(47)	123	(4,946)	670	(4,276)
Total	**71,717**	**(3,076)**	**68,641**	(32,149)	71	(32,078)	(48,620)	4,644	(43,976)

Note 17 - Taxes on Income (cont'd)

I. Final tax assessments

Adama Agan, Adama Makhteshim and the Company have received final tax assessments up to and including the year ended 2010. Lycored has received final tax assessments 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 $525 million.

The Group has created a deferred tax asset of approximately $40 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

Regarding tax claims against a subsidiary in Brazil – see Note 19D(1).

Note 18 - Employee Benefits

Employee benefits include post-employment benefits, other long-term benefits, short-term benefits, 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, 2014	December 31, 2013
	$ thousands	$ thousands
Present value of unfunded obligations	**24,159**	28,641
Present value of funded obligations	**40,630**	42,631
Total present value of obligations	**64,789**	71,272
Less – fair value of plan's assets	**18,408**	20,085
Total recognized liability for defined benefit plan, net	**46,381**	51,187
Liability in respect of early retirement	**30,598**	43,704
Liability for other short-term benefits	**19,827**	20,548
Liability for other long-term benefits	**16,956**	19,103
Total employee benefits, net	**113,762**	134,542
Presented in the following items:		
Other payables	**43,305**	48,504
Long-term employees benefits	**70,457**	86,038
	113,762	134,542

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 (assets) in respect of defined benefit plans and their components

	Defined benefit obligation		Fair value of plan assets		Total	
	2014	2013	2014	2013	2014	2013
	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands
Balance as of January 1	**71,272**	62,093	**20,085**	15,780	**51,187**	46,313
Expense/income recognized in profit and loss:						
Current service cost	**3,409**	4,896	**–**	–	**3,409**	4,896
Past service cost	**154**	–	**–**	–	**154**	–
Interest costs	**1,995**	2,088	**559**	454	**1,436**	1,634
Changes in exchange rates	**(7,718)**	4,186	**(2,216)**	992	**(5,502)**	3,194
Included in other comprehensive income:						
Actuarial losses from changes in the demographic assumptions	**(672)**	(19)	**–**	–	**(672)**	(19)
Actuarial gains from changes in the financial assumptions	**8,213**	1,185	**–**	–	**8,213**	1,185
Other actuarial gains (losses)	**(7,460)**	809	**641**	2,117	**(8,101)**	(1,308)
Actual return less interest income	**104**	165	**479**	193	**(375)**	(28)
Foreign currency translation differences in respect of foreign operations	**(81)**	4	**–**	11	**(81)**	(7)
Additional movements:						
Benefits paid	**(4,427)**	(3,885)	**(2,570)**	(1,053)	**(1,857)**	(2,832)
Changes from business combinations and loss of control	**–**	(250)	**–**	–	**–**	(250)
Contributions paid by the Group	**–**	–	**1,430**	1,591	**(1,430)**	(1,591)
Balance as of December 31, 2014	**64,789**	71,272	**18,408**	20,085	**46,381**	51,187

Note 18 - Employee Benefits (cont'd)

(2) Actuarial assumptions and sensitivity analysis

The principal actuarial assumptions at the reporting date (weighted average)

	2014	2013	2012
	%	%	%
Discount rate on December 31	**1.4**	0.8	0.9

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 one of the relevant actuarial assumptions, assuming the other assumptions remain unchanged, would have affected the defined benefit obligation as follows:

	As of December 31, 2014	
	Increase of 1%	Decrease of 1%
	$ thousands	$ thousands
Discount rate	**(4,801)**	**6,034**

(3) Impact of the plan on the Group's future cash flows

The Group expects $1,307 thousand in contributions to be paid to the funded defined benefit plan in 2015.

(4) Post-employment benefit plans – defined contribution plans

	For the year ended December 31		
	2014	2013	2012
	$ thousands	$ thousands	$ thousands
Amount recognized as an expense in respect of defined contribution plan	**3,237**	3,202	2,717

Note 19 - Commitments and Contingent Liabilities

A. Commitments

1. The liability of directors and officers of the Company and its subsidiaries (including officers who might be considered controlling shareholders) is covered by an insurance policy, in which the liability limit is $100 million plus an addition of up to 20% of the amount in question, to cover legal protection expenses in Israel. On November 9, 2014, the Company's Remuneration Committee approved renewal of the insurance policy, in accordance with the terms of the framework provided in the Company remuneration policy for the period ending December 31, 2015.

Note 19 - Commitments and Contingent Liabilities (cont'd)

A. Commitments (cont'd)

2. On October 8, 2007, the Company's General Meeting approved giving a commitment for advance indemnification to officers by granting letters of indemnity to Company officers (including officers who might be considered controlling shareholders). At the same time, the Company's General Meeting approved an amendment to the sections of the Articles of Association dealing with exemption, insurance and indemnity of Company officers. On November 7, 2011, the Company's Board of Directors resolved to approve an amendment to the letters of indemnity given in the past by the Company to the directors and officers that serve and/or will serve from time to time in the Company and/or companies it controls, whereby provisions will be included with the objective of modifying the letters of indemnity for the amendments made to the legislation regarding exemption, indemnity and officers' insurance and to the provisions of the Efficiency in Enforcement Processes in the Securities Authority (Legislative Amendments), 2011 ("Amendment of Letters of Indemnity"). Further to the resolution of the Company's Board of Directors, the Company's General Meeting held on November 17, 2011 approved the amendment to the letters of indemnity that have been and will be issued to directors.

3. Regarding undertakings of the Company and its subsidiaries as part of a securitization transaction – see Note 4.

4. Regarding undertakings with interested parties – see Note 28.

5. In July 2006, Adama Agan entered into an agreement with Ashdod Energy Ltd. (hereinafter – "Ashdod Energy"), pursuant to which it will rent to Ashdod Energy, as a subtenant, approximately 2.6 acres of land, which is part of a 5.5 acre lot rented by Adama Agan from Israel Lands Administration, on which Ashdod Energy will construct a power plant for production of electricity and steam, based on the use of natural gas (and subject to the existence of an available natural gas pipeline and orderly supply of natural gas). Furthermore, according to the agreement, Ashdod Energy will supply electricity and steam to Adama Agan for a period of 20 years from the power plant's operation date or a period of 24 years and 11 months from the signing date of the sublease agreement, whichever is earlier. When the power plant begins commercial production, the discount embedded in the tariffs for electricity and steam will serve as full payment of the rent, which comes to $80,000 for each year of rental. The construction projects and the building of the power plant are the responsibility of and at the expense of Ashdod Energy, which is also responsible for obtaining the necessary permits and licenses required by law. Since during 2012, Ashdod Energy received all the necessary permits, including provision of all the required financing, in December 2012 the plan for construction of the power plant commenced and as at the date of the report the said construction is in the advanced stages.

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 has been amended periodically, to build and operate a power plant in Naot Hovav ("the Agreement"). As a result of the Agreement, the parties signed a sub-rental agreement, pursuant to which Adama Makhteshim will rent to Negev Energy, as a subtenant, on 19,317 square meters, for the purpose of building and operating a power plant pursuant to the agreement ("the Sublease Agreement"). As a result of the Sublease Agreement, an area of 19,317 square meters of the land leased by Adama Makhteshim from Israel Lands Administration (ILA) was set aside, and a capitalized lease contract was signed between ILA and Adama Makhteshim in September 2011 for a lease period ending in 2060.

Note 19 - Commitments and Contingent Liabilities (cont'd)

A. Commitments (cont'd)

6. (cont'd)

Pursuant to the Agreement, Negev Energy will construct a power plant for production of electricity and steam, based on the use of natural gas (and subject to the existence of an available natural gas pipeline and an orderly supply of natural gas) within 30 months of approval of the financing required to build the plant. The consideration to be received for rental of the land is not material to the Company. Furthermore, according to the Agreement, Negev Energy will supply electricity, steam, gas emissions for creation of carbon dioxide, soft water, distilled water and compressed air to Adama Makhteshim's facilities in Naot Hovav for a period of twenty-four (24) years and eleven (11) months from the date of the area was made available to Negev Energy. Thereafter, the power plant will be transferred to Adama Makhteshim's ownership. Execution of the building and construction work is under the responsibility and at the expense of Negev Energy, which is also responsible for obtaining the necessary permits and licenses required by law. Since during 2012, Negev Energy received all the necessary permits, including provision of all the required financing, in December 2012 the plan for construction of the power plant commenced and as at the date of the report the said construction is in the advanced stages.

7. On October 17, 2011, the Company closed a merger transaction, the parties to which are: (1) the Company; (2) CNAC, a Chinese corporation of the China National Chemical Corporation (hereinafter – "CC"), a large Chinese Group controlled by the Chinese Government, engaged in the chemicals and agrochemicals industry; (3) CNAC Merger Sub Ltd. – a private company, wholly-owned (indirectly through its wholly-owned corporation) by CNAC that was established in Israel for the purpose of entering into the merger agreement; (4) Koor Industries Ltd. and M.A.G.M. Chemical Holdings Ltd., a wholly-owned subsidiary of Koor (together with Koor – "the Koor Companies") ("the merger agreement" and/or "the merger transaction"). Pursuant to the provisions of the merger agreement, shares of the Company, which on the closing date constituted 60% of the Company's issued and paid-up capital, were acquired by CNAC (through an indirectly owned company) (including acquisition of all of the public's holdings, and acquisition from the Koor Companies of Company shares, which on the closing date constituted 7% of the Company's issued and paid-up capital). The entitling shares were converted into a right to receive in cash from CNAC, the merger consideration in an amount constituting as of the date of the report \$17.3924 for each entitling share, which is the amount obtained by dividing \$1,440,000,000 by the number of entitling shares existing on the transaction closing date after this amount was adjusted for the reverse split Company's capital (see Note 21A regarding consolidation of the capital).

On October 19, 2011, upon closing of the merger transaction, the Company's shares were delisted from trading on the stock exchange and the Company became a private company – 60%-held by CNAC (through an indirect subsidiary) and 40%-held by the Koor Companies although it continues to be a Reporting Corporation (as this term is defined in the Israeli Securities Law, 1968). Commencing from February 17, 2012, upon entry into effect of Amendment No. 17 to the Companies Law, 1999, the Company constitutes a "Debenture Company".

Note 19 - Commitments and Contingent Liabilities (cont'd)

A. Commitments (cont'd)

7. (cont'd)

Concurrent with the signing of the merger agreement with CNAC, a shareholder agreement was signed between the Koor companies and CNAC to arrange the relationship among the Company's shareholders after the merger closing date.

8. 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 Ltd."), for a consideration of $56.8 million. The acquisition was made by means of a partial tender offer for the Class B shares held by the public.

The investment is accounted for using the equity method. This accounting treatment is in light of understandings between the subsidiary and CNAC in connection with the conduct of the parties with respect to the process of making decisions and protecting the subsidiary's interests in Sanonda Ltd., which provides the subsidiary significant influence over Sanonda Ltd..

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, the Company will acquire, through a wholly-owned subsidiary (hereinafter – "the Purchaser") from CNAC through a wholly-owned subsidiary (hereinafter – "the Seller"), in a single lot, 100% of the issued and paid-up share capital of Jingzhou Sanonda Holding Co., Ltd. (hereinafter – "Sanonda Holding"), a private holding company that was incorporated in China and the primary holding of which is the holding of Class A shares, which constitute about 20.15% of the issued share capital of Sanonda Ltd., which is a public company the shares of which are traded on the stock exchange in Shanzan, China, wherein the Company holds, prior to the said transaction, Class B shares, constituting 10.6% of the issued and paid-up share capital of Sanonda Ltd.; along with 100% of the issued and paid-up share capital of three private companies: Jiangsu Anpon Electro-Chemical Co., Ltd.; Jiangsu Maidao Agrochemical Co., Ltd. and Jiangsu Huaihe Chemical Co., Ltd. (hereinafter together with Sanonda Holding – "the Companies in China").

The undertaking in the agreement was approved on September 30, 2014 by the Company's Audit Committee and its Board of Directors, after receipt of a recommendation of a special committee of the Board of Directors and approval by the General Meeting of the Company's shareholders.

Pursuant to the agreement, the Purchaser is to pay the Seller, in cash, on the completion date, the amount of 1,987 million yuans (hereinafter – "the Consideration"). As at the date of the report, the aforesaid amount constitutes about $324 million. The final dollar amount of the Consideration will be determined based on the currency rate of exchange that will be in effect on the closing date.

As part of the agreement, various indemnification arrangements between the parties were provided, including a limitation on indemnification in certain cases as detailed in the agreement.

Note 19 - Commitments and Contingent Liabilities (cont'd)

A. Commitments (cont'd)

9. (cont'd)

Completion of the transaction is subject to fulfillment of contingent terms, the main ones of which are set forth below:

– Correctness of the Purchaser's and the Seller's representations and compliance with their undertakings, in all material aspects, at the completion date.

– Receipt of the required government approvals: (1) receipt of an exemption from the Securities Authority in China (CSRC) whereby acquisition of shares of Sanonda Ltd. as part of the transaction (indirectly through acquisition of shares of Sanonda Holding) does not oblige it to carry out a tender offer – as at the date of the report the said exemption had been received; (2) approval from the Chinese Ministry of Commerce (MOFCOM), or one of its local authorized branches, for the Transaction and issue of the applicable certificates to the Companies in China, (3) issue of new business licenses to the Companies in China by the Chinese Industry and Trade Administration, (jointly – "the Government Approvals").

– Receipt of authorization from the Anti-Trust Commissioner in Israel to carry out the Transaction, as shall be required in law ("Approval of the Anti-Trust Commissioner").

– Receipt of approvals from certain banks which granted loans to the Companies in China.

– Compliance by Sanonda Ltd. with its undertakings in the interim period and not carrying out actions prohibited under the agreement, however, non-compliance with the undertakings or carrying out the said actions shall only be grounds for non-completion of the merger if they caused Material Adverse Effects to Sanonda Ltd, as this term is defined in the agreement.

– The absence of Material Adverse Effect on the condition of the Companies in China, within the meaning of this term in the agreement.

– If the Company does not complete the initial public offering of its shares on the New York Stock Exchange ("Public Offering") by March 31, 2015, the Purchaser's undertaking to complete the transaction will be subject to: (1) approval by the Company's Audit Committee and Board of Directors that the consummation of the transaction shall not reasonably likely impair the Company's ability to meet its existing and anticipated obligations in its ordinary course of business and its anticipated cash flow requirements, taking into account the interests of bondholders, lenders, and maximizing value for the Company's shareholders; (2) Koor Industries Ltd. (hereinafter – "Koor") having approved in writing that the financing of the transaction contemplated under the Agreement shall not be reasonably expected to negatively affect the value of the Company or its financial condition; provided that Koor shall exercise its approval right in a reasonably commercial manner and in good faith and Koor's approval shall not be withheld for reasons related solely to the injected assets (assuming that the value of such assets at the time the transactions are proposed to be closed is not materially different from their value on the signing date of the said agreement).

Note 19 - Commitments and Contingent Liabilities (cont'd)

A. Commitments (cont'd)

9. (cont'd)

Subject to the fulfillment of all the contingent terms to the completion of the Transaction (or the waiving of a contingent term by a party authorized to do so according to this agreement), the completion date of the transaction will occur on the later of: the fourth business day after issuance of a new business license to each of the Companies in China; or the fifteenth business day after the earlier of the following: (a) the completion date of the Public Offering; or (b) the date on which the Purchaser notifies the Seller of completion of the last condition described in the contingent terms, as described above – all provided that in any event the completion date will not be before January 1, 2015.

Pursuant to the provisions of the acquisition agreement whereby if the transaction is not completed by March 31, 2015, the parties will make their best efforts to hold a discussion in good faith concerning to alternatives to completion of the transaction, the Company and its shareholders are examining a 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 or in other ways.

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 ("the commitment period"), provided that any agreement for transferring control in the Company will be closed by June 1, 2012. The commitment period will be recorded in the agreement for transferring control in the Company, if such an agreement will be signed.

(2) Agreement was reached regarding the voluntary early retirement of up to 100 employees above the age of 57 during the years 2011–2012 in each of the subsidiaries (a total of up to 200 employees). The names of the voluntary retirees will be agreed to between the parties.

(3) In the event any agreement will be signed transferring control of the Company, a special fund will be established to assist the employees and those retiring voluntarily.

The employees' representatives committed 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.

Note 19 - Commitments and Contingent Liabilities (cont'd)

A. Commitments (cont'd)

10. (cont'd)

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.

