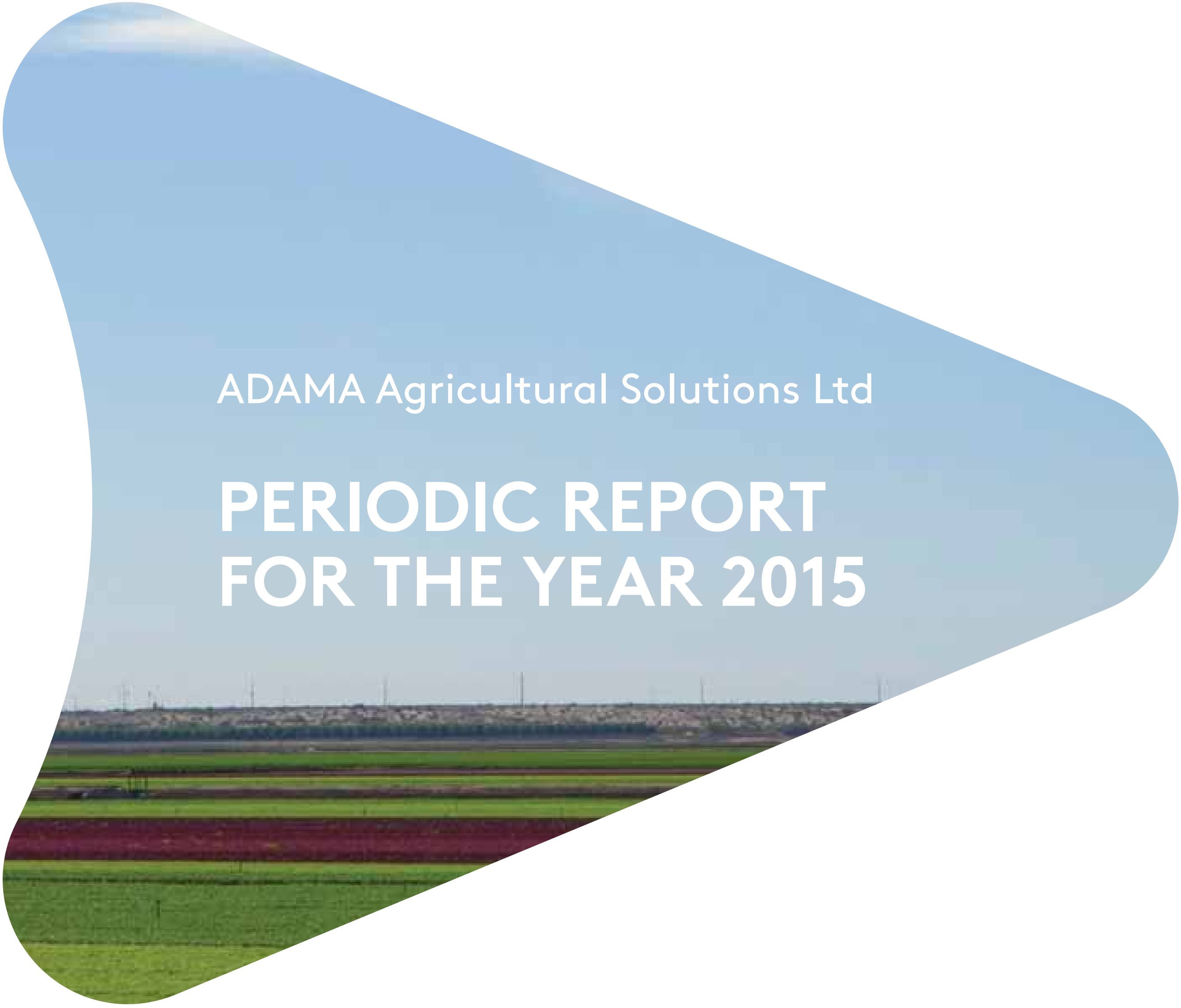
ADAMA Agricultural Solutions Ltd

# PERIODIC REPORT FOR THE YEAR 2015

ADAMA



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# PERIODIC REPORT FOR THE YEAR 2015

The information contained herein constitutes an unofficial translation of the Annual Report for the year 2015 published by the Company in Hebrew. The Hebrew version is the binding version.