B. Contingent liabilities

1. In accordance with the Israeli Law for the Encouragement of Capital Investments, 1959, Company subsidiaries received grants from the State of Israel in respect of investments in fixed assets made as part of plant expansion plans approved by the Investments Center. Receipt of the grants is conditional upon fulfilment of the terms of the Letter of Approval that include, among others, exports at certain rates. If the companies do not comply with the required terms, they will have to refund the amounts of the grants, together with interest from the date of their receipt. Managements of the subsidiaries believe that they are in compliance with the conditions of the approval. See also Note 9E.

2. In accordance with the Israeli Law for the Encouragement of Research and Development in Industry, 1984, subsidiaries received grants from the State of Israel in respect of the research and development expenses they incurred on projects approved by the Israeli Industrial Research and Development Administration. Receipt of the grants is conditional upon compliance with the terms of the letter of approval which includes, among other things, the payment of royalties to the State of Israel at rates of between 2%–3.5% of the sales of the products, up to the amount of the State's participation.

   The balance of the State's participation in the said companies' research and development programs (net of royalties paid in respect thereof), after deduction of unsuccessful research projects, amounts to approximately $1.7 million.

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 date of the report, 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.

   Regarding continuing environmental contamination, as of the date of the financial statements the Company has only limited, relatively low insurance coverage, due to the difficulty in acquiring a larger amount of insurance coverage at a reasonable cost.

Note 19 - Commitments and Contingent Liabilities (cont'd)

C. Environmental protection (cont'd)

2. Adama Agan's in Ashdod plant has been required by the Ministry of Environmental Protection and the Water Commission to perform various land surveys and surveys of ground water monitoring wells. Upon submission of the surveys to the Ministry of Environmental Protection and the Water Commission, Adama Agan was requested to submit a plan for restoration of the land. Adama Agan has submitted its detailed response to the Ministry of Environmental Protection. Adama Agan also submitted to the Water Commission a detailed plan for treating the ground water and it has been requested to submit supplementary information in this connection.

   Adama Makhteshim's plant in Be'er Sheva has been required by the Ministry of Environmental Protection to perform an historical land survey and examination of a sample of land gases. Up to now, the plant has not been requested by any of the authorities to take any additional action in this connection.

   As part of the integrated environmental regulation process, Adama Makhteshim's plant in Naot Hovav has been required to submit an historical ground survey. At this stage, the Company is unable to estimate whether additional requirements will be imposed on it in connection with surveys or treatment of grounds or ground water in its plants, the nature thereof, and if such requirements will have a significant impact on the Company.

D. Claims against subsidiaries

In the ordinary course of business, legal claims were filed against subsidiaries, including lawsuits, regarding claims for patent infringement. Inter alia, from time to time, the Company is exposed to class actions for large amounts, which it must defend against while incurring considerable costs, even if these claims, from the start, have no basis. A trend has become evident recently, of an increase in the filing of claims against companies engaged in activities similar to those of the Company, with motions for class action approval, due to various causes of action. In the estimation of the Company's management, based, inter alia, on opinions of its legal counsel regarding the prospects of the proceedings, the financial statements include appropriate provisions where necessary to cover the exposure resulting from the claims. The main claims that were filed against the subsidiaries are detailed below:

1. Administrative proceedings and fiscal claims are pending against a subsidiary in Brazil (hereinafter – "Adama Brazil"), all of which deal with demands for payment of various taxes, with respect to which the Company has not recorded a provision in the financial statements. The amount of these demands, which in the estimation of Adama Brazil, based on its legal advisors, the chances that they will prevail are lower than the chances that they will be rejected, totals about $12.9 million.

2. In 2002, a claim was filed against Adama Brazil by a private environmental protection organization, claiming that Adama Brazil's plant in Londrina pollutes the environment and causes damage to its vicinity and residents. The plaintiff demanded that Adama Brazil prepare an environmental impact study, provide examinations for Adama Brazil's employees and residents of the surrounding area, halt production activity at the plant and pay damages to the vicinity's residents. The plaintiff estimates that the amount claimed from Adama Brazil is $20 million. The lower court ordered an environmental impact study to be conducted but the court of appeals decided that Adama Brazil is not obligated to prepare an environmental impact study and/or conduct examinations for Adama Brazil's employees and residents of the surrounding area until a final ruling is issued obligating Adama Brazil to make these remedies.

Note 19 - Commitments and Contingent Liabilities (cont'd)

D. Claims against subsidiaries (cont'd)

2. (cont'd)

On February 10, 2014, an appeal of this decision filed by the plaintiff in the District Court of Brazil was rejected. Adama Brazil's management estimates, based on its legal advisors, that the claim's chances of succeeding are lower than the chances it will be rejected.

3. On July 24, 2011, a financial claim and a request for approval of the claim as a class action were received in the offices of Adama Agan, which were filed by two residents of Moshav Nir Galim and a resident of Ashdod alleging damages caused due to odor and noise nuisances. To the extent the claim will be approved as a class action, the plaintiffs assess that the amount claimed from Adama Agan is about NIS 642 million. On December 8, 2013, a decision was rendered by the District Court in Be'er Sheva rejecting the request for certification of the claim as a class action and charging the plaintiffs for expenses. On February 10, 2014, the plaintiffs filed an appeal of the said court decision to the Supreme Court and on May 18, 2014, the Company filed a request to summarily cancel the appeal. A hearing of the appeal was scheduled for April 1, 2015. In the Company's estimation, based on its legal advisors, the chances the appeal will be accepted are less than the chances it will be rejected.

4. Aside from that detailed above, various claims have been filed against Group companies in courts throughout the world, in immaterial amounts, for causes of action involving mainly employee-employer relations and various civil claims, for which the Company did not record a provision in the financial statements. The total of the claims that in the estimation of Company management, based on its legal advisors, the chances of their succeeding is lower than the chances they will be rejected, amounts to about $13.6 million. In addition, tax demands were filed against the Company, in the amount of about $12.3 million, which in the estimation of the Group companies, based on their legal advisors, the chances they will prevail are lower than the chances they will be rejected. Furthermore, claims were filed for product liability damages, for which the Company has appropriate insurance coverage, such that the Company's exposure in respect thereof is limited to the amount its self-participation requirement or the amount thereof does not exceed the self-participation amount.

E. Legal proceedings that were completed

During 2008, third-party notices were filed against Adama Makhteshim and an additional thirty-five companies and persons, by the Industrial Council of Ramat Hovav and the State of Israel, in the framework of three claims for damages filed by three groups of plaintiffs and with respect to which the plaintiffs stipulated amounts of about NIS 242 million (not including general damage categories that were not quantified). On January 9, 2013, a court decision was handed down that rejected the claims in their entirety. An appeal filed by the plaintiffs with the Supreme Court was rejected in full on September 29, 2014.

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 $14 million, for securing liabilities in the amount of $10 million, 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 a lien on trade receivables within the scope of the securitization transaction – 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.

C. (1) The main financial covenants included in the financing agreements as of December 31, 2014, are as follows:

(a) The ratio of the interest-bearing financial liabilities to the Company's equity shall not exceed 1.25. As of December 31, 2014 the ratio was 0.7.

(b) The ratio of the interest-bearing financial liabilities to earnings before financing expenses, taxes, depreciation and amortization (EBITDA) shall not exceed a ratio 4. As of December 31, 2014, the ratio of the Company's interest-bearing financial liabilities to the EBITDA was 2.5.

(c) The Company's equity will not be less than $1.22 billion. As of December 31, 2014, the Company's equity amounted to $1,598 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, 2014, the retained earnings were $1,114 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. The Company received the consents of the relevant banks for transfer of control, in accordance with the merger transaction that closed on October 17, 2011 with a company from the China National Agrochemical Corporation.

E. The securitization agreement of trade receivables of the Company and its subsidiaries (including the updates thereto) include the Company's commitment to maintain financial ratios, of which the key commitments are below:

Note 20 - Liens and Financial Covenants (cont'd)

E. (cont'd)

(1) The ratio between the Company's net debt and its equity will not exceed 1.25. As of December 31, 2014 the ratio was 0.7.

(2) The ratio between the Company's net debt and the EBITDA will not exceed 4. As of December 31, 2014, the ratio of the Company's interest-bearing financial liabilities to the EBITDA was 2.5.

(3) The Company's equity will not fall below $1 billion. As of December 31, 2014, the Company's equity amounted to $1,598 million.

The securitization agreement and the agreements with banks contain Cross Default clauses, whereby the party opposite which the Company has undertaken in the agreement will be allowed to demand immediate repayment of the debts under circumstances wherein an event took place entitling another lender of the Company and/or its subsidiaries to call its debts for immediate repayment, in full or part, provided that the amount of the debts and obligations of the Company and/or subsidiaries toward that other financing parties exceeds the minimum amount as prescribed in various financing agreements.

Furthermore, as stated above, the Company has undertaken, under the terms of the letters of consent opposite financing parties to comply with additional criteria which the Company believes, at the report date, does not significantly restrict the Company's activities.

At December 31, 2014, 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	
	2014	**2013**
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**	240,385

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.

As a result of the Reverse Split and according to the provisions of the Company's Global Option Plan (hereinafter – "the Plan"), the Company shall adjust the number of Shares underlying such options.

Note 21 - Equity (cont'd)

A. Share capital and premium on shares (cont'd)

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.

D. Share-based payments

1. During December 2013, and on January 1, 2014, the Company's Remuneration Committee and Board of Directors approved an issuance of 9,322,227 options to Group officers and employees, in accordance with the Company's options plan (hereinafter – "the Plan"). The options were issued on January 29, 2014.

   3.12 options may be exercised for one share of NIS 3.12 par value.

   The options will vest in three equal portions, where each third may be exercised after two years, three years and four years, respectively, commencing from January 1, 2014. The options may be exercised, in whole or in part, pursuant to the conditions of the Plan, subject to the Company's shares being listed for trading on the Tel-Aviv Stock Exchange Ltd. or any other stock exchange outside of Israel (in whole or in part) on the exercise date, and subject to reaching the Group's net sales targets and EBITDA targets, as provided in the Plan.

   The 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 $21 million. This amount will be recognized in the statement of income over the vesting period of each portion.

   During April and May 2014, the Company's Remuneration Committee, Board of Directors and shareholders approved the issuance of an additional 988,799 options to the Company's CEO based on the conditions set forth above.

   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 $2.7 million. This amount is recognized in the statement of income over the vesting period of each portion.

Note 21 - Equity (cont'd)

D. Share-based payments (cont'd)

1. (cont'd)

During August 2014, the Company's Remuneration Committee and Board of Directors approved the issuance of an additional 1,798,887 options to an officer, senior managers, and additional employees of the Company and of Company subsidiaries, in accordance with the conditions set forth above.

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 $4.5 million. This amount is recognized in the statement of income over the vesting period of each portion.

During November 2014, the Company's Board of Directors approved the issuance of an additional 361,808 options to senior employees of the Company and of Company subsidiaries in accordance with the conditions set forth above.

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 $0.5 million. This amount is recognized in the statement of income over the vesting period of each portion.

2. Set forth below is the movement in the options in 2014:

	2014 Plan				
	First grant	Second grant	Third grant	Fourth grant	Total
Balance as of January 1, 2014	–	–	–	–	–
Granted during the year	9,322,227	988,799	1,798,887	361,808	12,471,721
Forfeited during the year	1,721,344	–	–	–	1,721,344
Total options outstanding as of December 31, 2014	7,600,883	988,799	1,798,887	361,808	10,750,377

3. The parameters used in application of the binomial model are as follows:

	2014 Plan			
	First grant	Second grant	Third grant	Fourth grant
Share price (dollars)	19.08	19.87	21.31	16.00
Original exercise price (dollars)*	19.00	19.00	19.00	19.00
Expected volatility	37.59%	38.00%	36.93%	35.85%
Risk free interest rate	2.47%	2.07%	1.93%	1.91%
Economic value on the grant date (thousands of dollars)	21,013	2,729	4,477	494

* The exercise price is 3.12 options exercisable for one share.

The fair value of the options granted, as stated above, was estimated using a binomial model for pricing options.

Note 21 - Equity (cont'd)

D. Share-based payments (cont'd)

3. (cont'd)

The model's assumptions include the share price on the measurement date, the exercise price of the instrument, the early exercise condition (on the basis of past experience and the general behavior of the holders of the options), anticipated volatility on the basis of historic information of similar companies and the risk-free interest rate (on the basis of debentures of the U.S. government). Service conditions that are not market conditions are not taken into account when determining the fair value.

Based on generally accepted accounting principles, the cost of the benefit in respect of the options is calculated only once, based on their economic value on the grant date, is charged to expense over the period up to the vesting date and does not change and is not impacted by changes in the share price or actual exercise ability.

The total salaries expenses in respect of share-based payments recorded as salaries expenses in 2014 amounts to $7,984 thousand.

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.

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, 2014 is $868,444 thousand.

F. Dividend distribution policy

In the closing date of the merger transaction, the dividend distribution policy prescribed in the shareholder agreement and the Company's bylaws took effect, whereby subject to the provisions of the bylaws and the provisions of the Companies Law, the Board of Directors will be allowed, from time to time, to declare and cause the Company to pay a dividend for any fiscal period, as the Board of Directors will find appropriate in a justifiable manner, considering the Company's earnings. Subject to all laws and the Company's reasonable liquidity needs, the Company will declare an annual dividend that will not be less than 40% of that year's annual earnings, since the IPO has not been completed within three years from the closing of the merger transaction (October 17, 2011), commencing from the first fiscal year after the third anniversary of the closing of the merger transaction (i.e., 2015), subject to all laws and reasonable cash flow requirements applicable to the Company, the Company will declare an annual dividend at an amount that will not be less than 80% of the Company's earnings in that year, beginning with the first fiscal year after that date.

Note 21 - Equity (cont'd)

F. Dividend distribution policy (cont'd)

Pursuant to the securitization agreement (as defined in Note 4) as amended, so long as the ratio of the interest-bearing financial liabilities to the EBITDA exceeds 3.3, the Company will not distribute a dividend to its shareholders and will see to it that its related companies do not distribute a dividend to their shareholders, or do not make any other distribution, and will not pay management fees, except in the ordinary course of business and on market terms.

Note 22 - Revenues

	For the year ended December 31		
	2014	2013	2012
	$ thousands	$ thousands	$ thousands
Sales outside of Israel	**3,118,093**	2,967,174	2,730,101
Sales in Israel	**103,205**	109,181	104,402
	3,221,298	3,076,355	2,834,503

Note 23 - Cost of Sales

	For the year ended December 31		
	2014	2013	2012
	$ thousands	$ thousands	$ thousands
Materials and commercial inventory	**1,767,501**	1,733,433	1,620,338
Salaries and related expenses	**118,120**	112,275	107,867
Outsourcing	**76,517**	79,282	79,891
Other production expenses	**160,856**	160,409	162,763
Depreciation	**55,017**	51,565	47,490
	2,178,011	2,136,964	2,018,349
Change in finished goods, commercial inventory and work in process	**17,982**	(28,682)	(83,433)
	2,195,993	2,108,282	1,934,916

Note 24 - Selling and Marketing Expenses

	For the year ended December 31		
	2014	2013	2012
	$ thousands	$ thousands	$ thousands
Salaries and related expenses	**184,386**	166,025	151,363
Commissions and delivery costs	**94,164**	83,106	91,824
Advertising and sales promotion	**54,890**	50,235	35,696
Depreciation and amortization	**105,148**	98,543	94,522
Registration	**16,886**	16,758	18,439
Professional services	**13,754**	15,513	11,700
Insurance	**13,524**	12,347	12,408
Royalties	**2,005**	2,709	2,540
Other	**85,824**	76,814	68,581
	570,581	522,050	487,073

Note 25 - General and Administrative Expenses

	For the year ended December 31		
	2014	2013	2012
	$ thousands	$ thousands	$ thousands
Salaries and related expenses	**46,911**	50,148	42,342
Depreciation and amortization	**5,214**	5,112	5,002
Bad and doubtful debts	**6,740**	3,326	7,894
Professional services	**19,485**	24,650	20,159
Insurance, tax and fees	**4,086**	3,495	2,960
Other	**29,497**	27,754	23,163
	111,933	114,485	101,520

Note 26 - Research and Development Expenses

	For the year ended December 31		
	2014	2013	2012
	$ thousands	$ thousands	$ thousands
Salaries and related expenses	**16,692**	16,097	13,543
Field tests	**2,444**	2,542	4,487
Professional services	**6,717**	6,556	5,006
Materials	**393**	910	589
Other	**7,308**	7,562	6,503
	33,554	33,667	30,128

Note 27 - Financing Expenses, Net

	For the year ended December 31		
	2014	2013	2012
	$ thousands	$ thousands	$ thousands
Financing Income:			
Interest income on trade receivables, net	**23,651**	18,794	12,449
Interest income on investments from banks and others	**5,677**	4,566	7,492
Net change in fair value of derivative financial assets	**15,941**	108,574	64,255
Exchange rate differences, net	**74,620**	–	33,016
CPI income in respect of debentures	**7,768**	223	4,237
Interest income in respect of plan assets	**559**	454	561
Other income	**508**	–	–
Financing income recorded in the income statement	**128,724**	132,611	122,010
Financing expenses:			
Loss in respect of sale of trade receivables	**6,931**	6,568	7,553
Revaluation of put options, net	**3,563**	10,878	1,327
Interest expenses on debentures	**60,857**	67,025	59,907
CPI expenses on debentures	**6,957**	19,270	16,253
Interest expenses on short and long-term loans	**38,429**	35,082	35,095
Exchange rate differences, net	**19,106**	129,428	76,318
Interest expenses on post-employment benefits	**1,995**	2,088	2,154
Net change in fair value of derivative financial assets	**109,160**	–	29,992
Fundraising costs	**3,537**	–	–
Other expenses	**2,158**	2,837	3,662
Financing expenses recorded in the income statement	**252,693**	273,176	232,261
Financing expenses, net recorded in the income statement	**123,969**	140,565	110,251

Note 28 - Transactions and Balances with Related and Interested Parties

A. Transactions with interested parties

Following the closing of the merger transaction in October 2011, as described in Note 19A(7) the Company is 60%-held by CNAC (through an indirect subsidiary) and 40%-held by Koor Industries Ltd. ("Koor") (see Regulation 21A to Part D of the Periodic Report).