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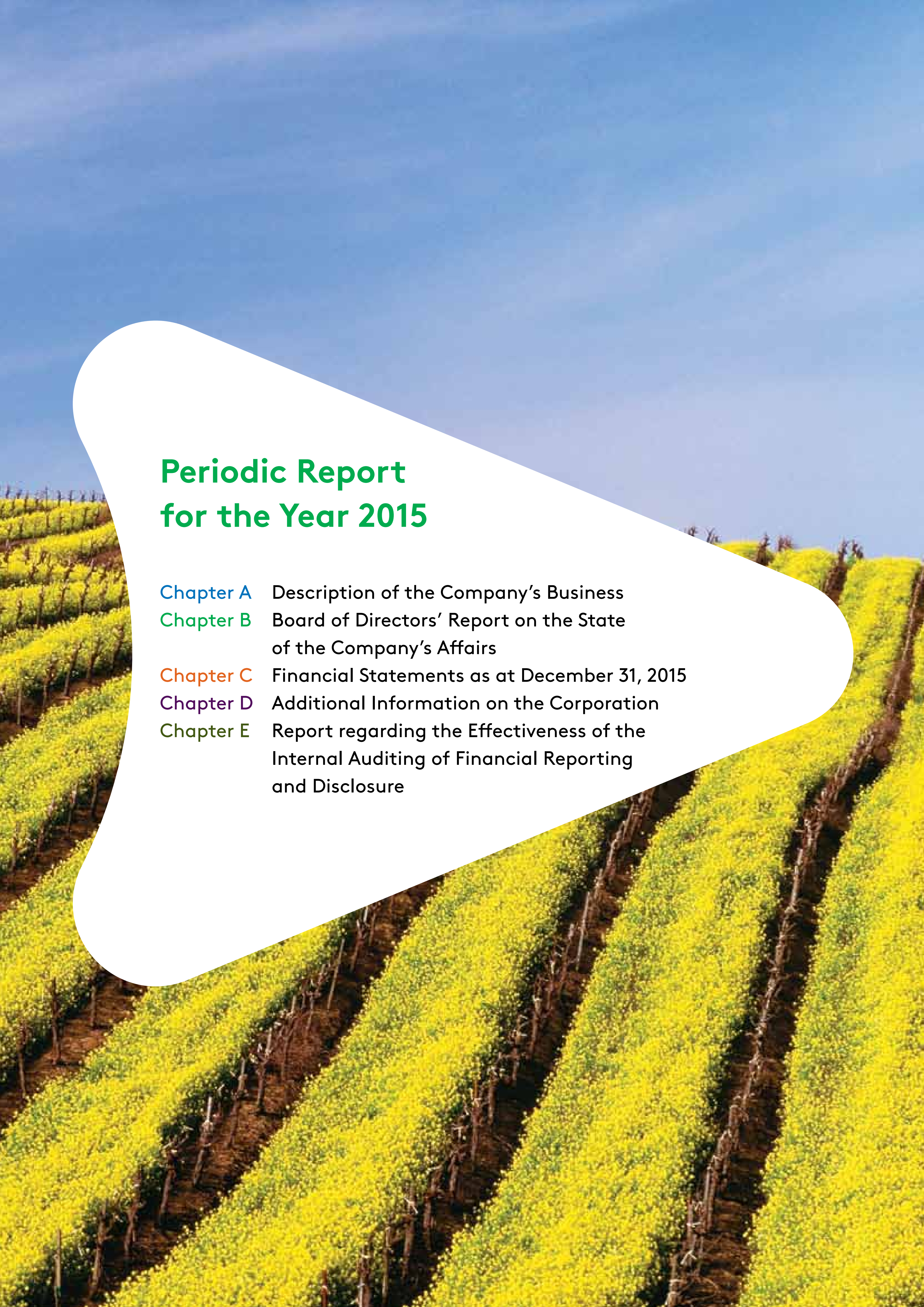
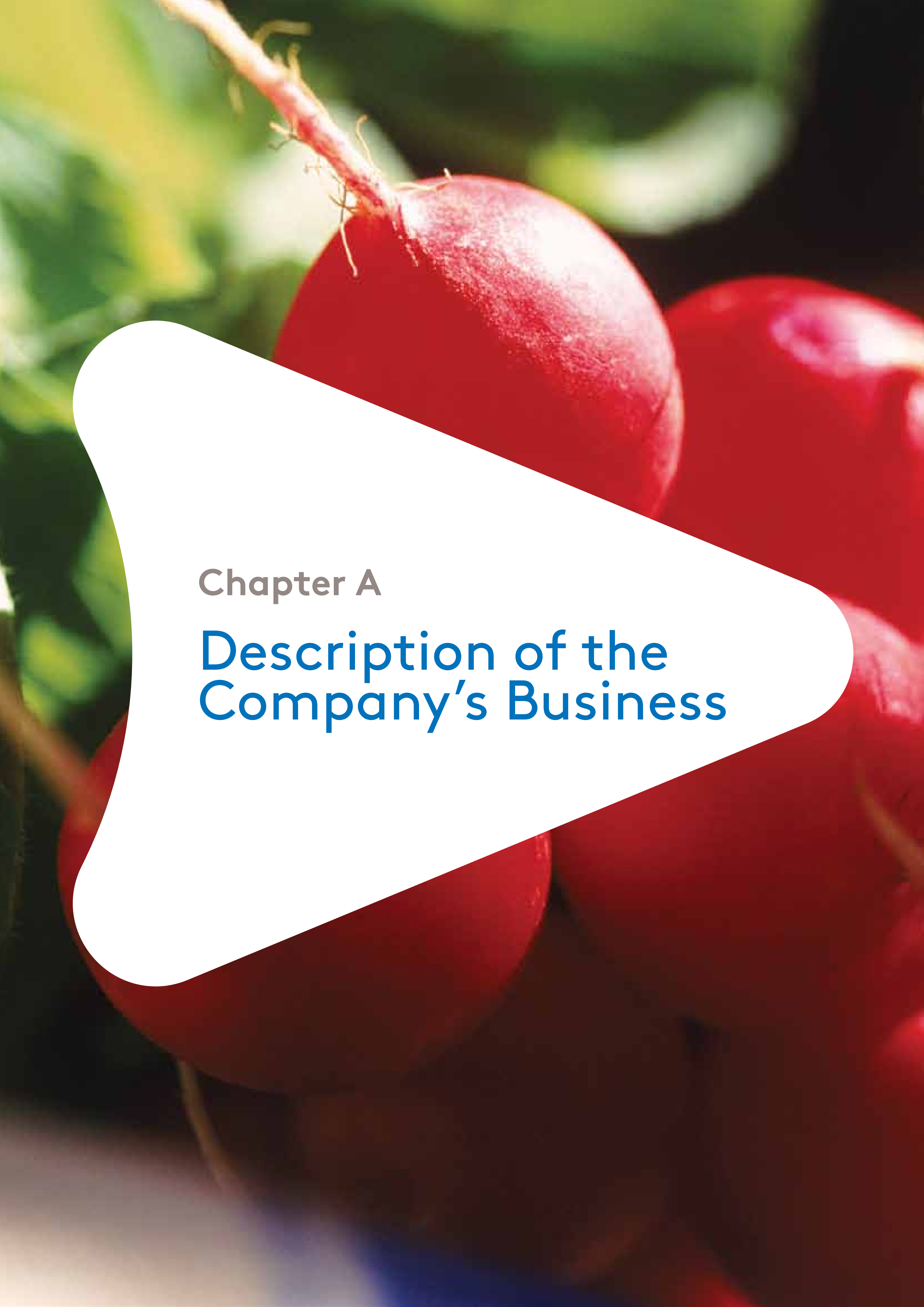


# Periodic Report for the Year 2015



Chapter A

# Description of the Company's Business

# Chapter A

# CHAPTER A - THE COMPANY'S BUSINESS

**ADAMA Agricultural Solutions Ltd. hereby submits its Annual Report for 2015. 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, 2015 attached to this Periodic Report. |
| **Securities Law** | - | Israel Securities Law, 1968 |

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

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

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

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

# 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 crop protection sector. 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 companies and off-patent companies). At the time of this Report, the Company sells its products in approximately 100 countries, through some 60 subsidiaries worldwide, all as described in this Report below. For details regarding the Company's strategy, see section 31 of the Report.

The Company's business model integrates end customer access, licensing expertise, 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.

Business combinations in China

On October 17, 2011, the Company was merged with a corporation of the ChemChina Group, which is a significant economic group with extensive operations in China and around the world controlled by the Chinese Government, engaged in the chemicals and agrochemicals industry ("**Merger Agreement**" and/or "**Merger Transaction**"). For further information regarding the Merger Agreement and accompanying agreements, see section 2.1 below.

On October 1, 2014 the Company engaged in a transaction under which it will acquire from CNAC four companies operating in China in the agrochemical and complementary sectors (""**the Chinese Companies**" and "**the Acquisition Transaction in China**"). In accordance with the agreement for acquisition of the companies in China, as the transaction was not concluded by March 31, 2015 the Company and its shareholders are reviewing various options regarding the performance of the business combination between the Company and the Chinese companies, whether by way of completing the transaction, mutatis mutandis, or in other ways, including by a share exchange transaction between the Company's shareholders and Hubei Sanonda Co. Ltd. ("**Sanonda**") (as set out in section 1.4.2 below)[1].

As part of such business combination and as an additional measure for creating a commercial and operational foundation in China, in December 2015 the Company engaged in a commercial collaboration agreement with several CNAC controlled agrochemical companies according to which the Company will gradually become the exclusive distributor for these companies formulated agrochemical products in China. For further information relating to the commercial collaboration agreement see Section 11 below.

1.2. The Company's segments 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 segment**"). 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 (Consumer and Professional Solutions). 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 2015, the Crop protection product segment (including use of these ingredients for non-crop purposes) represented approximately 94.1% of the Company's sales.