Negligible transactions

Pursuant to Regulation 41(a)(6) to the Securities Regulations (Annual Financial Statements), 2010 ("the Financial Statements Regulations"), on March 10, 2009, the Company's Board of Directors adopted for the first time guidelines and rules, as detailed below, for classification of a transaction of the Company or its subsidiary (hereinafter – "the Group") with an interested party therein as a negligible transaction.

Determination of the said benchmarks is made together with determination of transaction that might constitute negligible transactions and, therefore, that are approved in advance every year, as detailed below.

These updated rules and guidelines, which are updated from time to time, also serve to evaluate the scope of the disclosure in the periodic report and in the prospectus (including in a shelf offering) related to a transaction of the Company, a corporation it controls and its related company, with a controlling shareholder, or the controlling shareholder has a personal interest in its approval, as provided in Regulation 22 of the Securities Regulations (Periodic and Immediate Reports), 1970 ("the Periodic Reports Regulations") and in Regulation 54 of the Securities Regulations (Details of Prospectus and Draft Prospectus – Structure and Form), 1969 ("the Prospectus Details Regulations"), and to evaluate the need to file an immediate report for such a transaction of the Company, as provided in Regulation 37A(6) of the Periodic Reports Regulations (Types of Transactions Provided in the Financial Statement Regulations and in the Prospectus Details Regulations mentioned previously, (hereinafter – "Interested Party Transactions").

It is clarified that pursuant to the Company's position, transactions executed by the Company or its Group companies with companies controlled by the government of China, which are not companies in the China National Chemical Corporation (hereinafter – "Chem China" or "CC") group, that are executed in the ordinary and ongoing course of the Company's business, do not constitute transactions in which the Company's controlling shareholder has a personal interest.

Types of transactions that might constitute negligible transactions

During the ordinary course of business, the Company and its subsidiaries, especially in view of the multi-branched holding structure of the Group and its diverse activities, execute or could execute interested party transactions, mainly the purchase of services (such as logistical services, shipping services, execution contractor services in the area of parking and infrastructures, travel and aviation services, operating leases of vehicles, communication services, tourism, investment portfolio management,), the purchase or rental of goods, movable property or real estate (such as, insurance products, office equipment, packagings, fuels, and food products), marketing transactions, sales, acquisition and distribution of crop protection products, raw materials, active materials and formulations used as part of the production process of the Company's products in the area of its activities, signing agreements with suppliers for development and production of materials and products in the areas of the Company's activities etc. For the most part, these are transactions that are not significant for the Group from a quantitative standpoint or from a qualitative perspective and they are generally executed on terms similar to transactions executed with third parties.

Note 28 - Transactions and Balances with Related and Interested Parties (cont'd)

A. Transactions with interested parties (cont'd)

Negligible transactions (cont'd)

Quantitative and qualitative benchmarks for classification as a negligible transaction

An interested party transaction that is not an exceptional transaction (as the term is defined in the Companies Law) shall be deemed a negligible transaction if it meets the following two-stage test: (1) qualitative test – if from the standpoint of the nature, substance and influence on the Company, is not material to the Company and there are no special considerations arising from the range of circumstances of the matter, testifying to the materiality of the transaction; (2) quantitative test (which was updated by the Company's Board of Directors on March 7, 2013) – (a) for immediate report purposes – if the ratio between the total amount of the interested party transaction to the relevant criteria is less than 0.5% and its amount does not exceed $1.25 million (however, with respect to acquisitions/sales of products, raw materials, active materials and formulas in the area of the Company's activities, which are executed in the ordinary course of business from/to companies directly or indirectly controlled by Chem China, the Company will publish an Immediate Report if the ratio of the aggregate transaction to the relevant benchmark is less than 0.5%, and the scope thereof does not exceed $3 million), as provided below; (b) for periodic report purposes – if the ratio between the total amount of transactions of that type (in annual terms) ("cumulative transaction") and the relevant criteria in the annual report is less than 0.5%, and their total does not exceed $1.25 million (in order to remove doubt – the aggregate transactions for acquisition/sale of products, raw materials, active materials and formulations will be examined for each supplier/customer separately) (however, with reference to acquisitions/sales of products, raw materials, active materials and formulas in the area of the Company's activities, which are executed in the ordinary course of business from/to companies directly or indirectly controlled by ChemChina, disclosure will be included in the Periodic Report if the ratio of the aggregate transaction to the relevant benchmark is less than 0.5%, and the scope thereof does not exceed $3 million) as provided below:

In each type of interested party transaction (including cumulative transactions of a certain type) whose classification as a negligible transaction was evaluated, the said ratio will be calculated against one or more of the relevant criteria of the certain transaction, based on the last reviewed or audited consolidated financial statements of the Company: (a) in the purchase of a fixed asset ("a non-current asset") – the amount of the transaction against total assets (in other words, total balance sheet); (b) in sale of a fixed asset ("a non-current asset") – the gain/loss from the sale against the average annual income (i.e. for four quarters) based on the last 12 quarters for which reviewed or audited financial statements were issued. In this context, the gain/loss from the transaction and the income/loss in each quarter will be calculated at their absolute value: (c) receipt of monetary liability – amount of the transaction against total liabilities in the balance sheet; (d) in the purchase/sale of products, raw materials, active materials, mixtures and formulations (except for fixed assets) or services – amount of the transaction against total revenues from sales or the cost of sales, as applicable, in the last 4 quarters for which reviewed or audited financial statements were issued.

Note 28 - Transactions and Balances with Related and Interested Parties (cont'd)

A. Transactions with interested parties (cont'd)

Negligible transactions (cont'd)

In cases in which, at the Company's discretion, none of the quantitative criteria mentioned previously are relevant for evaluating the negligibility of an interested party transaction, the transaction will be considered negligible, in accordance with another relative criterion, to be prescribed by the Company (provided that the relevant criterion calculated for the transaction will less than 0.5% and will not exceed $1.25 million). With respect to multi-year transactions, the amount of the transaction for purposes of evaluating negligibility will be calculated on an annual basis.

It is noted that even if an interested party transaction meets the above quantitative test, it will not be deemed negligible if the qualitative considerations testify to its materiality, whether from the standpoint of its impact on the Company or due to the importance of its disclosure to the investing public.

For purposes of filing Immediate Reports, the negligibility of a transaction will be examined on the basis of the specific individual transaction. For purposes of reporting in a Periodic Report, annual financial statements and a prospectus (including shelf offer reports), negligibility will be examined of the aggregate transactions on an annual basis (that is, after aggregating all the interested party transactions of the same type).

If the Company does not have available information that enables an examination of the classification of interested party transactions as negligible transactions, then the cumulative total of all the transactions of that type as a negligible transaction will be deemed a negligible transaction, unless one of the following two conditions are met: (a) the transaction itself, as an individual transaction, is not negligible; or (b) the cumulative total of the transactions is material for the Company.

Separate transactions which are interdependent, so that they are actually part of the same undertaking (for example, negotiating a group of transactions on a consolidated basis) will be examined as a single transaction.

The total transactions classified as negligible by the Company's investees will be deemed negligible also at the Company level. Transactions of the Company's investees, which have been classified by them as not negligible, will be examined against the relevant criteria at the Company level.

It is clarified that a transaction that is not in the Company's ordinary course of business, or that is not on market terms, or that may have a significant impact on the Company's profits, assets or liabilities, will not be classified as a negligible transaction.

The total transactions classified as negligible transactions by the Company's investee companies, will also be considered negligible transactions at the Company level. Transactions of the Company's investee companies that were classified by them as not being negligible transactions will be examined against the relevant benchmarks at the Company level. It is clarified that a transaction that is not in the ordinary course of the Company's business, or that is not at market terms, or that might have a material impact on the Company's profits, assets or liabilities, will not be classified as a negligible transaction.

Note 28 - Transactions and Balances with Related and Interested Parties (cont'd)

A. Transactions with interested parties (cont'd)

Negligible transactions (cont'd)

Annually, the Audit Committee will review the manner in which the instructions of this procedure are carried out by the Company and will perform sample testing of transactions that were classified as negligible by the instructions of the procedure. Within the scope of the sample testing of the said transactions, the Audit Committee will also examine the ways prices and the remaining terms of the transactions are determined, under the circumstances of the matter, and will examine the effect of the transaction on the Company's financial position and operating results. The activities of the Audit Committee pursuant to this paragraph, including the said sample testing, the manner in which it is performed, and a summary of its results and conclusions, will be disclosed in the Company's periodic report. The Company's Board of Directors will be updated regarding the procedure as part of the approval process of the financial statements.

The Company's Audit Committee will examine the need for updating the instructions of this procedure, noting the interested party transactions in which the Company has undertaken and changes in the provisions of the relevant laws.

Based on the Company's consolidated financial statements for 2014, 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 $3,266 thousand.

Transactions included in Sections 270(4) and 270(4A) of the Companies Law, 1999 ("the Companies Law") (see Regulation 21A and 22 to Part D of the Periodic Report)

(A) Transactions included in Section 270(4A) to the Companies Law

(1) Regarding the merger transaction and the agreements accompanying the merger transaction – see Note 19(A)(7).

(2) The Company entered into a number of undertakings with Clal Insurance Company Ltd. (Clal), a company controlled by I.D.B. Development Company Ltd. at market terms and in consideration of cumulative amounts that are not significant to the Company. For details regarding a policy for insurance and indemnification of interested parties – see Note 19A(1) and (2). On November 9, 2014, the Company's Remuneration Committee approved the Company's undertaking in an officers insurance policy with Clal, in accordance with the terms of the framework transaction provided by the Company's Remuneration Committee.

Note 28 - Transactions and Balances with Related and Interested Parties (cont'd)

A. Transactions with interested parties (cont'd)

Negligible transactions (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)

(3) On June 6, 2013, the Company's Audit Committee and Board of Directors and the General Meeting of the Company's shareholders approved that Mr. Chen Lichtenstein (who served at that time as the Company's Deputy CEO) may be appointed concurrently to his position with the Company to the position of President and CEO of CNAC, the Company's controlling shareholder. In addition, an arrangement was approved for prevention of a fear of a conflict of interests between Mr. Lichtenstein and the Company in connection with his appointment, as stated (hereinafter – "the Conflict of Interests Agreement"). On January 30, 2014, the Company's Board of Directors approved the appointment of Mr. Chen Lichtenstein as the Company's President and CEO (effective commencing from February 7, 2014). On March 7, 2014, Mr. Lichtenstein suspended himself from his position as the President and CEO of CNAC and it was agreed that Mr. Lichtenstein will not be entitled to receive any consideration for his services as the President and CEO of CNAC except consideration for services he provided prior to the said suspension. On April 24, 2014, and on May 11, 2014, the Company's Audit Committee and Board of Directors approved a revision of the Conflict of Interests Agreement in order to conform it to the appointment of Mr. Lichtenstein as the President and CEO of the Company and to the fact that he suspended himself from his position in CNAC.

(4) On August 4, 2013 and September 8, 2014, the Company's Audit Committee, Board of Directors and the General Meeting of the Company's shareholders approved execution of a partial tender offer for acquisition of Class B shares of Hubei Sanonda Co. Ltd. (hereinafter – "Sanonda") from public shareholders. Regarding this matter – see Note 19(A)(8).

(5) On September 30, 2014, the Company's Audit Committee and Board of Directors and the General Meeting of the Company's shareholders approved the Company's undertaking in a transaction for acquisition of companies from CNAC, as detailed in Note 19A(9).

(6) On November 9, 2014, the Company's Audit Committee, Board of Directors and shareholders approved issuance to the public of shares of the Company on the New York Stock Exchange (NYSE) (hereinafter – "the Public Issuance"). The Public Issuance was approved as a transaction in which a controlling shareholder has a personal interest, pursuant to Section 275(C) of the of the Companies Law, 1999, for the sake of caution, and since the proceeds of the Public Issuance are intended to finance the transaction consideration in respect of acquisition of companies from CNAC (see Note 19(A)(9)). On November 20, 2014, the Company gave notice that due to the market conditions, it decided to postpone the Public Issuance. For additional details regarding the Public Issuance – see Section 1.4.3 of Paragraph A of the Periodic Report.

(B) Transactions not included in Sections 270(4A) of the Companies Law and that are not negligible

(1) The Company has entered into a number of undertakings with Clal, at market terms and in exchange for cumulative amounts that are not significant to the Company, including the undertakings detailed in Section (A)(2) above.

Note 28 - Transactions and Balances with Related and Interested Parties (cont'd)

A. Transactions with interested parties (cont'd)

Negligible transactions (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 (cont'd)

(2) On March 24, 2013, the Company, through subsidiaries, signed an agreement with five suppliers of natural gas that hold the "Tamar" gas reserve, for acquisition of natural gas for operation of the Company's facilities in Israel, where as part of the said agreement the consideration for the natural gas will be split up and transferred to each of the five suppliers based on the rate of holdings of the particular supplier in the "Tamar" gas reserve. To the best of the Company's knowledge, Clal Insurance Company Ltd. and Epsilon Mutual Funds Management (1991) Ltd. (companies controlled by I.D.B. Development Company Ltd., which is the indirect controlling shareholder of Koor) are interested parties in Isramco Negev 2 – Limited Partnership, one of the natural gas suppliers under the agreement. In 2014, the amounts the Company paid to this gas supplier totalled an amount that is not significant for the Company.

(3) The Group purchases certain fuels, required for production in its plants, from Paz Oil Company Ltd., a public company in which, to the best of the Company's knowledge, in part of the year of the report, the interested parties in the Company included various companies from the I.D.B. Development Corp. Ltd. Group which is the indirect controlling shareholder Koor). The transaction is at market terms and in consideration for an amount that is not material for the Company.

(4) During 2014, and in the ordinary course of business, the Company acquired from Sanonda or a company related to it (hereinafter – "Sanonda Group") raw materials on market terms and in cumulative amounts that are not significant to the Company. Sanonda Group is a group with respect to which CC is an interested party.

(5) During 2014, and in the ordinary course of business, the Company sold its products to Cresud S.A. and Futuro Y Opciones.Com S.A.C.I.F.y. A., companies operating in Argentina, which to the best of the Company's knowledge are companies controlled by Mr. Eduardo Elstein (one of the controlling shareholders of I.D.B. Development Company Ltd., which is the indirect controlling shareholder of Koor).

(6) Subsequent to the date of the statement of financial position, on February 2, 2015, the Company signed a contracting agreement with China Bluestar Lehigh Engineering Corp. (hereinafter – "Bluestar"), a company from the Chemchina Group, whereby Bluestar will perform infrastructure work along with construction of storage facilities and auxiliary buildings for a formulation structure being constructed by the Company in China. In exchange for performance of the work, the Company will pay Bluestar $10 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 a transaction that is not unusual.