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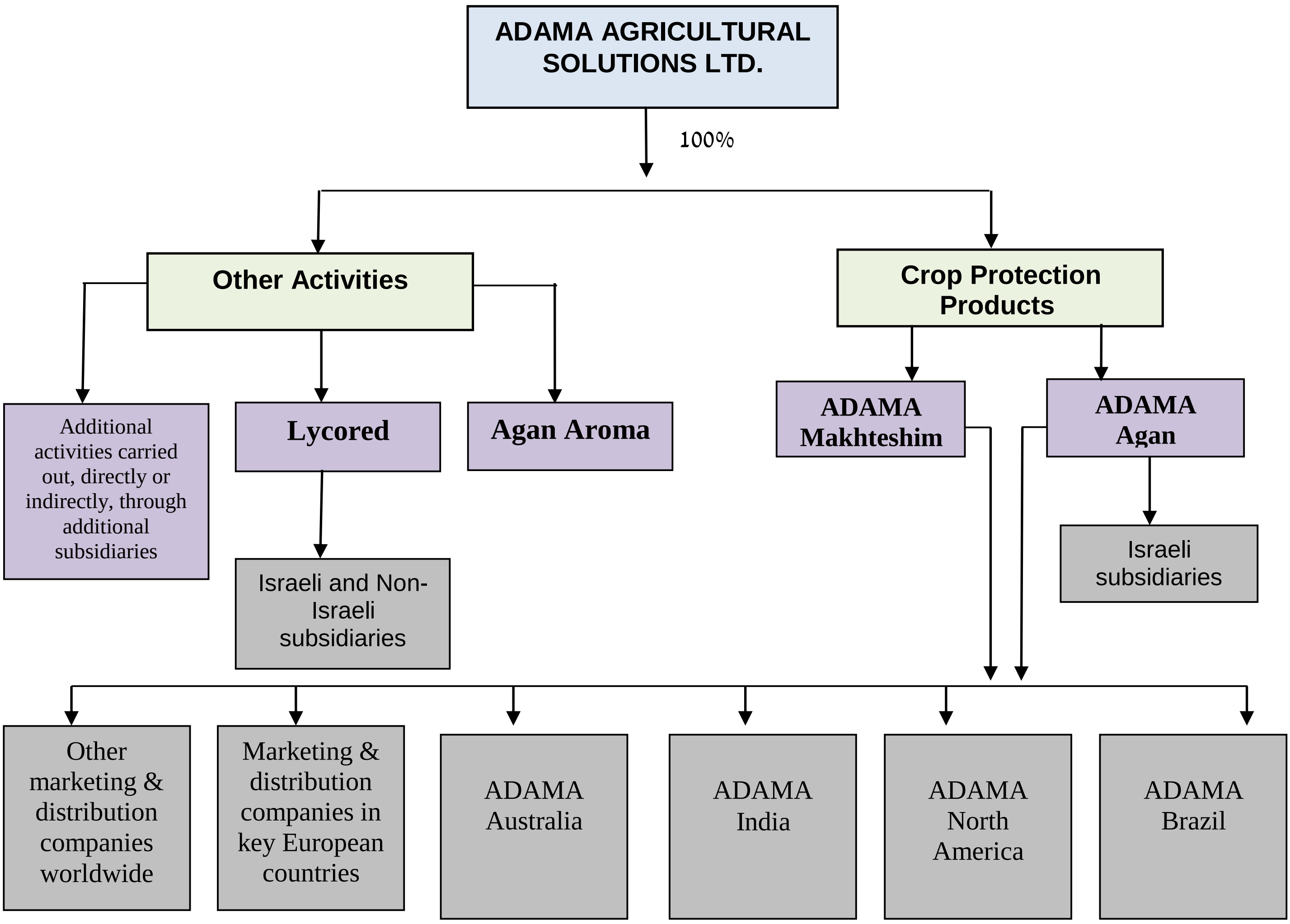
[1] For further information regarding the Acquisition Transaction in China see Note 19A(9) to the Financial Statements and the Company's reports dated October 1, 2014 (Ref. No. 2014-01-168309) ("Asset Acquisition Report"), October 26, 2014 (Ref.No. 2012-01-180657) and section 2 in the Material Changes or Innovations in the Matters Described in the Chapter on the Description of the Company's Business in the quarterly report as at September 30, 2014 (published on November 9, 2014, Ref. No. 2014-01-190353), indicated here as reference.

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

☑ 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 5.9% of the Company's sales in 2015. These activities include mainly (a) the manufacturing and marketing of dietary supplements, food color, texture and flavor enhancement ingredients, and food fortification ingredients; (b) aroma products for the perfume, cosmetics, body treatments and detergents industry; (c) industrial products and (d) other non-material activities. As at the reporting date, none of these activities, individually, 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[2]:




2 This diagram does not include all the Group Companies, but only those that are material to its operations. See the Appendix to the Company's financial statements for a complete list of the Company's subsidiaries and affiliates.

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

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 As part of its operating method and strategic goals (as set out in section 31 below), the Company reviews and executes, from time to time, collaborations or acquisition of companies, operations and registrations and distribution rights for existing and additional products in its areas of activity.

Such acquisitions have contributed to the Company's growth over the past twenty years, simultaneously to the Company's organic growth.

For information regarding material acquisitions performed by the Company, see section 1.5 hereunder.

For additional information on the Merger Transaction and its implications on the Company, see sections 2.1 and 31.

1.4.2 <u>Agreement to acquire companies in China and a contemplated transaction of the Company's shareholders to exchange their shares in the Company for Sanonda shares</u>

1.4.2.1 For further information pertaining to the Acquisition Transaction in China, see section 1.1 above.

1.4.2.2 On August 16, 2015 the Company announced that its shareholder informed it that they were contemplating a possible transaction with Sanonda under which the Company's shareholders would transfer all their shares in the Company to Sanonda in return for shares in Sanonda so that following the transaction the Company will be wholly owned by Sanonda ("the **Sanonda Transaction**"). In this regard, on February 4, 2016, the Company's Audit Committee, Board of Directors and shareholders approved the Company's engagement in an agreement for the sale of the Sanonda Class B shares held by the Company, subject to the closing of the Sanonda Transaction and based on the terms as set out in the Company's immediate report dated February 7, 2016 (Ref.No. 2016-01-023893). The Company further announced that it is reviewing the possibility of distributing a dividend to its current shareholders in an estimated amount of USD 250 million prior to and close to closing of the transaction. A dividend of USD 100 million was announced and distributed to its shareholders on December 2015. The Company was informed that the process of negotiations and approval of the Sanonda Transaction is expected to continue for several months during which the relevant aspects of the transaction will be examined, including its effect on the Acquisition Transaction in China. It was further clarified that there is still some uncertainty regarding the culmination of the process into binding agreements, the exact structure and terms of such agreements and their impact on the Company. If the process will materialize and agreements will be signed the closing of the transaction will be subject to significant terms, including the receipt if all regulatory approvals required for the execution of the transaction and any other term that would be demanded from the Company's shareholders, or by any of them.

For further information regarding the Sanonda Transaction see the immediate reports issued by the Company on August 16, 2015 (Ref.No. 2015-01-097479), August 17, 2015 (Ref.No. 2015-01-098067), November 8, 2015 (Ref.No. 2015-01-150303), January 20, 2016 (Ref. No. 2016-01-014002) and February 7, 2016 (2016-01-023893).

## 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 |
|---|---|---|---|---|---|---|
| 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.

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

- To the best of the Company's knowledge, during 2014-2015, no transactions in the Company’s shares were made by interested parties outside the TASE nor was there any buy-back of shares or securities convertible to shares of the Company.
- On November 9, 2014 the Company's general meeting approved increasing the Company's registered share capital 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’s engagement in a Merger Agreement

2.1. Merger agreement

On October 17, 2011 the Company completed the Merger Transaction following which the Company's shares were delisted from trade and the Company became a private company held 60% by CC (indirectly through CNAC) and 40% by Koor. Nonetheless, in view of the fact that the debentures issued by the Company are listed for trading on the TASE the Company is a reporting corporation, as this term is defined in the Securities Law, and the Company constitutes a "Debentures Company”.

Furthermore, and as part of the Merger Transaction, the parties to the Merger Transaction, or some of them, as the case may be and as set out below, engaged in additional agreements, including a loan agreement between CNAC, Koor and a Chinese bank under which CNAC caused a non-recourse loan to be provided in favor of Koor, through the bank, in the amount of USD 960 million, in the framework of which the shares of the Company held by Koor and CNAC were pledged; a voting agreement; and a shareholders’ agreement as set out in section 2.2 below and a "Registration Rights Agreement".

For additional information on the Merger Transaction and the additional agreements, 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).

2.2. Shareholders Agreement

Upon closing of the Merger Agreement, a shareholders agreement came into force, regulating the relationship between the Company’s shareholders.

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 more than 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[3] of the Company within three years from the Merger closing date.

[3] 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).

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 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[4], 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**"),

[4] 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.

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)[5], 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.

**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).

[5] 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.

## 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. On December 2015 the Company distributed a dividend in the amount of USD 100 million. Other than the foregoing dividend, the Company did not declare or distribute additional dividends in 2014-2015 or in 2016 until the reporting date. For further information regarding the dividend distributed by the Company in 2015 see Note 21F to the financial statements. For further information regarding the Company's intention to review the distribution of an additional dividend, see section 1.4.2.2.

3.3. The balance of distributable earnings according to the Company's financial statements as of December 31, 2015 is USD 881 million (net cancelled treasury shares)[6].

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[6] 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 set out above, as at reporting date, the Company's core area of operations is the crop protection products segment. For financial information and financial data relating to the Company's operations see the Financial Statements. For explanation of developments in the figures presented in the Financial Statements, see the Company's Board of Directors' Report, attached to this report.

Furthermore, below is the Company's consolidated income by segment, from its foregoing 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)[7] in the three years prior to the report.

| 2015 (in USD thousands) | | | | | | | |
|---|---|---|---|---|---|---|---|
| Segment of Operation | Segment revenues | Segment Costs[8] | 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 | 2,883,490 | 2,582,655 | 301,168 | (333) | 10.4% | 3,426,828 | 530,048 |
| Other Activities | 180,380 | 181,108 | (728) | - | (0.4%) | 192,515 | 24,309 |
| Total | 3,063,870 | 2,763,763 | 300,440 | (333) | 9.8% | 3,619,343 | 554,357 |
| 2014 (in USD thousands) | | | | | | | |
| Segment of Operation | Segment revenues | Segment Costs[8] | Income from regular activities (Operating income) | | Operating Income Margin (in %) | Total Assets[9] | 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% | 3,669,645 | 624,585 |
| Other Activities | 192,508 | 185,402 | 7,106 | - | 3.7% | 205,051 | 26,244 |
| Total | 3,221,298 | 2,910,297 | 311,391 | (390) | 9.7% | 3,874,696 | 650,829 |
| 2013 (in USD thousands) | | | | | | | |
| Segment of Operation | Segment Revenues | Segment Costs[8] | Income from regular activities (Operating income) | | Operating Income Margin (in %) | Total Assets[9] | 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% | 3,526,264 | 608,465 |
| Other Activities | 200,157 | 184,252 | 15,905 | - | 7.9% | 218,504 | 33,060 |
| Total | 3,076,355 | 2,767,366 | 309,166 | (177) | 10.0% | 3,744,768 | 641,525 |

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

8 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.

9 Comparative figures are reclassified and include investments in investees.

## 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.

In view of this, in many countries the industry of biofuels, produced from certain agricultural products such as corn, sugar beets and sugarcane developed significantly, which led to a significant increase in demand for certain agricultural commodities.

The said raise in 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

Price levels of agricultural commodities in 2014-2015 were relatively low compared to previous years, mainly due to an increase in the scope of expected yields and rise in stockpiles of key crops (corn, soy, cotton and wheat).

Farmers' income suffered significantly in the past two years, compared with the previous years, and thus in 2015 the demand for crop protection products was lower, with this trend expected to continue in 2016.

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.

☑ 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 in 2015 by around 36%.

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 in 2015 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.

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 since 2014.

☑ Development of new technologies for crop protection

Since the 90's, the genetically modified seed market ("GMOs") began to develop in the US and has since developed to other areas of the world. In this context, the market includes seeds with traits designed, among other things, to protect the crop from non-selective substances (that are not designed to eliminate specific types of weeds and that therefore could also harm the crop), and against insects ("**Input Traits**"); these traits may save farmers related expenses of purchasing several selective herbicides for crop protection or purchasing different types of insecticides. To the best of the Company's knowledge most of the GMOs sold in the world include traits which enable the use of one or more non-selective herbicides during the growing season; or include traits of resistance to certain insects; or contain a combination of several of these traits. The vast majority of the GMOs in the world are sold in the North and South American markets. As of the date of this report the GMO market is expected to grow in a slow pace compared to the multi-year level and especially in the markets in North America and South America. The use of GMOs in a specific country affects the mix of crop protection products used by farmers. The expanding of the use of GMOs directly influences supply and demand of the various crop protection products which in turn influences the price of the various products according to the supply-demand ratio. This affect often leads to the changes of prices of these products in the global level, and as such there is also an indirect effect on the supply and demand for crop protection products in the rest of the world, even if they prohibit the use of GMOs.

At the same time in recent years the use of natural and/or biological substances, which impact weeds, pests and diseases, for crop protection has increased. The Company estimates that despite the increase in the use of these products, the demand for these products is still very small compared to the use of crop protection agrochemical products.

☑ 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 off-patent companies engaged in developing new generic 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 production inputs, including environmental costs and restrictions in granting production licenses.

**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 "Currency Risks" of the Company's Board of Directors' Report under the title "Market Risks – Exposure and Risk Management".

☑ Consumer price index (CPI) volatility

See Section "Exposure to CPI Indexation" of the Board of Directors' Report under the title "Market Risks – Exposure and Risk Management".

*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 segment 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 (Consumer and Professional Solutions), such as protection against weeds, pests and fungi in roadsides, forests, lawns, parks, institutions, the wood and paint industry, private facilities, homes and gardens.

The Company also operates in the field of novel agricultural technologies that will be integrated with time into the Company's core activities. At the reporting date the projects being developed by the Company in this field are still in preliminary stages and the Company estimates that it will take several years before they will mature to be ready to be launched on the market (if at all).

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

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 segment Volume and Profitability

The Company estimates[10] 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).

According to data reported by Phillips McDougall, an independent professional company, the estimated total global sales turnover in the crop protection products industry for both the crop and the non-crop markets amounted to USD 58,181 million in 2015 compared with USD 63,030 million in 2014[11]. The estimation is that despite the decrease in total sales turnover in the industry in 2015, the global scope of the crop protection products market (crop and non-crop) is expected to increase to USD 64,044 billion by 2019. Below is total global sales turnover of crop protection products segment to the agricultural and non-agricultural[12] markets by the leading companies for 2015:

| Company | Sales turnover (in $ millions)* |
|---|---|
| Syngenta AG | 10,573 |
| DuPont** | 9,798 |
| Bayer CropScience (of Bayer AG) | 10,094 |
| Dow AgroSciences** (of Dow Chemical) | 6,488 |
| BASF SA | 6,463 |
| Monsanto*** | 4,055 |
| ADAMA Agricultural Solutions Ltd. | 3,064 |

Source: Financial statements for 2015 as published by the companies.

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

** Including modified seed sales.

*** The company's financial statements are for the four quarters period ended in November 2015.

10 Based on financial statements for 2015 published by the companies.
11 Based on preliminary estimates the Company received from Phillips McDougall in November 2015.
12 Excludes sales of modified seeds.

Based on external estimates[13], the average annual growth rate of the crop protection products industry (for crop market) is expected to be 2.6% in 2014-2019. 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 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.

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 2015 compared with 2014:

| | **NAFTA** | **Latin America** | **Europe** | **Asia** | **Rest of world** | **Total** | **Nominal year-to-year change (total)** |
|---|---|---|---|---|---|---|---|
| $M | 9,378 | 14,490 | 11,694 | 14,100 | 2,173 | 51,835 | - 8.5% |
| % | 18.1% | 27.9% | 22.6% | 27.2% | 4.2% | 100% | |

| | **2015 compared with 2014 growth (%)** |
|---|---|
| NAFTA | -4.4% |
| Latin America | -10.3% |
| Europe | -15.6% |
| Asia | -3.7% |
| Rest of world | -0.2% |
| **TOTAL** | **-8.5%** |

*Source:* Phillips McDougall – Industry Overview; data provided in November 2015.

The Company operates in developed markets and in emerging markets[14]. The Company's presence is particularly prominent in emerging markets, where its growth rate is generally expected to be higher than in developed markets.

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

See the Board of Directors' Report below for further details on the 2015 trends and their effect on the Company's results.

13 Estimates submitted to the Company by Phillips McDougall in May 2015.
14 As defined under the MSCI Developed Markets Index (http://www.msci.com/products/indexes/country_and_regional/dm).