Note 28 - Transactions and Balances with Related and Interested Parties (cont'd)

A. Transactions with interested parties (cont'd)

Provided below are details of transactions with related and interested parties:

	For the year ended December 31		
	2014	2013	2012
	$ thousands	$ thousands	$ thousands
Interested Parties*			
Revenues	**2,858**	196	409
Expenses	**20,942**	34,405	43,235
Equity-Accounted Investee Companies*			
Revenues	**27,675**	23,036	–
Expenses	**2,212**	384	–

* Transactions with an equity-accounted investee company that is also part of the CC Group are included as part of transactions with interested parties.

B. Benefits to interested parties

	For the year ended December 31		
	2014	2013	2012
	$ thousands	$ thousands	$ thousands
Salaries and related benefits to interested party employed by the Group	**2,078**	2,504	2,300
Number of interested parties	**2**	1	1
Expenses from options to interested party employed by the Group	**1,251**	–	–
Number of interested parties	**1**	–	–
Fees to other directors	**363**	252	124
Number of directors	**4**	4	3

C. Balances with related and interested parties

	December 31 2014	December 31 2013
	$ thousands	$ thousands
Interested Parties*		
Trade receivables	**1,226**	89
Trade payables	**7,175**	4,523
Equity-Accounted Investee Companies*		
Trade receivables	**6,465**	6,046
Loans granted	**7,474**	7,691
Trade payables	**67**	104

* 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)

D. Guarantees for debts of equity-accounted investee company

The Company has provided a guarantee for the debts of an equity-accounted investee company, in the amount of up to $17,250 thousand.

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, social and salary-related benefits and options granted.

The benefits attributed to the key management personnel are comprised as follows:

	2014	2013	2012
	$ thousands	$ thousands	$ thousands
Direct salary	**4,352**	4,979	4,364
Short-term bonuses*	**3,598**	6,041	5,374
Post-employment benefits and others	**2,035**	2,375	1,744
Share-based payments**	**4,069**	–	–
	14,054	13,395	11,482

* The bonuses are based on the operating results of the Group.

** The cost of the benefit to each officer from share-based payments is calculated only once, according to the economic value of the options on the grant date. The cost is amortized over the vesting period until the vesting date and does not change and is not affected by changes in the price of the share or the ability to exercise.

Note 29 - Financial Instruments

A. General

The Group has extensive international operations, and, therefore, it is exposed to credit risks, liquidity risks and market risks (including currency risk, interest risk and other price risk). In order to reduce the exposure to these risks, the Group uses financial derivatives instruments, including forward transactions, swaps and options (hereinafter – "derivatives").

Transactions in derivatives are undertaken with major financial institutions in and outside of Israel and, therefore, in the opinion of Group Management the credit risk in respect thereof is low.

This note provides information on the Group's exposure to each of the above risks, the Group's objectives, policies and processes regarding the measurement and management of the risk. Additional quantitative disclosure is included throughout 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

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 risks and methods for managing the risks are reviewed regularly, in order to reflect changes in market conditions and the Group's activities. The Group, through training, and management standards and procedures, 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 financial statements contain specific provisions for doubtful debts, which properly reflect, in management's estimate, the loss embedded in debts, the collection of which is doubtful.

The Company entered into an agreement for the sale of trade receivables in a securitization transaction. For details – see Note 4.

In April 2014, 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 1.7% (2013 and 2012 – 1.7% and 2.7%, respectively) 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 where necessary it executes transactions to limit its exposure to customers in countries having significantly unstable economies.

The Group recognizes an impairment provision, which reflects its assessment of losses sustained from trade receivables and other receivables and investments. The key elements of this provision are specific losses related to specific significant exposure, and examination of the need for a general loss provision to be determined for groups of similar assets regarding losses sustained but yet identified. The general loss provision is determined based on historical information regarding payment statistics relating to events that occurred in the past.

Cash and deposits in banks
The Company holds cash and deposits in banks with a high credit rating. These banks are also required to comply with capital adequacy or maintenance of a level of security based on different situations.

Guarantees
The Company’s policy is to provide financial guarantees only to investee companies.

(1) Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure notwithstanding the carrying amount of security. The maximum exposure to credit risk at the reporting date was as follows:

	December 31 2014	December 31 2013
	Book value in thousands $	
Cash and cash equivalents	**405,276**	379,386
Short-term investments	**11,008**	11,063
Receivables in respect of short-term hedging transactions	**167,986**	11,512
Receivables in respect of long-term hedging transactions	**9,448**	929
Trade receivables	**1,073,735**	979,497
Non-current trade receivables	**12,492**	12,088
Long-term deposits	–	52,500
Long-term loans	**7,743**	8,011
	1,687,688	1,485,986

The above balances are included in cash and cash equivalents, short-term investments, trade receivables, accounts receivable, including derivatives and other financial investments.

Note 29 - Financial Instruments (cont'd)

B. Credit risk (cont'd)

(1) Exposure to credit risk (cont'd)

The maximum exposure to credit risk for trade receivables at the reporting date, according to geographic regions was as follows:

	December 31 2014	December 31 2013
	$ thousands	$ thousands
Israel	**35,361**	38,948
Latin America	**471,320**	421,122
Europe	**253,601**	251,245
North America	**140,826**	125,325
Asia Pacific and Africa	**185,119**	154,945
	1,086,227	991,585

The Group's most significant customer is an agricultural corporation that constitutes $21,221 thousand out of the total carrying value of trade receivables as of December 31, 2014 (as of December 31, 2013 – $21,022 thousand).

(2) Aging of receivables and allowance for doubtful accounts

Presented below is the aging of trade receivables:

	December 31 2014	December 31 2013
	$ thousands	$ thousands
Not past due	**971,313**	882,111
Past due by less than 90 days	**93,068**	95,089
Past due by more than 90 days	**57,517**	61,256
	1,121,898	1,038,456

The movement in the provision for doubtful accounts during the year was as follows:

	2014	2013
	$ thousands	$ thousands
Balance as of January 1	**46,871**	64,273
Additions during the year	**6,740**	3,326
Write-off of bad debts	**(14,772)**	(14,343)
Transition from proportionate consolidation to the equity method of accounting	–	(527)
Exchange rate differences	**(3,168)**	(5,858)
Balance as of December 31	**35,671**	46,871

Note 29 - Financial Instruments (cont'd)

C. Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting its financial obligation when they come due. The Group's approach to managing its liquidity risk is to assure, to the extent possible, an adequate degree of liquidity for meeting its obligations timely, under ordinary conditions and under pressure conditions, without sustaining unwanted losses or hurting its reputation.

The cash-flow forecast is determined both at the level of the various entities as well as 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 benchmarks with which it is required to comply with. These forecasts take into consideration matters such as the Company’s plans to use debt for financing its activities, compliance with required financial covenants, compliance with certain liquidity ratios and compliance with external requirements such as laws or regulation.

The surplus cash held by the Group companies, which is not required for financing the current ongoing operations, 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, 2014						
	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	**10,234**	**10,430**	**10,430**	**–**	**–**	**–**	**–**
Short-term loans from banks	**286,587**	**289,285**	**289,285**	**–**	**–**	**–**	**–**
Trade payables	**650,829**	**650,829**	**650,829**	**–**	**–**	**–**	**–**
Other payables	**383,221**	**383,221**	**383,221**	**–**	**–**	**–**	**–**
Debentures (1)	**1,004,660**	**1,601,798**	**156,517**	**149,886**	**41,232**	**41,232**	**1,212,932**
Long-term loans from banks (1)	**338,415**	**377,611**	**88,145**	**101,009**	**65,311**	**86,664**	**36,483**
Other long-term liabilities (1)	**21,721**	**28,628**	**328**	**487**	**20,428**	**459**	**6,926**
Derivative financial liabilities							
Foreign currency derivatives	**272,585**	**272,585**	**266,720**	**5,865**	**–**	**–**	**–**
CPI/dollar forward transactions	**26,783**	**26,783**	**26,783**	**–**	**–**	**–**	**–**
CPI/shekel forward transactions	**2,051**	**2,051**	**2,051**	**–**	**–**	**–**	**–**
	2,997,086	**3,643,221**	**1,874,309**	**257,247**	**126,971**	**128,355**	**1,256,341**

(1) Including current maturities

Note 29 - Financial Instruments (cont'd)

C. Liquidity risk (cont'd)

	As of December 31, 2013						
	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	6,474	6,563	6,563	–	–	–	–
Short-term loans from banks	294,458	297,036	297,036	–	–	–	–
Trade payables	641,525	641,525	641,525	–	–	–	–
Other payables	436,926	436,926	436,926	–	–	–	–
Debentures (1)	1,092,718	1,810,827	124,301	120,051	115,802	46,174	1,404,499
Long-term loans from banks (1)	344,277	381,513	110,994	88,752	80,057	40,684	61,026
Other long-term liabilities (1)	25,228	33,981	131	6,826	7,804	271	18,949
Derivative financial liabilities							
Foreign currency derivatives	33,641	33,641	23,376	10,265	–	–	–
	2,875,247	3,642,012	1,640,852	225,894	203,663	87,129	1,484,474

(1) Including current maturities

As at December 31, 2014, the Group has bank loans totaling $206 million and securitized trade receivables totaling $154.5 million, which contain financial covenants. For information on the financial covenants, see Note 20C and 20D. 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.

The Group uses foreign currency derivatives – forward transactions, swaps and currency options – in order to hedge the risk that the Dollar cash flows, which derive from existing assets and liabilities and anticipated sales and costs and projected sales, may be affected by exchange rate fluctuations.

The Group hedged a part of the estimated currency exposure for projected sales and purchases during the subsequent year. Likewise, the Group hedges most of its financial balances denominated in a non-Dollar currency. The Group uses foreign currency derivatives to hedge its currency risk, mostly with maturity dates of less than one year from the reporting date.

The Company has debentures, some of which are linked to the CPI and, therefore, an increase in the CPI, as well as changes in the 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, 2014

	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	150,533	87,830	27,811	–	21,569	117,533	–	405,276
Short-term investments	9,048	10	–	–	22	1,928	–	11,008
Trade receivables	372,411	166,735	184,817	–	34,909	314,863	–	1,073,735
Financial and other assets including derivatives*	226,434	12,580	12,933	–	17,132	25,462	22,024	316,565
Current tax assets	4,047	2,546	–	–	55	7,072	–	13,720
Inventories	–	–	–	–	–	–	1,229,591	1,229,591
Investments, loans and other long-term debt balances (including current maturities)	19,129	2,588	21,068	–	32	2,326	99,541	144,684
Deferred tax assets	–	–	–	–	–	–	79,623	79,623
Fixed assets	–	–	–	–	–	–	766,456	766,456
Intangible assets	–	–	–	–	–	–	703,891	703,891
	781,602	272,289	246,629	–	73,719	469,184	2,901,126	4,744,549
Liabilities –								
Loans and credit from banks (not including current maturities)	128,215	48,921	16,719	–	17,029	85,937	–	296,821
Trade payables	319,516	114,700	27,386	–	139,722	49,505	–	650,829
Other payables*	383,650	78,330	30,064	5,565	85,923	73,092	3,190	659,814
Current tax liabilities	13,854	3,112	6,389	–	4,609	6,357	–	34,321
Put option to holders of non-controlling interests	34,374	5,268	–	–	–	2,176	–	41,818
Loans from banks (including current maturities)	334,809	30	3,075	–	–	501	–	338,415
Debentures (including current maturities)	–	–	–	800,615	204,045	–	–	1,004,660
Other long-term liabilities (including current maturities)	18,210	798	6,775	–	205	3,282	–	29,270
Deferred tax liabilities	–	–	–	–	–	–	19,695	19,695
Employee benefits	427	3,946	–	–	60,820	5,264	–	70,457
	1,233,055	255,105	90,408	806,180	512,353	226,114	22,885	3,146,100

* 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, 2013

	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	90,299	81,513	39,174	41	31,489	136,870	–	379,386
Short-term investments	9,201	11	–	481	–	1,370	–	11,063
Trade receivables	384,283	163,136	141,092	–	39,455	251,531	–	979,497
Financial and other assets including derivatives*	34,014	28,082	10,653	16	24,108	20,233	20,164	137,270
Current tax assets	2,265	1,957	–	–	10	8,249	–	12,481
Inventories	–	–	–	–	–	–	1,218,200	1,218,200
Investments, loans and other long-term debt balances (including current maturities)	61,233	2,899	23,813	–	611	1,602	99,853	190,011
Deferred tax assets	–	–	–	–	–	–	82,101	82,101
Fixed assets	–	–	–	–	–	–	723,194	723,194
Intangible assets	–	–	–	–	–	–	723,698	723,698
	581,295	277,598	214,732	538	95,673	419,855	2,867,210	4,456,901
Liabilities –								
Loans and credit from banks (not including current maturities)	126,996	55,394	–	–	19,371	99,171	–	300,932
Trade payables	371,610	109,305	17,571	–	105,836	37,203	–	641,525
Other payables*	104,482	84,039	34,020	7,548	105,237	79,924	492	415,742
Current tax liabilities	8,654	8,836	7,534	1,071	7,657	5,706	–	39,458
Put option to holders of non-controlling interests	58,624	6,445	–	–	–	6,428	–	71,497
Loans from banks (including current maturities)	336,434	1,980	4,462	–	–	1,401	–	344,277
Debentures (including current maturities)	–	–	–	896,585	196,133	–	–	1,092,718
Other long-term liabilities (including current maturities)	19,398	7,882	10,452	363	–	3,016	–	41,111
Deferred tax liabilities	–	–	–	–	–	–	19,450	19,450
Employee benefits	130	3,160	563	–	78,790	3,395	–	86,038
	1,026,328	277,041	74,602	905,567	513,024	236,244	19,942	3,052,748

* Regarding the group's exposure to linkage and currency risks of financial derivatives – see Note 29D(1)(b) below.

Note 29 - Financial Instruments (cont'd)

D. Market risks (cont'd)

(1) 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, 2014				
	Currency/ linkage receivable	Currency/ linkage payable	Average expiration date	Par value	Fair value
				$ thousands	$ thousands
Forward foreign currency contracts and call options	USD	EUR	07/26/2015	**622,906**	**(10,564)**
	USD	PLN	03/27/2015	**90,326**	**10,190**
	USD	BRL	05/22/2015	**153,000**	**34**
	USD	GBP	05/09/2015	**75,104**	**1,447**
	ILS	USD	03/30/2015	**1,205,873**	**(110,790)**
	USD	OTHERS		**340,394**	**14,534**
CPI forward contracts	CPI	ILS	01/30/2015	**321,419**	**(2,051)**
CPI and foreign currency forward contracts	NIS linked	USD	04/30/2015	**216,027**	**(26,783)**

	December 31, 2013				
	Currency/ linkage receivable	Currency/ linkage payable	Average expiration date	Par value	Fair value
				$ thousands	$ thousands
Forward foreign currency contracts and call options	USD	EUR	09/07/2014	807,960	(25,637)
	USD	PLN	04/12/2014	78,727	(5,813)
	USD	BRL	05/22/2014	152,287	2,732
	USD	GBP	05/09/2014	82,775	(2,164)
	ILS	USD	03/30/2014	999,069	17,227
	USD	OTHERS		226,122	4,280
CPI forward contracts	CPI	ILS	01/30/2014	28,810	16
CPI and foreign currency forward contracts	NIS linked	USD	04/30/2014	399,778	18,229

Presented below are data on Consumer Price Index in Israel and significant exchange rates:

	December 31			Average 1-12		
	2014	2013	Change in 2014	2014	2013	Change in 2014
EUR\USD	**1.215**	1.378	11.8%	**1.327**	1.328	0.0%
USD/BRL	**2.656**	2.343	13.4%	**2.354**	2.158	9.1%
USD/PLN	**3.507**	3.012	16.4%	**3.155**	3.159	(0.1%)
USD/ZAR	**11.557**	10.531	19.7%	**10.836**	9.631	12.5%
AUD/USD	**0.819**	0.894	8.3%	**0.901**	0.965	6.6%
GBP/USD	**1.559**	1.654	5.7%	**1.647**	1.564	5.3%
USD/ILS	**3.889**	3.471	12.0%	**3.571**	3.607	(1.0%)
Known Index in Israel	**124.325**	124.446				
In respect of Index in Israel	**124.325**	124.568				

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 2013 was done on the same basis.