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

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

6.5. <u>Success Factors Critical to Company Operations</u>

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 Group Companies 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 Group Companies, 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):

#### 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 2014, herbicides constituted 42.6% of the total global crop protection products market[15].

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 worldwide. Glyphosate does not constitute 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.

Insecticides

During the crop growing process, crops are often exposed to various insects and other pests which damage their quality and even threaten their future development. The insecticides produced by the Company are designed to destroy various types of such insects selectively, that is, without damaging or destroying the crop itself. The use of genetic modified seeds that are capable of releasing active ingredients which remove damaging insects makes usage of some of the Company's insecticides essentially redundant; however, at the 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 margins from insecticides sales is higher than its gross profit from herbicide sales. In 2014, insecticides constituted 28.5% of the total global crop protection products market[16].

Fungicides

In the course of the growing process, crops are attacked by various diseases and types of parasitical fungi negatively affecting crop quantity and quality. The fungicides produced and marketed by the Company are designed to combat such diseases. 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 margins from the Company's fungicide sales are higher than those resulting from herbicide sales. In 2014, fungicide constituted 25.9% of the total global crop protection products market[16].

[15] 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.

Other products

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 (Consumer Professional Solutions), so as to protect against weeds, disease and pests in road infrastructures, forests, lawns, gardens, institutions, the timber and paint industries, installations and the gardens of private houses.

For information regarding the breakdown of the Company's revenues and profit by product groups, see section 9 below.

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, on unique formulations and mixtures, and on a selective basis, even on innovative products.

In this regard, the Company is taking measures to change its sales mix, to increase the percentage of innovative and specialized products that generate higher profit margins

7.2. Key markets

The Company's operations are focused on Europe, North America, Latin America, Asia-Pacific and India, the Middle East 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 generally characterized by steady growth and rising standards of living as detailed above. In 2015, Company's sales in Europe (including Eastern Europe) represent some 36 % 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 the market with the highest growth in the industry in five recent years, despite the 2015 crisis, 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 2014-2015, see the attached Directors' Report.

7.3. 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. 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).

7.4. 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.

7.5. 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 2015 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 2015, the Company continued to pursue this policy of investing in new product development and manufacturing, launching new active Ingredients and formulations, and obtained 276 new registrations (excluding expansions for new crops for licensed products) for marketing its products. 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):

| **2015** | | |
|---|---|---|
| **Product Group** | **Revenues** | **Percentage of Company revenues** |
| Herbicides | 1,538,661 | 50.2% |
| Insecticides | 690,192 | 22.5% |
| Fungicides | 654,637 | 21.4% |
| | | |
| **Total of all crop protection products** | **2,883,490** | **94.1%** |
| | | |
| **Other operations** | **180,380** | **5.9%** |
| | | |
| **Total** | **3,063,870** | **100%** |
| | | |
| **2014** | | |
| **Product Group** | **Revenues** | **Percentage of Company revenues** |
| Herbicides | 1,617,840 | 50.2% |

| | | |
|---|---|---|
| Insecticides | 761,543 | 23.6% |
| Fungicides | 649,407 | 20.2% |
| | | |
| **Total of all crop protection products** | **3,028,790** | **94.0%** |
| | | |
| **Other operations** | **192,508** | **6.0%** |
| | | |
| **Total** | **3,221,298** | **100.0%** |
| | | |
| **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%** |
| | | |

(1) In 2015 there was no material change in the gross margin for each of the foregoing product groups compared with 2014.

(2) For figures of the gross margin of each of the foregoing product groups in 2014, see section 9 of Chapter A of the 2014 Periodic Report (Ref. No. 2015-01-056413).

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:

Importer / Formulator → Distributor → Retailer → Farmer

In view of the expansion of the Company's activities and the acquisition and establishment of subsidiaries in different regions of the world, in most cases, the Group Companies carry out the role of formulator, 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' (which in recent years are mainly the Group Companies) 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 2015, 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, the Company is acting to set up 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 a Group Company), which sell them to the end customers.

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 this context, and as part of the Company's long term strategy, in December 2015 the Company engaged in a commercial collaboration agreement under which the Company will gradually become the exclusive distributor of formulated agricultural products in China for several of the agrochemical companies controlled by CNAC. Such collaboration is expected to support the strengthening of the Company's position in the Chinese market by combining sales of the Company's products with CNAC products and establishing a substantial distribution platform in China, starting from the beginning of 2016. For further details relating to the collaboration agreement see the immediate report dated December 6 2015 (Ref. No 2015-01-173175).

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 2015. The Company estimates that, although the termination of an engagement with a single external distributor will not have a material adverse impact on it, should external distributors 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 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. 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 512.9 million in 2015, constituting 17.8% of its total crop protection products sales for the year.

Subsequent to the reporting date, the Company implemented organizational changes, whereby the product strategy and marketing teams were integrated under unified management that will result in the formation of a coordinated global business vision

## 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 two years several consolidation transactions were made between large-scale companies in the industry, including FMC's acquisition of Cheminova; Platform's acquisition of Arysta, Agriphar and Chemtura's agrochemical operations; Huapont Nutrichem's minority investment in Albaugh, as well as the merger between Dow and DuPont, which once completed will reduce the number of multinational ethical companies to 5, and Syngenta acquisition by ChemChina, the controlling shareholder in the Company, which is yet to be concluded. Nonetheless, the crop protection products industry as a whole is decentralized with a large number of local manufacturers (see Section 33.2, 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 company. According to Phillips McDougall's list for 2014 of both ethical companies and off-patent companies, the Company is ranked seventh (7) worldwide with a market share of approx. 5% in 2015, based on preliminary estimations made by Phillips McDougall regarding the total sales in the crop protection products industry in 2015.

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 companies that 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 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; (5) Aggressive price cutting in certain markets by multinational ethical companies and/or extending the number of credit days; and (6) Mergers and Acquisitions.

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: (a) growing competition by Southeast Asian producers (which conversely reduces raw material and product costs); (b) the off-patent market's growth potential; and (c) consolidation of the industry.

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 registration), 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. SEASONALITY AND WEATHER

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"). In this regard, below is a geographic breakdown of the Company's quarterly sales (in USD thousands) and their percentage of the company's sales in 2014 and 2015:

| **2015** | **Q1** | | **Q2** | | **Q3** | | **Q4** | | **Annual** | |
|---|---|---|---|---|---|---|---|---|---|---|
| Europe | 456,750 | 52.7% | 321,837 | 37.8% | 205,332 | 29.5% | 132,046 | 20.3% | 1,115,965 | 36.4% |
| North America | 138,447 | 16.0% | 178,604 | 21.0% | 109,388 | 15.7% | 146,607 | 22.6% | 573,046 | 18.7% |
| Latin America | 123,899 | 14.3% | 164,937 | 19.4% | 208,666 | 30.0% | 238,421 | 36.7% | 735,923 | 24.0% |
| Asia-Pacific | 77,986 | 9.0% | 80,079 | 9.4% | 58,632 | 8.4% | 56,532 | 8.7% | 273,229 | 8.9% |
| India, Middle East and Africa | 69,578 | 8.0% | 105,838 | 12.4% | 114,042 | 16.4% | 76,249 | 8.2% | 365,707 | 8.9% |
| Of which, Israel | 22,790 | 2.6% | 25,910 | 3.0% | 22,557 | 3.2% | 23,080 | 3.6% | 94,337 | 3.1% |
| TOTAL | **866,660** | **100%** | **851,295** | **100%** | **696,060** | **100%** | **649,855** | **100%** | **3,063,870** | **100%** |
| Quarterly percentage of annual sales | **28.3%** | | **27.8%** | | **22.7%** | | **21.2%** | | **100%** | |
| **2014** | **Q1** | | **Q2** | | **Q3** | | **Q4** | | **Annual** | |
| Europe | 467,224 | 51.3% | 336,142 | 38.4% | 243,207 | 31.9% | 140,141 | 20.8% | 1,186,714 | 36.8% |
| North America | 138,390 | 15.2% | 175,526 | 20.0% | 96,897 | 12.8% | 134,012 | 19.9% | 544,825 | 16.9% |
| Latin America | 136,198 | 15.0% | 169,637 | 19.4% | 252,062 | 33.1% | 264,640 | 39.2% | 822,537 | 25.5% |
| Asia-Pacific | 94,306 | 10.4% | 81,347 | 9.3% | 63,784 | 8.4% | 54,611 | 8.1% | 294,048 | 9.1% |
| India, Middle East and Africa | 73,583 | 8.1% | 113,298 | 12.9% | 105,539 | 13.8% | 80,754 | 12.0% | 373,174 | 11.7% |
| Of which, Israel | 25,127 | 2.8% | 29,481 | 3.4% | 25,263 | 3.3% | 23,334 | 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%** | |

## 15. DEVELOPMENT AND REGISTRATION ACTIVITY

The Company set up a designated division for research and development, registration and innovation (IDR), which manages and coordinates all the knowledge and product development activities in the Company. Consequently, this division coordinates the chemical research and development and the work of the development, registration and novel agricultural technologies teams. The IDR division is responsible for prioritizing product development to fit the Company's goals – a shift to a product mix that maximizes relatively high profit margins and transformation of the product portfolio to a more diversified one (Hybrid), in a way which is based on off-patent products, mainly complex ones, on unique formulations and mixtures, as well as selective innovative products and patent registrations if possible.

Generally, the Company, as an off-patent products manufacturer, 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, to enable it to offer a broad and diverse mix of generic products at competitive prices. Nonetheless, to introduce a new off-patent product to the market still requires considerable investment in development and registration, particularly in view of the development of and increasing competition in the off-patent market.

As at reporting date, the Company employs more than 400 employees in research and development, registration and innovation, most of whom have academic qualifications.

### 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.

Furthermore, the Company develops several innovative substances, based on molecules acquired after a screening process, in which their effectiveness was proven. The Company develops the product's biological uses and registrations them in the target countries. In addition chemical development of the production process is conducted.

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.

As 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.

In 2015 the amounts recognized as research and development expenses (excluding registration costs) totaled approx. USD 30.2 million, which constituted approx. 0.99% of the Company's consolidated revenues. Research and development expenses are not recognized as an intangible asset.

According to the Company's estimate, subject to complying with its work plan, in the twelve months following the date of this report, research and development expenses are estimated to amount to USD 33.1 million.

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. <u>Registration – General</u>

The materials and products marketed by the Company require, at various stages of their production and marketing, registrations in every country where the Company intends to market them. The Company has seven development and licensing centers located in Europe, Israel, Latin America (Brazil), USA and Asia. The Company has gained licensing expertise in over 100 countries. For this purpose, the company employs approximately 170 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 7-15 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, “Legislative, standard and regulatory changes in the product registration area”.

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.

For information regarding new registrations obtained in 2015, see section 8 above.

In 2015, the Company's registrations expenses were USD 93.1 million, plus depreciation, which constituted 3.0% 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 6-7 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, off-patent companies are required to compensate the development company with the ethical 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 companies and the ethical registration owners 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

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. Current regulation is based on a hazard-based cut-off criteria approach that allows product registration applications to be rejected based on their potential hazard and not on the risk from actual exposure to the active ingredient, in contrast to the risk-based approach adopted throughout most of the world, which allows the adoption of measures based on scientific findings for achieving the desired protection level.

With regard to new registration and registration renewals in Europe, the Company collaborates with several other companies, with the aim of lowering costs (and workload), to jointly develop the data and information required, when it is commercially reasonable to do so.

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.

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 four to five 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 SEGMENT

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 registrations 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 8,290 such active trademarks. In addition, the Company also has several exclusive territorial registrations for various additional substances.

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

The Company has an intellectual property department, under its legal 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, 2015 (including subsidiary goodwill) totaled some USD 687.4 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.

In 2015 demand for the raw materials used for the Company's operations decreased. The substantial decline in oil prices in 2015, 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 2015, the costs of raw materials, packaging and labels amounted to USD 1,107.9 million. This cost constituted 69.1% of the Company's total costs in the segment (excluding finished products), which amount to USD 1,604.4 million.

The Company buys its raw materials from various suppliers, mainly in China, Europe, the US, 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.

# 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, food color, texture and flavor enhancement, and food fortification; (2) aroma products; (3) industrial products and (4) additional 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; Color, texture and taste enhancement ingredients and Food fortification

Products

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

In addition to carotenoids, Lycored engages in several secondary activities: (1) providing formulating services for active ingredients in the DS market; (2) providing coating for active ingredients and preparing 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 segment.

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, as well as clinically proven effectiveness of the marketed products. 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 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. In addition, Lycored's products in the DS segment compete with other products based on natural ingredients with health properties. Other competitors are natural lutein producers such as Kemin Industries, Inc., formulators such as DSM Nutritional Products and manufacturers of vitamin and mineral compounds such as Glanbia and DSM.

Volume and profitability developments

In 2015, Lycored's sales outside the group totaled some USD 85.2 million, compared to USD 93.1 million in 2014. At the reporting date, Lycored's market share is immaterial in all of its product groups. The primary decrease in Lycored's sales is due to consistent erosion of prices of leading non-lycopene carotenoids (beta-carotene and lutein) together with increasing competition in the formulated vitamin segment.

Critical success factors

The Company estimates that the main success factors in Lycored's DS operations are: (a) technological capability, leadership and innovativeness; (b) responsiveness to the changing requirements of the food and nutrition industry, and ever-changing consumer preferences; (c) maintaining and reinforcing its relationships with regular clients, by providing optimal marketing support and customer service ; (d) global marketing deployment allowing it to form tight relationships, build a reputation as a reliable manufacturer and develop new marketing niches in the markets it operates; (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, specialist technologies and rich experience on several levels, including in scientific development capacities, scientific and clinical proof of the effectiveness of the active ingredients marketed by LycoRed, raw material extraction technologies and storage techniques, expertise in chemistry and advanced technology for producing the relevant product applications. In turn, these require equity, 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 in Israel to whom it supplies seeds and growing instructions. In addition, Lycored buys vitamins and minerals from Western and East Asian companies.

In addition to growing and processing tomatoes in Israel, 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 regular production in 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. A recovery began in 2014 and continued in 2015, as seen in the increase in Agan Aroma's sales and its improved profit margins. Activity in this area requires innovation, expertise and advanced R&D, 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, Takasago, 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. 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 42.3 million in 2015 compared with USD 41.9 million in 2014.

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 2015 totaled USD 49.8 million, compared with USD 53.8 million in 2014.

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 in which the Company manufactures, researches, develops, formulates and packages Company products as set out below.

As part of the organizational change that the Company completed in 2014, and with the expansion of the Company's businesses in China (subject to completing of the business combination with the Chinese Companies (see section 1.1 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.<br>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).<br>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.<br>Lycored's facility is located on part of the land, which Lycored purchased from Makhteshim (area of 17,200 sq m).<br>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.<br>A manufacturing facility for a product in the aroma segment is located on the land (see section 18.2 above).<br>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) |

The Company has additional manufacturing facilities in Poland, Mexico and Columbia which, as at reporting date, produce a limited range of products in a relatively small volume compared with the Group's overall operations, as well as additional facilities in other regions in which it operates worldwide, including in the US, Columbia, Spain, Italy, Greece, Korea, Mexico and India. These facilities are designed mainly for final formulation and packaging of products and ingredients 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 outsourcing formulation and packaging services at their facilities. As at reporting date, the Company has started setting up a formulation center in China

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, 2015, the depreciated cost of machinery and fixtures totaled USD 643 million.