	December 31, 2014			
	Decrease of 5%		Increase of 5%	
	Equity	Profit (loss)	Equity	Profit (loss)
	$ thousand	$ thousand	$ thousand	$ thousand
New Israeli shekel	**6,481**	**(4,357)**	**(2,462)**	**8,331**
British pound	**(1,370)**	**869**	**1,289**	**(951)**
Euro	**(24,185)**	**(3,649)**	**22,758**	**(3,444)**
Brazilian real	**(159)**	**(159)**	**(690)**	**(690)**
Polish zloty	**(3,495)**	**(1,033)**	**3,495**	**1,033**
Consumer Price Index in Israel	**19,009**	**19,009**	**(19,009)**	**(19,009)**

	December 31, 2013			
	Decrease of 5%		Increase of 5%	
	Equity	Profit (loss)	Equity	Profit (loss)
	$ thousand	$ thousand	$ thousand	$ thousand
New Israeli shekel	5,210	503	5,222	6,078
British pound	(1,495)	1,168	1,488	(1,175)
Euro	(45,754)	(3,004)	44,063	1,863
Brazilian real	1,878	1,878	(1,798)	(1,798)
Polish zloty	(4,784)	(655)	4,735	650
Consumer Price Index in Israel	26,724	26,724	(26,724)	(26,724)

(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	
	2014	2013
	Carrying amount	Carrying amount
	$ thousands	$ thousands
Fixed-rate instruments – unlinked to the CPI		
Financial assets	**2,985**	55,235
Financial liabilities	**(290,854)**	(274,853)
	(287,869)	(219,618)
Fixed-rate instruments – linked to the CPI		
Financial liabilities	**(800,615)**	(896,585)
Variable-rate instruments		
Financial assets	**14,642**	16,054
Financial liabilities	**(548,427)**	(566,489)
	(533,785)	(550,435)

(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:

	2014								
	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:	**36,187**	**36,187**	**33,642**	**653**	**1,892**	**–**	**–**	**–**	**–**

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.

	2014								
	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:	**(1,443)**	**(1,443)**	**(240)**	**(241)**	**(481)**	**(481)**	**–**	**–**	**–**
Forward contracts and options on exchange rates:	**34,565**	**34,565**	**33,624**	**663**	**278**	**–**	**–**	**–**	**–**
	33,122	**33,122**	**33,384**	**422**	**(203)**	**(481)**	**–**	**–**	**–**

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:

	2013								
	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:	(36,123)	(36,123)	(19,220)	(4,102)	(12,801)	–	–	–	–

The table below presents the periods in which cash flows that are related to the derivatives used to hedge cash flows are expected to impact income or loss.

	2013								
	Carrying 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:	(1,924)	(1,924)	(240)	(241)	(481)	(481)	(481)	–	–
Forward contracts and options on exchange rates:	(36,719)	(36,719)	(19,630)	(4,282)	(12,807)	–	–	–	–
	(38,643)	(38,643)	(19,870)	(4,523)	(13,288)	(481)	(481)	–	–

Note 29 - Financial Instruments (cont'd)

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, 2014		December 31, 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
	$ thousands	$ thousands	$ thousands	$ thousands
Financial assets				
Long-term loans and other receivables (a)	**17,281**	**14,254**	83,425	76,328
Financial liabilities				
Long-term loans (b)	**337,403**	**345,978**	354,429	365,099
Debentures (c)	**1,004,660**	**1,139,653**	1,092,718	1,188,219

(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, 2014
	In %
Brazilian real interest	**13.56 – 15.60**
U.S. dollar interest	**1.70 – 6.72**
Euro interest	**1.32 – 4.15**

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, 2014
	$ thousands
Derivatives used for hedging:	
Forward contracts and options	**36,187**
Derivatives not used for hedging:	
Forward contracts and options	**(160,170)**
	(123,983)

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, 2014			
	Crop Protection	Other	Reconciliations	Consolidated
	$ thousands	$ thousands	$ thousands	$ thousands
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 company				**5,885**
Income taxes				**(46,902)**
Non-controlling interests				**390**
Net income for the year attributable to the owners of the Company				**146,405**

	For the year ended December 31, 2013			
	Crop Protection	Other	Reconciliations	Consolidated
	$ thousands	$ thousands	$ thousands	$ thousands
Revenues				
External revenues	2,876,198	200,157	–	3,076,355
Inter-segment revenues	–	1,165	(1,165)	–
Total revenues	2,876,198	201,322	(1,165)	3,076,355
Results				
Segment's results	292,884	15,905	200	308,989
Financing expenses, net				(140,565)
Share of income of equity-accounted investee company				3,197
Income taxes				(44,550)
Non-controlling interests				177
Net income for the year attributable to the owners of the Company				127,248

Note 30 - Segment Reporting (cont'd)

A. Products and services: (cont'd)

	For the year ended December 31, 2012			
	Crop Protection	Other	Reconciliations	Consolidated
	$ thousands	$ thousands	$ thousands	$ thousands
Revenues				
External revenues	2,648,673	185,830	–	2,834,503
Inter-segment revenues	–	1,103	(1,103)	–
Total revenues	2,648,673	186,933	(1,103)	2,834,503
Results				
Segment's results	271,134	10,269	188	281,591
Financing expenses, net				(110,251)
Share of losses of equity-accounted investee company				(9,603)
Income taxes				(39,164)
Non-controlling interests				(110)
Net income for the year attributable to the owners of the Company				122,463

B. Information on geographical segments:

Presented below are sales revenues according to geographic segments based on the location of the customers (sales targets):

	For the year ended December 31		
	2014	2013	2012
	$ thousands	$ thousands	$ thousands
Europe	**1,186,714**	1,140,346	1,092,373
North America	**544,825**	516,153	497,542
Latin America	**822,537**	757,518	642,906
Asia Pacific and Africa	**564,017**	553,157	497,280
Israel	**103,205**	109,181	104,402
	3,221,298	3,076,355	2,834,503

Note 31 - Investments in Investees

Additional details in respect of subsidiaries directly held by the Company

	December 31, 2014			
	Country of association	Company equity rights	Loans to investees	Investments in investees
		%	$ thousands	$ thousands
Adama Makhteshim Ltd.	Israel	100	**322,880**	**944,057**
Adama Agan Ltd.	Israel	100	**402,690**	**633,021**
Lycored Ltd.	Israel	100	**–**	**101,800**
			725,570	**1,678,878**

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 $427 million.

	December 31, 2013			
	Country of association	Company equity rights	Loans to investees	Investments in investees
		%	$ thousands	$ thousands
Adama Makhteshim Ltd.	Israel	100	306,666	833,327
Adama Agan Ltd.	Israel	100	406,911	552,344
Lycored Ltd.	Israel	100	–	98,026
			713,577	1,483,697

Note 32 - Subsequent Events

Subsequent to the date of the report, the Company issued 533,330 units comprised of 533.3 million par value debentures (Series B), which were issued by means of an expansion and 2,667 thousand non-marketable options. Every option is exercisable for NIS 100 par value debentures (Series B) for a consideration of NIS 127, and in total the said options are exercisable for NIS 266.7 million par value debentures (Series B).

The options will not be registered for trading on the stock exchange and will be exercisable up to May 10, 2015.

The net proceeds from the issuance amounted to about $175 million.

The debentures (Series B) are linked to the CPI, bear interest at the annual base rate of 5.15%, the principal of the debentures is to be repaid in 17 equal payments in the years 2020 through 2036. The issuance expenses in this issuance amounted to $597 thousand.

As of the publication date of the financial statements, 438.5 thousand options were exercised for NIS 43.8 million par value debentures (Series B). The total net proceeds amounted to about $14 million.

Appendix to the Financial Statements as of December 31, 2014

Holding company	Investee company	Control rate and ownership of holding company %
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
	Target Gene Biotechnologies Ltd.	50.1
	Energin.R Technologies 2009 Ltd.	15
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	Adama Celsius B.V. (hereinafter – Celsius)	100
Agan	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 Hulle	100
Makhteshim and Agan in equal parts	Adama Agriculture B.V.	100
Celsius	Adama Irvita N.V. (hereinafter – Irvita)	100
	Adama Korea Inc.	51
	Adama Vietnam Limited Company	100
	Adama Agriculture Slovensko Spol s.r.o.	100
	Adama Turkey Tarm Sanayi ve Ticaret Limited Sirketi	100
	Adama Jiangsu Agricultural Solutions Company Limited	100

Holding company	Investee company	Control rate and ownership of holding company %

B. Foreign consolidated subsidiaries (cont'd)

Holding company	Investee company	%
Fahrenheit	Adama Quena N.V. (hereinafter – Quena)	100
Fahrenheit and Celsius in equal parts	Magan HB B.V.	100
	Adama Argentina S.A.	100
	Kollant s.r.l.	100
	MACEE k.f.t.	100
	Adama Andina B.V.	100
Fahrenheit 30%, Celsius 30% and Adama Agriculture B.V. 40%	Adama Agriculture Espana S.A.	100
Magan HB B.V.	Adama Brasil S.A.	100
MACEE k.f.t.	Adama Hungary z.r.t.	100
Adama Andina B.V.	Adama Adnina B.V. Sucursal Colombia	100
	Adama Andina B.V. Sucursal Ecuador	100
	Proficol Venezuela S.A.	100
	Adama Agriculture Peru S.A.	100
Adama Andina B.V. Sucursal Ecuador	Adama Ecuador Adamacudor S.A.	100
Adama Ecuador Adamacudor S.A.	Agroprotection Andina S.A.S	90
Agroprotection Andina S.A.S.	Servicidas de Colombia S.A.	100
Fahrenheit and Adama Agriculture B.V.	Adama Mozambique Lda	100
Adama Agriculture B.V.	Agricur Defensivos Agricolas Ltd.	100
	Adama New Zealand Ltd.	100
	Agrovita Spol 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 ACC S.A.	100
	Adama Dominican Republic S.A.	100
	Adama France S.A.S.	100
	Adama Guatemala S.A.	100
	Adama Registrations B.V.	100
	Adama India Private Ltd.	100
	Adama Italia S.R.L.	100
	Adama Japan K.K.	100
	Makhteshim Agan de Mexico S.A.	100
	Makhteshim Aga of North America Inc.	100
	Adama Paraguay S.R.L.	100
	Adama Polska SP Z.O.O	100

Appendix to the Financial Statements as of December 31, 2014

Holding company	Investee company	Control rate and ownership of holding company %
B. Foreign consolidated subsidiaries (cont'd)		
Adama Agriculture B.V. (cont'd)	ADAMA Portugal Lda.	100
	Adama Agricultural Solutions S.R.L.	100
	Makhteshim Agan (Shanghai) Trading Co Ltd.	100
	Adama South Africa PTY Ltd.	100
	Adama Agricultural Swiss AG	100
	Adama Asia Pacific Pte Ltd.	100
	Adama (Thailand) Ltd.	100
	Adama Agricultural Solutions UK Ltd.	100
	Adama Ukraine LLC	100
	Makhteshim Agan Venezuela S.A.	100
	Adama West Africa Ltd.	100
	Adama East Africa Ltd.	100
	Adama Agricultural Solutions Chile SPA	100
	Adama Plant Protection Services Zambia Limited	99.9
	Adama Zimbabwe Ltd.	99.9
Adama Agricultural Solutions Chile SPA	Chileagro Bioscience Inc.	100
Chileagro Bioscience Inc.	Adama Chile SA	60
Adama India Private Ltd.	Royal Agro Indonesia PT	100
Magan Holding Germany GmbH	Feinchemie Schwebda GmbH	100
	Makhteshim Agan Deutschland GmbH	100
Makhteshim Agan de Mexico S.A.	Adama Servicios S.A. DE C.V. (the balance of 1.4% is held by Adama Agriculture B.V.)	98.6
	Plant Protection, SA DE C.V (the balance of 1% is held by Adama Agriculture B.V.)	99
	Servicios Ingold S.A DE C.V. (the balance of 1% is held by Adama Agriculture B.V.)	99
	Ingennieris Industrial S.A DE C.V.	99
Servicios Ingold S.A DE C.V.	Nangaru S.A. DE C.V.	100
Makhteshim Agan de Mexico S.A., Servicios Ingold, Plant Protection and Ingennieris Industrial	Integradora Bravo S.A. DE C.V.	100
Adama Northern Europe B.V.	UAB Adama Northern Europe	100

Appendix to the Financial Statements as of December 31, 2014

Holding company	Investee company	Control rate and ownership of holding company %
B. Foreign consolidated subsidiaries (cont'd)		
Makhteshim Agan of North America Inc.	Farm Saver Group	100
	Control Solutions Inc.	67.1
	Alligare LLC	80
	Adama Agricultural Solutions CANADA Ltd.	100
	Adama Inc.	100
	Bold Formulators LLC	100
Adama Australia Holdings Pty Ltd.	Adama Australia Pty Ltd. (the balance of 50% is held by Farmoz Pty Limited)	50
	Farmoz Pty Limited	100
Adama West Africa	Adama West Africa Nigeria Ltd.	100
	Adama West Africa Cote D'lvoire Ltd.	100
	Adama West Africa Pty Ltd. Burkina Faso	100
C. Jointly-controlled associated companies		
Adama Agricultural Solutions Ltd.	Biotec M.A.H. Foundation plant genome – Limited Partnership	50
Biotec M.A.H Limited Partnership	Biotec Agro Ltd.	100
Agan Aroma and Fine Chemicals Ltd.	Negev Aroma (Naot Hovav) Ltd.	50
Adama Agriculture B.V.	Alfa Agricultural Supplies S.A.	49
Alfa Agricultural Supplies S.A.	Agribul Ltd.	100
Fahrenheit	InnovAroma S.A.	50
D. Associated company		
Celsius	Hubei Sanonda Co.	10.6
Makhteshim	Claseed Ltd.	10

Makhteshim and Agan hold shares in other foreign companies that hold registration rights to certain products sold outside of Israel.

Adama Agricultural Solutions Ltd.

Separate Financial Data
As at December 31, 2014
In USD

Separate Financial Data as at December 31, 2014

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To: The Shareholders of Adama Agricultural Solutions Ltd.

Dear Sirs,

Subject: Special auditors' report on separate financial data according to Regulation 9C of the 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, 2014 and 2013 and for each of the three years, the last of which ended on December 31, 2014. 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 $117,979 thousand and $111,726 thousand as of December 31, 2014 and 2013 respectively, and the Group's share in their profits amounted to $10,108 thousand, $15,657 thousand and $15,222 thousand for each of the three years, the last of which ended December 31, 2014. 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 19, 2015

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

Separate Financial Data as at December 31, 2014

Data on Financial Position

	Note	December 31 2014 $ thousands	December 31 2013 $ thousands
Current assets			
Cash and cash equivalents	(3)	**575**	4,242
Prepaid expenses		**451**	752
Other receivables		**97,287**	39,396
Receivables from investee companies		**243,245**	281,199
Derivatives		**22,476**	28,709
Total current assets		**364,034**	354,298
Long-term investments, loans and receivables			
Investments in investee companies		**1,678,878**	1,483,697
Loans to investee companies		**725,570**	713,577
		2,404,448	2,197,274
Fixed assets		**2,900**	2,740
Intangible assets		**4,419**	2,108
Deferred tax assets	(6)	**–**	–
Total non-current assets		**2,411,767**	2,202,122
Total assets		**2,775,801**	2,556,420

Separate Financial Data as at December 31, 2014

Data on Financial Position

	Note	December 31 2014 $ thousands	2013 $ thousands
Current liabilities			
Current maturities of debentures	(4)	**102,022**	65,378
Other payables	(4)	**16,800**	32,478
Derivatives	(4)	**131,470**	–
Total current liabilities		**250,292**	97,856
Long-term liabilities			
Debentures	(4)	**923,656**	1,050,916
Employee benefits		**3,791**	4,497
Total non-current liabilities		**927,447**	1,055,413
Total liabilities		**1,177,739**	1,153,269
Equity			
Share capital		**125,595**	125,595
Share premium		**623,829**	623,829
Capital reserves		**(265,354)**	(307,096)
Retained earnings		**1,113,992**	960,823
Total equity attributable to equity holders of the Company		**1,598,062**	1,403,151
Total liabilities and equity		**2,775,801**	2,556,420

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 19, 2015

The accompanying additional information is an integral part of the separate financial data.

Separate Financial Data as at December 31, 2014

Data on Income

	Note	Year ended December 31 2014 $ thousands	2013 $ thousands	2012 $ thousands
Revenues				
Management fees from investees companies		**47,003**	34,223	29,149
Expenses				
General and administrative expenses		**48,183**	45,564	33,498
Operating loss		**(1,180)**	(11,341)	(4,349)
Financing income		**229,460**	171,578	166,508
Financing expenses		**(232,016)**	(171,466)	(168,333)
Financing income (expenses), net		**(2,556)**	112	(1,825)
Loss after financing expenses, net		**(3,736)**	(11,229)	(6,174)
Income from investee companies		**150,536**	139,184	128,556
Profit before tax on income		**146,800**	127,955	122,382
Tax on income (tax benefit)	(5)	**395**	707	(81)
Profit for the year attributable to the owners of the Company		**146,405**	127,248	122,463

The accompanying additional information is an integral part of the separate financial data.