19.4 <u>Investments in Production Facilities</u>

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 extensive investments in various environmental projects.

In 2015, the Company invested a total sum of USD 82 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.

In 2013 the Company entered into an agreement for the supply of natural gas 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, 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, 2015, net of investment grants, totals some USD 787 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 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.

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, 2015, the Group employed 4,864 employees. During the two years prior to the Report date, the employees were employed according to the following breakdowns*:

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| Production | 1,946 | 1,967 |
| R&D | 232 | 238 |
| Sales and Registration | 2,236 | 2,082 |
| Management & Administration | 450 | 504 |
| **TOTAL** | **4,864** | 4,791 |

| | December 31, 2015 | December 31, 2014** |
|---|---|---|
| Israel | 1,298 | 1,329 |
| Latin America | 1,139 | 1,160 |
| Europe | 1,043** | 1,003** |
| Africa, Middle East and India (excluding Israel | 670 | 643 |
| North America | 391 | 370 |
| Asia Pacific | 323 | 286 |
| **TOTAL** | 4,864 | 4,791 |

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

** In light of the new classification of the regions of operation of the company in the Financial Statements, included in Europe are employees who were not included in it in 2014.

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

21.3 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 (who are not employed under personal contracts) 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 2015 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(9) to the Financial Statements.

In 2014 a special collective agreement was signed, regulating the employment of new employees who started or will start their employment at Makhteshim. In 2015 a special collective agreement was signed, which extends, subject to several changes stipulated in the agreement, the existing collective agreements at Makhteshim until the end of 2015, and that included, among other things, a commitment of the employees' representatives to ensure industrial calm until June 30, 2016.

**Agan**

Labor relations in Agan are governed by a special collective agreement signed in 1973 on behalf of employees (who are not employed under personal contracts) 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. The agreement includes 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(9) to the financial statements.

At the reporting date, labor relations between Agan management and employees are correct, with no strikes or labor disputes in 2015.

**Adama Brazil**

The employment conditions of the employees of the Group's Company 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.

21.4 Investments in Training, Employee Development and Incentives

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

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

21.5 Executives and Senior Management

At the publication date of this Report, the Company's senior management team comprises 7 members, mostly employed in its offices in Israel and abroad. 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.

Pursuant to the provisions of section 267A of the Companies Law, the Company adopted a policy for the terms of office and employment of officers and senior managers who are not officers ("the Compensation Policy"). For details see immediate reports dated December 25, 2013 (Ref. No. 2013-01-107488) and 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.

21.6 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 the the outline of the securities offering for employees and the immediate report issued by the Company on December 25, 2013 (Ref. Nos. 2013-01-107488 and 2013-01-107494) and Note 21 to the financial statements.

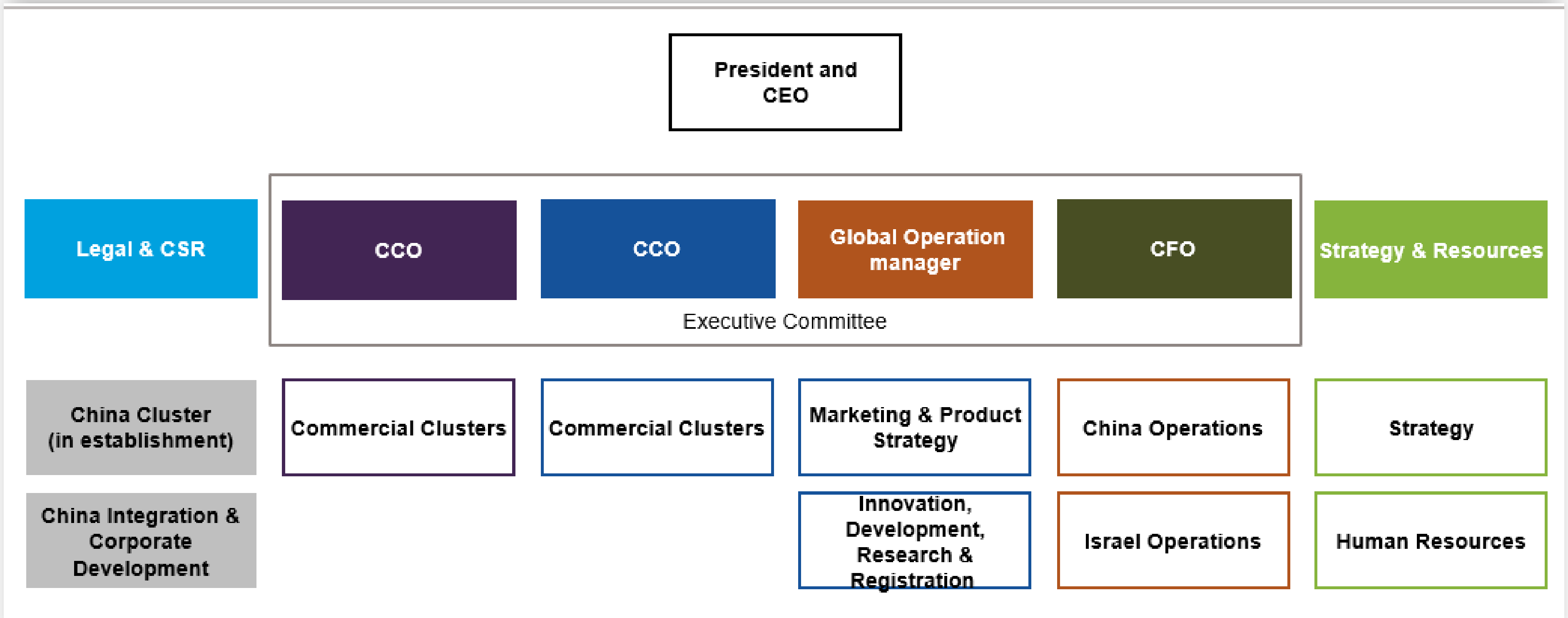
21.7 <u>Indemnification, insurance and exemption for executive officers</u>

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

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

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

21.10 <u>Diagram of the Company's organizational structure at reporting date:</u>



## 22 WORKING CAPITAL

### 22.1 General

Company Working Capital in 2015:

| Quick ratio | Current ratio | Working capital balance (thousand USD) |
|---|---|---|
| 1.05 | 1.87 | 1,222,023 |

### 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:

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| **The average customer credit days*** | 128 | 145 | 138 |

* 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 and in 2015 includes a deferred promissory note for the sale of clients' debts. The decrease in the number of customer credit days in 2015 was due to the fact that as of the first quarter of 2015 the debt balance in the securitization program is no longer included in the balance sheet.

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 14% of the Company's sales in 2015, 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, 2015 totaled USD 818.3 million. For additional details, see Note 4 to the Financial Statements.

The Company's bad debts expenses totaled some USD 9,783 thousand in 2015.

22.3 Customer Debt Securitization Program

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 ("Securitization Program").

For details of this Securitization Program, including the term of the credit facility within its framework, its key conditions, and the maximum amount of securitization it allows, as well as the amendments made to the agreement in March 2015 that resulted in the debt balance under the Securitization Program no longer being included in the balance sheet, 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:

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| **Average inventory (*) ($K's)** | 1,208,561 | 1,238,624 | 1,191,280 |
| **Inventory days (regarding historical sales)** | 211 | 206 | 206 |

(*) includes current and non-current inventory.

In each period the Company evaluates the need for recording inventory impairment provisions. Total current inventory as at December 31, 2015 decreased and is USD 1,149.1 million (compared with USD 1,219.2 million in 2014).[16]

[16] A non-material adjustment of the comparative figures of 2013 and 2014 was performed.

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:

| | 2015 | 2014 | 2013** |
|---|---|---|---|
| **Average trade payables ($K's)*** | 589,393 | 627,881 | 533,079 |
| **Supplier credit days** | 112 | 114 | 102 |

* Not including suppliers of fixed assets.