Separate Financial Data as at December 31, 2014

Data on Comprehensive Income

	Year ended December 31		
	2014	2013	2012
	$ thousands	$ thousands	$ thousands
Profit for the year attributable to the owners of the Company	**146,405**	127,248	122,463
Other comprehensive income items that after initial recognition in comprehensive income were or will be transferred to the statement of income			
Effective portion of changes in fair value of cash flow hedges	–	7,294	3,943
Net change in fair value of cash flow hedges transferred to profit or loss	**(482)**	(7,881)	(5,482)
Other comprehensive income (loss) in respect of investee companies, net from tax	**42,743**	(48,509)	(27,490)
Taxes on other components of comprehensive income that were transferred or will be transferred to the statement of income in succeeding periods	**44**	76	(9)
Total other comprehensive income (loss) for the year that after initial recognition in comprehensive income was or will be transferred to the statement of income, net of tax	**42,305**	(49,020)	(29,038)
Other comprehensive income items that will not be transferred to the statement of income			
Re-measurement of defined benefit plan	**331**	(11)	(302)
Other comprehensive income (loss) in respect of investee companies, net of tax	**551**	134	(3,974)
Total other comprehensive income (loss) for the year that will not be transferred to the statement of income, net of tax	**882**	123	(4,276)
Total comprehensive income for the year attributable to the owners of the Company	**189,592**	78,351	89,149

The accompanying additional information is an integral part of the separate financial data.

Data on Cash Flows

	Year ended December 31		
	2014	**2013**	**2012**
	$ thousands	**$ thousands**	**$ thousands**
Cash flows from operating activities			
Profit for the year attributable to the owners of the Company	**146,405**	127,248	122,463
Adjustments			
Income from investee companies	**(150,536)**	(139,184)	(128,556)
Depreciation and amortization	**1,564**	1,572	1,666
Amortization of discount/premium and issuance costs	**(2,813)**	667	(228)
Expenses in respect of employee options	**3,974**	–	–
Adjustment of long-term liabilities	**(132,142)**	105,752	36,759
SWAP transactions	**(482)**	(7,882)	(5,481)
Change in deferred taxes, net	**44**	486	(218)
Changes in assets and liabilities			
Increase in trade and other receivables	**(46,639)**	(16,830)	(12,370)
Increase (decrease) in trade and other payables	**115,636**	12,836	(47,473)
Change in provisions and employee benefits	**(219)**	982	36
Net cash used in operating activities in respect of transactions with investee companies	**(104,603)**	(119,740)	(95,520)
Net cash used in operating activities	**(169,811)**	(34,093)	(128,922)
Cash flows from investing activities			
Acquisition of fixed assets	**(712)**	(365)	(424)
Additions to intangible assets	**(3,323)**	(1,681)	(736)
Net cash provided by (used in) operating activities in respect of transactions with investee companies	**125,829**	1,721	(869)
Net cash provided by (used in) investing activities	**121,794**	(325)	(2,029)
Cash flows from financing activities			
Issuance of debentures net of issuance costs	**146,806**	177,215	276,183
Repayment of debentures	**(99,909)**	(160,959)	(147,230)
Payment of SWAP transaction	**–**	21,309	12,242
Fundraising costs	**(2,547)**	–	–
Decrease in short-term liabilities to banks	**–**	–	(9,993)
Net cash provided by financing activities	**44,350**	37,565	131,202
Increase (decrease) in cash and cash equivalents	**(3,667)**	3,147	251
Cash and cash equivalents at beginning of the year	**4,242**	1,095	844
Cash and cash equivalents at end of the year	**575**	4,242	1,095
Supplementary information:			
Interest paid in cash	**(66,271)**	(62,848)	(61,111)
Interest received in cash	**1,769**	1,854	4,225
Taxes paid in cash, net	**(387)**	(216)	(135)

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, 2014 (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	
	2014	2013
	$ thousands	$ thousands
Cash and cash equivalents denominated in shekels	**119**	3,215
Cash and cash equivalents linked to the dollar	**455**	674
Cash and cash equivalents linked to other currency	**1**	353
Total cash and cash equivalents	**575**	4,242

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	2,751,027	821,633
Debentures – Series D	Unlinked	6.5	777,091	204,045
Total			3,528,118	1,025,678

Additional Information

4. Financial Instruments (cont'd)

A. Loans and credit (cont’d)

Maturities

	$ thousands
First year (current maturities)	102,022
Second year	102,023
Third year	–
Fourth year	–
Fifth year and thereafter	821,633
	1,025,678

B. Other payables

	December 31, 2014				
	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	**10,248**	**5,662**	**535**	**355**	**16,800**

	December 31, 2013				
	In unlinked Israeli currency	In CPI-linked Israeli currency	Denominated in or linked to dollar	Denominated in or linked to other currency	Total
	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands
Other payables	17,977	4,184	10,148	169	32,478

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 at December 31 2014						
	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	**16,800**	**16,800**	**16,800**	**–**	**–**	**–**	**–**
Debentures	**1,025,678**	**1,637,970**	**157,599**	**150,969**	**42,314**	**42,314**	**1,244,774**
Financial liabilities – financial instruments							
Derivatives in foreign currency	**102,636**	**102,636**	**102,636**	**–**	**–**	**–**	**–**
CPI/dollar forward transactions	**26,783**	**26,783**	**26,783**	**–**	**–**	**–**	**–**
CPI/NIS forward transactions	**2,051**	**2,051**	**2,051**	**–**	**–**	**–**	**–**
Total	**1,173,948**	**1,786,240**	**305,869**	**150,969**	**42,314**	**42,314**	**1,244,774**

	As at December 31 2013						
	Carrying amount	Projected cash flows	First year	Second year	Third year	Fourth year	Fifth year and above
	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands
Non-derivative financial liabilities							
Other payables	32,478	32,478	32,478	–	–	–	–
Debentures	1,116,294	1,852,615	125,515	121,265	117,016	47,388	1,441,431
Total	1,148,772	1,885,093	157,993	121,265	117,016	47,388	1,441,431

Additional Information

4. Financial Instruments (cont'd)

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:

	2014								
	Carrying amount	**Projected cash flows**	**6 months or less**	**6-12 months**	**Second year**	**Third year**	**Fourth year**	**Fifth year**	**Sixth year and above**
	$ thousands	**$ thousands**	**$ thousands**	**$ thousands**	**$ thousands**	**$ thousands**	**$ thousands**	**$ thousands**	**$ thousands**
Interest rate swap:	**(1,443)**	**(1,443)**	**(240)**	**(241)**	**(481)**	**(481)**	**–**	**–**	**–**

	2013								
	Carrying amount	**Projected cash flows**	**6 months or less**	**6-12 months**	**Second year**	**Third year**	**Fourth year**	**Fifth year**	**Sixth year and above**
	$ thousands	**$ thousands**	**$ thousands**	**$ thousands**	**$ thousands**	**$ thousands**	**$ thousands**	**$ thousands**	**$ thousands**
Interest rate swap:	(1,924)	(1,924)	(240)	(241)	(481)	(481)	(481)	–	–

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 2014				
	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	20/07/2015	**888,139**	**(80,160)**
CPI forward contract	CPI	NIS	30/01/2015	**321,419**	**(2,051)**
Forward contract on the CPI and foreign currency	NIS linked	USD	30/04/2015	**216,027**	**(26,783)**

	December 31 2013				
	Currency/ linkage receivable	Currency/ linkage payable	Average date of expiration	Par value (currency)	Fair value
				$ thousands	$ thousands
Forward foreign currency contracts and purchase options	NIS	USD	30/03/2014	679,275	10,464
CPI forward contract	CPI	NIS	30/01/2014	28,810	16
Forward contract on the CPI and foreign currency	NIS linked	USD	30/04/2014	399,778	18,229

Additional Information

4. Financial Instruments (cont'd)

E. Sensitivity analysis

A strengthening or weakening of the dollar against the shekel as at December 31 and an increase or decrease in the CPI would have increased (decreased) the shareholders' equity and the profit or loss in the amounts shown below. This analysis was made on the assumption that all the other variables, among others, the interest rates, remain constant. The analysis for 2013 was made on the same basis.

	December 31, 2014			
	Decrease of 5%		Increase of 5%	
	Equity	Profit (loss)	Equity	Profit (loss)
	$ thousands	$ thousands	$ thousands	$ thousands
Shekel	**(4,075)**	**(4,075)**	**8,714**	**8,714**
CPI	**19,107**	**19,107**	**(19,107)**	**(19,107)**

	December 31, 2013			
	Decrease of 5%		Increase of 5%	
	Equity	Profit (loss)	Equity	Profit (loss)
	$ thousands	$ thousands	$ thousands	$ thousands
Shekel	(952)	(952)	7,555	7,555
CPI	26,564	26,564	(26,564)	(26,564)

5. Income tax expenses (income)

A. Components of income tax expenses (income)

	For the year ended December 31		
	2014	2013	2012
	$ thousands	$ thousands	$ thousands
Current tax expenses (income)			
For the current period	**381**	221	137
Adjustments for prior years, net	**(30)**	–	–
	351	221	137
Deferred tax expenses (income)			
Creation and reversal of temporary differences	**44**	421	76
Changes in the tax rate	**–**	65	(294)
	44	486	(218)
Total income tax expenses (income)	**395**	707	(81)

Additional Information

5. Income tax expenses (income) (cont'd)

B. Income taxes on components of other comprehensive income

	For the year ended December 31								
	2014			2013			2012		
	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	**(482)**	**44**	**(438)**	(587)	76	(511)	(1,539)	(9)	(1,548)
Actuarial gains (losses) from defined benefit plan	**331**	**–**	**331**	(11)	–	(11)	(302)	–	(302)
Total	**(151)**	**44**	**(107)**	(598)	76	(522)	(1,841)	(9)	(1,850)

6. Deferred tax assets and liabilities

A. Deferred tax assets and liabilities recognized

Deferred tax assets and liabilities are attributed to the following items:

	Financial instruments	Total
	$ thousands	$ thousands
Deferred tax asset balance as at January 1, 2013	410	410
Changes charged to statement of income	(486)	(486)
Changes charged to other comprehensive income	76	76
Deferred tax asset balance as at December 31, 2013	–	–
Changes charged to statement of income	**(44)**	**(44)**
Changes charged to other comprehensive income	**44**	**44**
Deferred tax asset balance as at December 31, 2014	**–**	**–**

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 – "Makhteshim").

As at December 31, 2014, deferred taxes were not recognized in respect of losses for tax purposes of the Company and of Makhteshim, in the amount of $72 million (December 31, 2013 – $74 million) since it is not expected that there will be taxable income in the future against which it will be possible to utilize these benefits.

According to existing tax laws, there is no time limit on the utilization of tax losses and the utilization of temporary differences that may be deducted.

C. Final assessments

The Company and Makhteshim have received final tax assessments up to and including the 2010 tax year.

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 $410 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.

אדמה פתרונות לחקלאות בע"מ

ADAMA Agricultural Solutions Ltd.

Chapter D

Additional Information on the Corporation

Chapter D – Additional Information on the Corporation

Company name: ADAMA Agricultural Solutions Ltd. **Corporate ID No.:** 52-004360-5
Address: Golan St. Arava Building, POB 298, Airport City Park, 70100 **Fax:** 073-2321074
Telephone: 073-2321000 **Report date:** March 19, 2015
Balance sheet date: December 31, 2014

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Regulation 10A – Condensed consolidated statements of profit for each quarter of 2014 (in USD thousands)

	Year 1-12/2014	Quarter 10-12/2014	Quarter 7-9/2014	Quarter 4-6/2014	Quarter 1-3/2014
Sales revenues	3,221,298	674,158	761,489	875,950	909,701
Cost of sales	2,195,993	489,547	513,543	596,295	596,608
Gross profit	1,025,305	184,611	247,946	279,655	313,093
Other revenues	(4,711)	(2,379)	(1,319)	(576)	(437)
Selling and marketing expenses	570,581	140,104	139,291	146,007	145,179
General and administrative expenses	111,933	28,330	29,448	26,682	27,473
Research and development expenses	33,554	7,505	8,318	7,680	10,051
Other expenses (profit)	2,947	680	1,749	363	155
Total expenses	714,304	174,240	177,487	180,156	182,421
Operating profit	311,001	10,371	70,460	99,499	130,672
Finance expenses, net	123,969	35,810	33,943	29,179	25,037
Profit (loss) after finance	187,032	(25,439)	36,516	70,320	105,635
Part of profit (loss) of held company treated on equity basis	5,885	(266)	1,512	4,466	173
Pre-tax profit (loss)	192,917	(25,706)	38,028	74,786	105,808
Income taxes	46,902	10,349	14,011	15,415	7,127
Profit (loss) for the period	146,015	(36,054)	24,017	59,371	98,681
Attributed to:					
Holders of equity rights	146,405	(35,959)	24,100	59,520	98,744
Non-controlling interest	(390)	(95)	(83)	(149)	(63)
Profit (loss) for the period	146,015	(36,054)	24,017	59,371	98,681

Condensed statements of comprehensive Profit of the Company for each quarter of 2014 (in USD thousands)

	Year 1-12/ 2014	Quarter 10-12/ 2014	Quarter 7-9/2014	Quarter 4-6/2014	Quarter 1-3/2014
Profit (loss) for the period	146,015	(36,054)	24,017	59,371	98,681
Components of other comprehensive Profit that, after being recognized in the comprehensive profit, was transferred or will be transferred to profit and loss					
Foreign currency translation differences for foreign operations	(25,499)	(16,908)	(13,689)	2,371	2,727
Effective portion of changes in fair value of cash flow hedges	56,426	13,155	39,320	4,356	(405)
Net change in fair value of cash flow hedges transferred to profit and loss	14,356	(2,486)	281	8,149	8,412
Taxes on components of other comprehensive profit that were transferred or will be transferred to profit and loss in consecutive periods.	(3,023)	(1,237)	(1,809)	20	3
Total comprehensive Profit (loss) to the year after first recognized in the comprehensive profit, that was transferred or will be transferred to profit and loss, net of tax	935	4,800	(2,062)	(822)	(981)
Components of other comprehensive Profit that will not be transferred to profit and loss					
Reassessing defined benefit plan	45,229	(4,507)	24,103	14,896	10,737
Taxes on components of other comprehensive profit that will not be transferred to profit and loss	(53)	(484)	224	90	117
Total other comprehensive profit (loss) for the year, that will not be transferred to profit and loss, net of tax	822	4,316	(1,838)	(732)	(864)
Comprehensive profit (loss) for the period	189,157	(39,214)	46,282	73,535	108,554
Total comprehensive profit attributed to:					
Holders of equity rights	189,592	(39,092)	46,375	(73,684)	108,625
Non-controlling interest	(435)	(122)	(93)	(149)	(71)
Comprehensive profit (loss) for the period	189,157	(39,214)	46,282	73,535	108,554

Regulation 10C – Use of proceeds from securities

On May 9, 2010, the Company published a shelf prospectus ("**the Shelf Prospectus**") (Ref. 2010-01-000043), pursuant to which the Company was allowed to offer to the public shares, straight debentures, debentures convertible to shares, options exercisable to shares, options exercisable to debentures and commercial paper.

In the shelf offering report published by the Company, on January 15, 2012 (Ref. 2012-02-015084), additional Debentures (Series B and D) of the Company were listed for trading on the Tel Aviv Stock Exchange Ltd. by way of series expansion, at a total par value of NIS 1,054,097,000.

As noted in the aforementioned shelf offering report, the Company used the proceeds from the debentures for various purposes, as designated by the Company, including for the implementation and realization of its business strategy goals and for improving the structure of its net debt. For details of the Company's strategic business goals, see Section 31 of Chapter A of this report.

Regulation 11 – List of investments in subsidiaries and Equity accounted investee companies at date of statement of financial condition[1]

Company name	Stock exchange number	Class of share	Number of shares held	Total held issued and paid up par value	Cost (in USD K's)	Value in Company separate financial statements (in USD K's)	% held by Company			
							In security	In equity	In voting	In authority to appoint directors
ADAMA Makhteshim Ltd.	Not traded	Ordinary	114,238,074	114,238,074	219,216	944,057	100%	100%	100%	100%
ADAMA Agan Ltd.	Not traded	Ordinary	15,065,980	15,065,980	206,962	633,021	100%	100%	100%	100%
Lycored Ltd.	Not traded	Ordinary	11,858,558	11,858,558	12,654	101,800	100%	100%	100%	100%
Total investments in subsidiaries					438,832	1,678,878				

Balance of loans to subsidiaries and Equity accounted investee companies – as of date of statement of financial condition (in USD thousands)[1]

Company name	Loan amount	Linkage terms	Interest rate	Maturity date
ADAMA Agan Ltd.	402,690	Dollar-linked	7.76%	Not yet fixed
ADAMA Makhteshim Ltd.	322,880	Dollar-linked	7.76%	Not yet fixed
Total	725,570			

[1] The table refers to material companies only.

Regulation 12 – Changes in investments in subsidiaries and Equity accounted investee companies in the reporting period

During 2014 the Company, through wholly-owned subsidiaries, made investments in subsidiaries and Equity accounted investee companies that are not material to the Company, at a total cost of USD 41,000 thousand.

Regulation 13 – Revenues of subsidiaries and Equity accounted investee companies and the Company's revenues from them at date of statement of financial condition (in USD thousands) [1]

Name of subsidiary	Profit (loss)		Company's revenues from subsidiaries		
	Before provision for tax	After provision for tax and including equity gains from subsidiaries	Dividend	Manage-ment fees	Interest, linkage differences
ADAMA Makhteshim Ltd.	(24,987)	79,680		8,343	23,540
ADAMA Agan Ltd.	(3,961)	66,553		16,106	37,012

Regulation 14 – List of loans given at date of statement of financial condition, if giving loans was one of the corporation's main occupations

None.

Regulation 20 – Stock exchange trading – Securities listed for trading/suspension of trading – Dates and reasons

After the report date, on February 11, 2014, NIS 487,795,000 par value Debentures (Series D) were issued by way of series expansion and were listed for trading, in a private placement to classified investors and a number of private investors who did not exceed thirty-five. For more information, see the immediate report of February 9, 2014 (Ref. 2014-01-034657).

After the date of the financial reports, on February 1, 2015, NIS 533,330,000 par value Debentures (Series B) were issued by way of series expansion and were listed for trading, in a private placement to classified investors and a number of private investors who did not exceed thirty-five. In addition these classified investors and private investors were issued with 2,666,650 non tradable options convertible until May 10, 2015 to up to NIS 266,665,000 par value Debentures (Series B). For more information, see the immediate report of January 22, 2015 (Ref. 2015-01-017053). As to the date of this report 438,520 options were exercised and were converted to NIS 43,852,000 par value Debentures (Series B).

Regulation 21 – Payments to senior officers

Below are details of compensation paid during the reporting year, as provided in the Sixth Schedule to the Reporting Regulations.

A. **Senior officers in the Company and in the companies it controls**

Compensation Recipient				Compensation for services (in NIS thousands) (*) (**)		
Name	**Title**	**Scope of position**	**Holding in Company equity**	**Salary**[1]	**Bonus for 2013**[4]	**Total**
Chen Lichtenstein (2)(3)	President and CEO	100%	%0	2,673	4,053	6,726
Ignacio Dominguez (2)	SVP, CCO and head of Products and Global Marketing	100%	%0	3,403	1,702	5,105
Shaul Friedland (2)	SVP, CCO	100%	%0	2,259	1,419	3,678
Aviram Lahav (2)	CFO	100%	%0	1,898	892	2,790
Elhanan Abramov (2)	VP Global Resources	100%	0%	1,896	851	2,747

(*) Compensation amounts are in terms of cost to the Company.

(**) Under this regulation, the non-traded share based compensation which was granted to senior office holders is presented separately than the other compensation components (see comment 2 below). According to the provisions of the option plan, under which the options were allocated to the senior office holders (the "Offerees"), the options will be exercisable only after consummation of an Initial Public Offering (as such term is defined under the option plan) by the Company, and subject to the fulfillment of additional conditions. As of the reporting date, an Initial Public Offering of the Company's shares was not executed and the Company is considering the preferable stock market for its listing (among different stock exchanges worldwide), and its timing. The Company also presents below the amounts of the non-traded share based compensation, as recorded in the financial statements. For details regarding the postponement of the public offering, see Section 1.4.3 of Chapter A of this report.

(1) The salary component stated above includes all of the following components: social benefits, customary prevailing social provisions and related expenses, grossing up of vehicle value, reimbursement of landline and cellular phone expenses and monthly CPI-linked salary (other than the salary of Mr. Saul Friedland, which is not linked to the CPI).

(2) Pursuant to the approval of the Company's Remuneration Committee and Board of Directors dated December 16, 2013 and December 24, 2013, on January 29, 2014 the Company allocated the office holders options convertible to the Company's shares and long term cash incentive, pursuant to a long term incentive plan adopted by the Company. For further details, see immediate reports dated December 25, 2013 (reference no. 2013-01-107494 and 2013-01-107488). The amount recorded in the financial statements regarding non-traded share based compensation for the office holders in 2014 is as follows: Mr. Chen Lichtenstein – NIS 4,468 thousands, Mr. Ignacio Dominguez, Mr. Shaul Friedland, Mr. Aviram Lahav and Mr. Elhanan Abramov – NIS 1,321 thousands for each.

(3) 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, as of February 7, 2014 (the "Effective Date"), and allocation of option awards convertible to the Company's shares. The allocation was in addition to option awards and cash long term incentives granted to Mr. Lichtenstein pursuant to the approval of the Remuneration Committee and the Board of Directors on December 16, 2013 and December 24, 2013. For further details, see the Company's reports dated December 25, 2014 (ref. 2013-01-107488 and ref. 2013-01-107494) and dated May 12, 2014 (ref. 2014-01-061290). The data included in the table above reflect the compensation for Mr. Lichtenstein in the reporting year, for his position as Deputy CEO of the Company (until the Effective Date) and for his position as President and CEO of the Company (as of the Effective Date).

(4) The bonus is calculated according to the exchange rate of the NIS vs. USD as of the date of the remuneration committee. It is noted that during 2014, the Remuneration Committee and the Board of Directors of the Company, at their meetings on March 6, 2014, approved bonuses to officers for 2013, as described in Chapter D of the Periodic report for 2013

B. Compensation paid to senior officers after the balance sheet date, related to their tenure or their employment in the reporting year

See the above table.

C. **Compensation paid to each of the interested parties in the Company who is not included in the above item**

During 2014, compensation to directors that is not extraordinary (i.e. does not exceed the maximum amount under Regulations 4 and 5 of the Companies Regulations (Principles for Compensation and Expenses for an External Director), 2000) ("the Compensation Regulations")), amounted, with regard to all entitled directors, to NIS 1,296 thousand.

In accordance with the Company's Articles of Association, as long as not determined otherwise by the general meeting of the shareholders of the Company, directors in the Company are not entitled to any compensation for their service other than reimbursement of expenses, except for external directors and the independent director, who are entitled to the maximum amount of compensation set in the Compensation Regulations. For information about the amount of compensation and the reasons of the Audit Committee and the Board of Directors, see the Company's immediate report of May 14, 2008 (Ref. 2008-01-122468). On June 6, 2013 the shareholders of the Company approved a payment of Director's compensation to Mr. Ami Erel. The Director's compensation approved for Mr. Erel is identical to the compensation approved to the external directors in the Company.

D. For additional details on the Company's remuneration policy, see the immediate report from December 25, 2013 (Ref. 2013-01-107488).

Regulation 21A – Control in the Company

As of the reporting date, the controlling shareholder in the Company is CNAC International Pte Ltd. ("CNAC"). It is noted that because of a shareholders' agreement between Koor Industries Ltd. ("Koor") and CNAC, Koor may be considered as joint holder with CNAC, and accordingly, for the sake of caution, as a controlling shareholder.

For more details about the shareholders agreement, see section 2.1.5 of Chapter A of this Periodic Report.

Regulation 22 – Transactions with a controlling shareholder

For details of transactions with the controlling shareholder or in which the controlling shareholder has a personal interest in their approval[2] (except for negligible transactions), in which the Company engaged during the reporting period or on a date subsequent to the end of the reporting year until the filing date of the report, or are still in effect on the report date, see Note 28 to the financial statements.

Negligible transactions procedure

At its meeting on February 26, 2015, the Audit Committee of the Company reviewed the manner of application of the negligible transactions procedure in 2014 and examined a sampling of transactions that were classified in 2014 as negligible pursuant to the procedure. Accordingly, the Audit Committee determined that the Company applies the procedure in the required manner.

For details about the negligible transactions procedure see Note 28 to the financial statements of the Company as of December 31, 2014.

Regulation 24 – Holdings of interested parties and senior officers

For details on the holdings of interested parties in the Company in Company shares and securities, see the Company's immediate report of March 8, 2015 (Ref. 2015-01-045041 which is included here by way of reference.

Regulation 24A – Registered capital, issued capital and convertible securities

See Note 21A to the financial statements.

Regulation 24B – Shareholders Register

As of the publication date this Periodic Report, the register of the Company's shareholders is as follows:

Name of shareholder	Corporate/ID No.	Street	City	Residency	Par value
CNAC International Pte Ltd.	201110171Z	80 Raffles, PL #32-01, 048624	Singapore	Singapore	82,794,528
Koor Industries Ltd.	520014143	Azrieli Center 3	Tel Aviv	Israel	55,196,353

[2] Since, as provided in Regulation 21A above, Koor may be considered joint holder with CNAC, and accordingly and for the sake of caution, as a controlling shareholder, Regulation 22 describes also transactions made with Koor and/or with companies in the IDB group.

Regulation 25A – Registered address

The registered address of the Company is Golan Street, Ha'arava Building, POB 298, Airport City Park, 70100.

Telephone: 073-2123000; Fax: 073-2321074

Email: www.ma-industries.com

Regulation 26 – Directors of the Corporation (as of March 19, 2015)

Below are the personal particulars and professional details of the Company's directors:

(1)	**Name of director**	**Ami Erel**
	Identification No. :	04871265
	Date of birth:	1947
	Address for service of process:	Discount Investments Ltd., Azrieli Center 3, Triangular Building, 44th floor, Tel-Aviv
	Citizenship:	Israeli
	Member of board committees:	No
	External director:	No
	Employee of the corporation, a subsidiary, related company or interested party	Consultant to Discount Investments Ltd., an interested party in the Company.
	Start date of tenure as director:	2006
	Education:	BA Electrical Engineering, The Technion, Haifa
	Occupation in the past five years and other corporations in which he serves as director:	Director in Dan Hotels Ltd., President and Chief Business Officer of Discount Investments Ltd (from June 2001 to March 2013); Chairman of Netvision Ltd. (2007-2011); Chairman of Cellcom Israel Ltd.; Chairman of Koor Industries Ltd. (2007-2011); director in Elron Electronic Industries Ltd. ; Director in Shufersal Ltd.; Director in several companies in the IDB group.
	Relative of an interested party	No
	Is he a director considered by the Company to have accounting and finance expertise for the purpose of compliance with the minimum number set by the board pursuant to Section 92(A)(12) of the Companies Law:	No
	Independent director?	No

(2)	**Name of director**	**Raanan Cohen**
	Identification No. :	23073919
	Date of birth:	1967

	Address for service of process:	Koor Industries Ltd., Azrieli Center 3, Triangular Building, 44th floor, Tel-Aviv
	Citizenship:	Israeli
	Member of board committees:	No
	Outside director:	No
	Employee of the corporation, a subsidiary, related company or interested party	CEO of Koor Industries Ltd. and Vice President of Discount Investments Ltd.
	Start date of tenure as director:	2006
	Education:	BA Economics and Law, Tel Aviv University. MBA from Kellogg School of Business, Northwestern University, USA
	Occupation in the past five years and other corporations in which he serves as director:	CEO of Koor Industries since 2006; Vice President of Discount Investments sine 2001;
	Relative of an interested party:	No
	Is he a director considered by the Company to have accounting and finance expertise for the purpose of compliance with the minimum number set by the board pursuant to Section 92(A)(12) of the Companies Law:	Yes
	Independent director?	No

(3)	**Name of director**	**Yang Xingqiang**
	Identification No. :	SE0130853
	Date of birth:	1967
	Address for service of process:	Gross, Kleinhendler, Hodak, Halevy, Greenberg & Co., 1, Azrieli Center (Round Tower),Tel Aviv 60721, Israel
	Citizenship:	Chinese
	Member of board committees:	No
	Outside director:	No
	Employee of the corporation, a subsidiary, related company or interested party:	Employed by China National Chemical Corporation, a shareholder (indirect) of the Company
	Start date of tenure as director:	October 17, 2011
	Education:	B.Sc. Chemistry from Sichuan University
	Occupation in the past five years and other corporations in which he serves as director:	2004-2009, President, China National BlueStar Group Corporation 2009-2014: Deputy General Manager, China National Chemical Corporation; December 2014-Now: General Manager, China National Chemical Corporation;
	Relative of an interested party:	No

	Is he a director considered by the Company to have accounting and finance expertise for the purpose of compliance with the minimum number set by the board pursuant to Section 92(A)(12) of the Companies Law:	No
	Independent director?	No

(4)	**Name of director:**	**Ren Jianxin**
	Identification No. :	SE0131803
	Date of birth:	1958
	Address for service of process:	Gross, Kleinhendler, Hodak, Halevy, Greenberg & Co., 1, Azrieli Center (Round Tower), Tel Aviv 60721, Israel
	Citizenship:	Chinese
	Member of board committees:	No
	Outside director:	No
	Employee of the corporation, a subsidiary, related company or interested party:	Employed by China National Chemical Corporation, a shareholder (indirect) in the Company
	Start date of tenure as director:	October 17, 2011
	Education:	MA Economics and Management from Lanzhou University
	Occupation in the past five years and other corporations in which he serves as director:	2004-2014: President, China National Chemical Corporation December 2014-Now: Chairman China National Chemical Corporation
	Relative of an interested party:	No
	Is he a director considered by the Company to have accounting and finance expertise for the purpose of compliance with the minimum number set by the board pursuant to Section 92(A)(12) of the Companies Law:	No
	Independent director?	No

(5)	**Name of director:**	**Lu Xiaobao**
	Identification No. :	SE0008896
	Date of birth:	1965
	Address for service of process:	Gross, Kleinhendler, Hodak, Halevy, Greenberg & Co., 1, Azrieli Center (Round Tower), Tel Aviv 60721, Israel
	Citizenship:	Chinese
	Member of board committees:	No
	Outside director:	No
	Employee of the corporation, a subsidiary, related company or interested party:	Employed by China National Chemical Corporation, a shareholder (indirect) in the Company

	Start date of tenure as director:	September 20, 2012
	Education:	Bachelor of Applied Chemistry, Beijing University of Chemical Technology
	Occupation in the past five years and other corporations in which he serves as director:	December 2014-Now: VP China National Chemical Corporation 2012-2014: – Assistant President in China National Chemical Corporation 2010-Now – President in China National Bluestar (Group) 2009-2010 – Acting President in China National Bluestar (Group)
	Relative of an interested party:	No
	Is he a director considered by the Company to have accounting and finance expertise for the purpose of compliance with the minimum number set by the board pursuant to Section 92(A)(12) of the Companies Law:	No
	Independent director?	No
(6)	**Name of director:**	**An Liru**
	Identification No. :	P01178835
	Date of birth:	1969
	Address for service of process:	Gross, Kleinhendler, Hodak, Halevy, Greenberg & Co., 1, Azrieli Center (Round Tower), Tel Aviv 60721, Israel
	Citizenship:	Chinese
	Member of board committees:	No
	Outside director:	No
	Employee of the corporation, a subsidiary, related company or interested party:	Acting CEO and Secretary of the Communist Party Committee, China National Agrochemical Corporation, a shareholder (indirect) of the Company
	Start date of tenure as director:	February 27, 2014
	Education:	Master degrees in Chemical engineering and Business Administration-Nanjing university-China
	Occupation in the past five years and other corporations in which he serves as director:	2009-2013: President of Jiangsu Huaihe chemical Co 2013-Now: -Acting CEO and Secretary of the Communist Party Committee- China National Agrochemical
	Relative of an interested party:	No
	Is he a director considered by the Company to have accounting and finance expertise for the purpose of compliance with the minimum number set by the board pursuant to Section 92(A)(12) of the Companies Law:	No
	Independent director?	No

(7)	**Name of director:**	**Gustavo Traiber**
	Identification No. :	01114826
	Date of birth:	1961
	Address for service of process:	39 Rupin St. Tel Aviv, 63457
	Citizenship:	Israeli
	Member of board committees:	Audit committee, the Financial Statements Review committee, Compensation committee.
	External director:	Yes
	Employee of the corporation, a subsidiary, related company or interested party:	No
	Start date of tenure as director:	March 10, 2015
	Education:	B.A in Political studies- The Hebrew University of Jerusalem
		MBA-Business administration - The interdisciplinary center-Hezekiah
	Occupation in the past five years and other corporations in which he serves as director:	2010-December 2014: CEO of Sun Team Group Ltd.
	Relative of an interested party:	No
	Is he a director considered by the Company to have accounting and finance expertise for the purpose of compliance with the minimum number set by the board pursuant to Section 92(A)(12) of the Companies Law:	Yes
	Is he a director who, due to his education, experience and qualifications is highly skilled and has deep understanding of the Company's core activity:	Yes
	Independent director?	Yes

(8)	**Name of director:**	**Dalit Braun**
	Identification No. :	022416929
	Date of birth:	1966
	Address for service of process:	76 Balfour St. Tel Aviv Israel
	Citizenship:	Israeli
	Member of board committees:	Audit committee, the Financial Statements Review committee, Compensation committee.
	External director:	Yes
	Employee of the corporation, a subsidiary, related company or interested party:	No
	Start date of tenure as director:	March 10, 2015
	Education:	B.sc- Industrial Engineering- Technion

		MBA-Business administration – Tel Aviv University
	Occupation in the past five years and other corporations in which he serves as director:	2011—present: CEO at Pick'nTell 2014-present: director in "Dira LeHaskir- Governmental company 2007-2010: CEO at Industrial Buildings Ltd. 2011-2014: Chairman of Kela Fund 2010-2013: External Director at Mekorot
	Relative of an interested party:	No
	Is he a director considered by the Company to have accounting and finance expertise for the purpose of compliance with the minimum number set by the board pursuant to Section 92(A)(12) of the Companies Law:	Yes
	Is he a director who, due to his education, experience and qualifications is highly skilled and has deep understanding of the Company's core activity:	Yes
	Independent director?	Yes

(9)	**Name of director:**	**Jiashu Cheng**
	Identification No. :	G39600654
	Date of birth:	1953
	Address for service of process:	ADAMA Agricultural Solutions Ltd., Hagolan Street, Airport City 70151, Israel
	Citizenship:	Chinese
	Member of board committees:	Audit committee, the Financial Statements Review committee, Compensation committee.
	External director:	No
	Employee of the corporation, a subsidiary, related company or interested party:	No
	Start date of tenure as director:	March 10, 2015
	Education:	M.A- Economic development- Stanford University
	Occupation in the past five years and other corporations in which he serves as director:	2005-present: President at Celanese (Chinese operations)
	Relative of an interested party:	No
	Is he a director considered by the Company to have accounting and finance expertise for the purpose of compliance with the minimum number set by the board pursuant to Section 92(A)(12) of the Companies Law:	Yes

Is he a director who, due to his education, experience and qualifications is highly skilled and has deep understanding of the Company's core activity:	Yes
Independent director?	Yes

For details of the independent directors in the Company, see the section about Corporate Governance in Chapter B of the report.

Regulation 26A – Senior Officers (as of March 19, 2015)

(1)	**Name of officer:**	**Chen Lichtenstein**
	Identification No. :	022977631
	Date of birth:	1967
	Commencement of office:	January 26, 2006
	Address for service of process:	ADAMA Agricultural Solutions Ltd., Hagolan Street, Airport City 70151, Israel
	Citizenship:	Israeli
	Is he an interested party in the corporation/relative of an interested party or other senior officer in corporation:	No
	Education:	Doctoral degree in Business Administration and Law, Stanford University
	Position in the Company:	President and CEO[3]
	Occupation in the past five years:	2006-2012: VP Global Resources, VP Business Development 2012-2014: Deputy CEO 06/2013-03/2014: president and CEO of China National Agrochemical Corporation.

(2)	**Name of officer:**	**Aviram Lahav**
	Identification No. :	056115876
	Date of birth:	1959
	Commencement of office:	June 1, 2010
	Address for service of process:	ADAMA Agricultural Solutions Ltd., Hagolan Street, Airport City 70151, Israel
	Citizenship:	Israeli
	Is he an interested party in the corporation/relative of an interested party or other senior officer in corporation:	No
	Education:	BA Accounting, Hebrew University in Jerusalem' graduate of Harvard

[3] Due to a settlement to prevent a conflict of interests between Mr. Lichtenstein and the Company, Mr. Lichtenstein suspended himself from his tenure as president and CEO of CNAC. For more details see Note 28 to financial statements in this report.

		Business School Advanced Management
	Position in the Company:	CFO
	Occupation in the past five years:	CEO of Synergy Cables Ltd;

(3)	**Name of officer:**	**Shaul Friedland**
	Identification No. :	060847746
	Date of birth:	1952
	Commencement of office:	November 1, 2003
	Address for service of process:	3 Ha, Narkis St. Hod-Ha'Sharon, Israel
	Citizenship:	Israeli
	Is he an interested party in the corporation/relative of an interested party or other senior officer in corporation:	No
	Education:	B.Sc. and M.Sc. in Agronomy, Hebrew University of Jerusalem.
	Position in the Company:	CCO
	Occupation in the past five years:	VP Sales and Marketing in the Company; CEO of subsidiary – Manager of Americas Region

(5)	**Name:**	**Ignacio Dominguez**
	Identification No. :	5240022
	Date of birth:	July 14, 1960
	Commencement of office:	September 5, 2007
	Address for service of process:	ADAMA Agricultural Solutions Ltd., Hagolan Street, Airport City 70151, Israel
	Citizenship:	Spanish
	Is he an interested party in the corporation/relative of an interested party or other senior officer in corporation:	No
	Education:	MA Automatic Calculus, Complutense University of Madrid
	Position in the Company:	VP, CCO and head of Products and Global Marketing
	Occupation in the past five years:	CEO of subsidiary – Head of Europe Region

(6)	**Name:**	**Michal Arlosoroff**
	Identification No. :	055458921
	Date of birth:	1958
	Commencement of office:	August 1, 2007
	Address for service of process:	ADAMA Agricultural Solutions Ltd., Hagolan Street, Airport City 70151, Israel

	Citizenship:	Israeli
	Is he an interested party in the corporation/relative of an interested party or other senior officer in corporation:	No
	Education:	LLB, B.Sc. Political Science, Tel Aviv University
	Position in the Company:	VP, General Counsel and Company Secretary, Corporate Social Responsibility Director (CSR)
	Occupation in the past five years:	VP, General Counsel and Company Secretary, Corporate Social Responsibility Director (CSR)

(9)	**Name of officer:**	**Elhanan Abramov**
	Identification No. :	052746302
	Date of birth:	August 29, 1954
	Commencement of office:	April 1, 2012
	Address for service of process:	ADAMA Agricultural Solutions Ltd., Hagolan Street, Airport City 70151, Israel
	Citizenship:	Israeli
	Is he an interested party in the corporation/relative of an interested party or other senior officer in corporation:	No
	Education:	B.Sc. Mechanical and nuclear engineering – Ben Gurion University M.Sc. Materials engineering – Ben Gurion University Ph.D. Materials engineering, Be Gurion University
	Position in the Company:	EVP Global Operations
	Occupation in the past five years:	VP in Baran Group; Senior VP for Business Development, Baran Group; Deputy CEO – Nuclear Research Center

(10)	**Name of officer:**	**Shiri Ailon**
	Identification No. :	031999816
	Date of birth:	1975
	Commencement of office:	July 1, 2014
	Address for service of process:	ADAMA Agricultural Solutions Ltd., Hagolan Street, Airport City 70151, Israel
	Citizenship:	Israeli
	Is he an interested party in the corporation/relative of an interested party or other senior officer in corporation:	No
	Education:	L.L.B, Tel Aviv University; MBA, Oxford Business School.
	Position in the Company:	VP Corporate business development and integration in China.

Occupation in the past five years:	Director of Corporate business development and integration in China. Director of Mergers and Acquisitions.

(14)	Name:	Keren Yonayov
	Identification No. :	025699950
	Date of birth:	January 16, 1974
	Start date of office:	June 1, 2010
	Address for service of process:	ADAMA Agricultural Solutions Ltd., Hagolan Street, Airport City 70151, Israel
	Citizenship:	Israeli
	Interested party in the corporation/relative of an interested party or other senior officer in corporation:	No
	Education:	Business Management and Accounting – Rishon Lezion Business College; CPA, LL.M for auditors – Bar Ilan University.
	Position in the Company:	Controller
	Occupation in the past five years:	Comptroller in the Company; head of Auditing at Somekh Chaikin KPMG, CPA

(15)	Name:	Yehoshua Hazenfratz
	Identification No. :	52187966
	Date of birth:	1953
	Start date of office:	November 6, 2007
	Address for service of process:	52 Menachem Begin Road, Tel Aviv
	Citizenship:	Israeli
	Interested party in the corporation/relative of an interested party or other senior officer in corporation:	No
	Education:	B.A. Economics and Accounting, Tel Aviv University
	Position in the Company:	Internal auditor
	Occupation in the past five years:	Internal auditor – Oil and Energy Infrastructures Ltd., Cross Israel Highway Ltd., Castro Ltd., Clal Biotechnology Ltd., Metav Stock Exchange Services, Metav Portfolio Management, Nesher, Halikud, Dan, Ligad

Regulation 26B – Independent authorized signatories

As of the report date, the Company has no authorized signatories with the power to bind the Company, without requiring the signature of another officer of the corporation, for the matter of a particular action.

Regulation 27 – The auditor of the Company

Somekh Chaikin & Co., 17 Ha'arba'a Street, Tel Aviv

Regulation 28 – Change in Memorandum or Articles of Association

On January 19, 2014 the General Meeting has approved, within a resolution that came into effect on January 23, 2014, changing the name of the Company to "ADAMA Agricultural Solutions Ltd.", and amending the Company's Articles of Association to reflect such name change.

On November 9, 2014 the General Meeting has approved amendments to the Company's Articles of Association and Memorandum of Association, according to which the Company's registered and issued share capital has been unified in a ratio of 1:3.12 so that every 3.12 shares of NIS 1 par value of the Company shall become 1 share of NIS 3.12 par value of the Company. In addition within the said amendments the Company enlarged its registered share capital so that it will include NIS 936,000,000 divided into 300,000,000 ordinary shares of NIS 3.12 par value each. In addition the amendment to the Company's Memorandum of Association included the Company's name change.

The Company has published the amended Articles of Association and Memorandum of Association on November 10, 2014 (Ref. 2014-01-191349). In the date of approval the General meeting also approved several amendments to the Articles of Association that where IPO pending and there for did not came in to effect (see immediate report dated November 10, 2014 ref 2014-01-191637).

Regulation 29 – Recommendations and resolutions of directors

A. Regulation 29(A)

1. On November 9, 2014 the Board of Directors of the Company approved a reverse split of its authorized and issued share capital and an increase of its authorized share capital, as specified under Regulation 28 above.

2. For details regarding transactions with the Company's controlling shareholder, see Regulation 22 above.

B. Regulation 29(B) – None.

C. Regulation 29C – Resolutions of special general meetings

1. On January 19, 2014 a special general meeting of the shareholders of the Company approved, within a resolution that came into effect on January 23, 2014 changing the name of the Company to "ADAMA Agricultural Solutions Ltd.", and amending the Company's Articles of Association to reflect such name change.

2. On January 29, 2014 a special general meeting of the shareholders of the Company approved, in accordance to the shareholders agreement, to appoint Mr. Chen Lichtenstein as the Company's President and CEO as from February 7, 2014.

3. On March 6, 2014 a special general meeting of the shareholders of the Company approved, a grant to Mr. Erez Vigodman prior president and CEO of the Company for 2013.

4. On May 11, 2014 a special general meeting of the shareholders of the Company approved the terms of Mr Chen Lichtenstein's employment as president and CEO of the Company and a grant of options. For more details see regulation 21 in this chapter.

5. On September 30, 2014 after obtaining the approval of the Independent Committee, the Audit Committee and the Board of Directors, a special general meeting of the shareholders of the Company approved the Company engaging in an agreement with China National Agrochemical Corporation ("CNAC"), according to which at the transaction closing date and subject to meeting its contingent conditions, the Company will acquire through its wholly-owned subsidiary, from CNAC through a wholly-owned subsidiary, en masse, 100% of the issued and paid up share capital of four Chinese companies in the operating in the field of agrochemicals and supplementary fields. For details see section 1.4.2 to chapter A of this report.

6. On November 10, 2014 a special general meeting of the shareholders of the Company approved: a) amendments to the Company's AoA and MoA as described above in regulation 28; b) an IPO as an extraordinary transaction in which a controlling shareholder has personal interest (for the sake of caution) (see section 1.4.3 to chapter A of this report; c) an amendment to the Company's remuneration policy (see immediate report dated November 10, 2014 ref.-2014-01-191292); d) reverse split and enlargement of the Company's share capital (see Regulation 28 above).

Regulation 29A – Company decisions

Below are the resolutions of the board of directors of the Company which are not noted in the above section "Regulation 29 – Recommendations and resolutions of directors":

1. **Approval of actions under section 255 of the Companies Law:** None.

2. **Actions under section 254(a) of the Companies Law:** None.

3. **Extraordinary transactions requiring special approvals under section 270(1) of the Companies Law:** There are no such resolutions which are not mentioned in "Regulation 29 – Recommendations and resolutions of directors" or in "Regulation 22 – Transactions with a controlling shareholder".

4. **Officers exemption, indemnification and insurance:** See Note 19(a)(1) and 19(a)(2) to the financial statements.

Date: March 19, 2015

Yang Xingqiang, Chairman	Chen Lichtenstein, CEO

אדמה פתרונות לחקלאות בע"מ

ADAMA Agricultural Solutions Ltd.

Chapter E

Report regarding the Effectiveness of the Internal Auditing of Financial Reporting and Disclosure

Annual report regarding the effectiveness of the internal auditing of financial reporting and disclosure according to Regulation 9B(a):

The Management, under the supervisions of the Board of Directors of ADAMA Agricultural Solutions Ltd. (hereafter: the corporation) is responsible for determining and maintaining appropriate internal auditing of financial reporting and of disclosure in the corporation.

In this matter, the members of the Management are as follows:
1. Chen Lichtenstein, President and CEO
2. Aviram Lahav, CFO
3. Ignacio Dominguez, CCO
4. Shaul Friedland, CCO
5. Elhanan Abramov, EVP, Global Operations
6. Michal Arlosoroff, SVP, General Legal Counsel
7. 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.

Based on this assessment, the Board of Directors and the Management of the corporation have reached the conclusion that the internal auditing of the financial reports and disclosure in the corporation as of December 31, 2014 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 2014 (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: 19.03.2015

Chen Lichtenstein
President and CEO

Officers' Certification
Certification of Chief Financial Officer

I, Aviram Lahav, certify that:

(1) I have reviewed the financial statements and other financial information included in the reports of ADAMA Agricultural Solutions Ltd. (hereinafter – "the Company") for the year 2014 (hereinafter – "the reports").

(2) Based on my knowledge, the financial statements and other financial information do not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the reports.

(3) Based on my knowledge, the financial statements and other financial information included in the reports, fairly present in all material respects, the financial condition, results of operations and cash flows of the Company as of the dates and for the periods presented in the reports.

(4) I have disclosed, based on my most recent evaluation regarding internal control over financial reporting and disclosure, to the Company's auditors, Board of Directors and audit and financial statements committees of the Board of Directors:

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting and disclosure to the extent it relates to the financial statements and other financial information included in the reports, which could reasonably adversely affect the Company's ability to record, process, summarize and report financial data so as to cast doubt on the reliability of financial reporting and the preparation of financial statements in accordance with law; and –

(b) Any fraud, whether or not material, that involves the CEO or anyone directly subordinated to the CEO or that involves other employees who have a significant role in internal control over financial reporting and disclosure.

(5) I, alone or together with others in the Company, state that:

(a) I have designed such controls and procedures, or caused such controls and procedures to be designed under my supervision, to ensure that material information relating to the Company, including its consolidated corporations within their meaning in the Securities Law (Annual Financial Statements) – 2010, to the extent it relates to the financial statements and other financial information included in the reports, is made known to me by others in the Company and within those corporations, particularly during the period in which the reports are being prepared; and –

(b) I have designed such controls and procedures, or caused such controls and procedures to be designed under my supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with law, including in accordance with generally accepted accounting principles;

(c) I have evaluated the effectiveness of internal control over financial reporting and disclosure, to the extent it relates to the financial statements and other financial information included in the reports. My conclusions regarding my aforesaid evaluation have been presented to the Board of Directors and Management and are combined in this report.

Nothing in the aforesaid derogates from my responsibility or from the responsibility of any other person under the law.

Date: 19.03.2015

Aviram Lahav
CFO