** Recalculated in the 2014 annual report 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 term bonds issued by the Company, as detailed in Subsection 23.3 below, whose balance as of December 31, 2015, including current maturities regarding medium term bonds issued by the Company which final payment is expected in November 2016, is USD 1,157.2 million. For further information regarding the issue of bonds (Series B) in 2015, see Note 15 to the Financial Statements. 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 277.4 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, 2015 (excluding current maturities), was USD 119.0 million; and (3) supplier credit.

According to the changes made to the Securitization Program in the first quarter of 2015, the debt balance within the securitization program in the amount of USD 192 million as of the end of 2015 is no longer included in the balance sheet.

On the other hand, as of December 31, 2015, the Company had liquid cash and cash-equivalent balances amounting to USD 395.4 million.

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

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

23.1 Long-term loans

The average scope of credit in 2015 for long-term loans amounted to USD 305,375 thousands.

Presented below are details on the average interest rate and long-term bank loan amounts, broken down according to the main financing currency, for 2015:

| Long-term bank loans (including current maturities) | | | |
|---|---|---|---|
| | Weighted interest rate on 31.12.2015 | Effective interest rate (%) | December 31, 2015 |
| | % | % | USD thousands |
| **USD** | 5.03% | 5.12% | 275,098 |
| **Brazilian Real** | 5.57% | 5.69% | 1,438 |
| **Other currencies** | 7.65% | 7.88% | 913 |
| **Total** | | | **277,449** |

Commencing January 1, 2016, until proximate to the publication date of the Report, the Company did not take out long-term bank loans.

23.2 Short-term Loans and Variable Interest Credit

The Company has no fixed lines of credit with the banks. The average scope of credit in 2015 for short-term loans amounted to USD 112,506 thousands.

Presented below are details on the average interest rate and amount of short-term bank loans broken down according to main financing currencies in 2015:

| Short-term bank credit | | | |
|---|---|---|---|
| | Weighted interest rate 31.12.2015 | Effective interest rate | December 31, 2015 |
| | % | % | USD thousands |
| **Overdraft:** | | | |
| EURO | 1.26% | 1.27% | 3,990 |
| PLN | 2.72% | 2.76% | 9,691 |
| Other currencies | 2.34% | 2.37% | 1,544 |
| **Total** | | | **15,225** |
| **Short-term credit**: | | | |
| USD | 3.58% | 3.64% | 51,304 |
| Euro | 1.41% | 1.42% | 1,889 |
| INR | 9.25% | 9.69% | 34,826 |
| Other currencies | 16.57% | 18.02% | 15,706 |
| **Total** | | | **103,725** |

From January 1, 2016 through publication date of the Report, the Company assumed new short-term bank loans in a total amount of USD approximately USD 170 million.

23.3 Company Bonds / Debentures

The Company's main source of financing is the long-term bonds it has issued. For details about the bonds issued by the Company, also in 2015 and including medium term bonds issued by the Company which final payment is expected on November 2016, see Note 15 to the financial statements and the appendix to the Directors' Report.

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 Program 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 Program, 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, 2015 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 Program). 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 Program.

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 2015, as well as the rate proximate to the publication date of the Report:

| Type of Credit | Currency | Credit amount at December 31, 2015 (in USD thousands) | Variation Mechanism | Interest Rates close to date of publication of the report | Interest Range in 2015 |
|---|---|---|---|---|---|
| Long Term Loan | USD | 96,500 | 3 M Libor | 0.63350 | 0.25-0.61 |
| Long Term Loan | USD | 99,569 | 6 M Libor | 0.89205 | 0.49-0.85 |
| Long Term Loan | USD | 10,000 | CDI | 10.80000 | 10.8-10.82 |
| Long Term Loan | COP | 913 | DTF | 6.25000 | 6.3-7.8 |
| Overdraft | EUR | 3,990 | 1 M EUR | -0.28500 | (0.08)-0.005 |
| Overdraft | OTHERS | 11,235 | PLN | 1.47 | 1.45-1.86 |
| Short Term Credit | USD | 51,304 | 3 M Libor | 0.634 | 0.25-0.61 |
| Short Term Credit | EUR | 1,889 | 3 M Libor | -0.230 | (0.13)-0.05 |
| Short Term Credit | INR | 34,826 | INR | 8.120 | 8.32-10.13 |
| Short Term Credit | OTHERS | 15,706 | BRL | 14.2500 | 12.22-14.824 |

## 24. TAXATION

### 24.1 Tax Laws Applicable to the Company

The Group develops, purchases, manufactures and markets its products through many companies worldwide. Approx. 97% of the Group's sales in 2015 were affected in international markets outside of Israel and therefore, the Group operates through approximately 60 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 (approx. 97%) are in international markets outside Israel, hence its choice to operate through multiple subsidiaries which, to the best of the Company's knowledge, are incorporated, controlled and managed outside Israel, and accordingly, assessed subject to their countries' tax laws.

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

**Taxation of Foreign Income in Israel**

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

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

"Indirect credit" in Israel: According to the current legislation, the Israeli company will be entitled to choose to be liable for the current corporate tax rate (26.5% in 2015) 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 $25^{th}$ and $75^{th}$ 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 $50^{th}$ 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, 2015 and Note 17 thereto, in 2015, the Company's pre-tax income amounted to USD 159 million, and tax expenses calculated based on the statutory tax rate should have been approximately USD 42.1 million. However, actual tax expenses to the consolidated company, according to said Note, amounted to USD 49.3 million.

To the best of the Company's knowledge, the statutory corporate tax rates in effect on December 31, 2015 were 45% in Italy, 30% in Spain, 33% in France and 38.4% in the US; in Germany 32%, in India 30%, in Brazil 34%, and in other central 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 490 million (mainly due to the operations in Israel and in South America) – can be realized over a period of several years. The Company has a deferred tax asset for accrued losses totaling some USD 37 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 2015 was 31%.

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 3N to the financial statement, when calculating the deferred taxes, the taxes that would have been levied had investments in the consolidated 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 that 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, "Legislation, standards, regulation and environmental, health and safety exposure".

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.

In September 2015 the Ministry of Environmental Protection issued for public comment a memorandum of the Integrated Environmental Licensing Law, 2015. The Memorandum of Law sets out one licensing procedure for businesses that have a substantial impact on the environment, at the end of which the business is granted an integrated environmental license that will replace various environmental permits and licenses that the business is currently required to have, such as a business license, emissions permit, poisons permit and others. The Memorandum of Law seeks to prescribe updated and often more stringent arrangements than are currently in place regarding, among other things, the use of hazardous substances, treatment of waste, linking with building and construction laws, sanctions for license violation, etc. The Memorandum of Law is expected to be placed on the Knesset table in April 2016. In view of the early stage of this legislation, the Company is unable to assess at this time whether these duties will be imposed on it and if so, the scope of them.

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 under the Clean Air Law have duly filed applications for emission permits and some of them have already received valid emission permits or draft emission permits.

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 expert to prevent potential future nuisances for residents of the settlement, including an undertaking to invest substantial sums in such facilities. In September 2015 the expert authorized pursuant to the mediation agreement announced that the mediation outline will be implemented in full by the Company and thereby the mediation proceedings came to an end. The Company invests on an ongoing basis vast resources to minimize and prevent environmental consequences of its operations on the air quality and as part thereof, the Company has invested substantial amounts in its plants as part of an overall project for minimizing and preventing potential emissions into the air.

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 ADAMA 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, ADAMA Agan was required to submit a plan for conducting a risk survey using the methodology prescribed by the Ministry of Environmental Protection. ADAMA Agan also submitted a detailed plan to the Water Authority for treating the ground, which was approved in principle by the Water Authority.

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. Sample soil gas tests were conducted in collaboration with the Ministry of Environmental Protection, and 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.

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 | | |
|---|---|---|---|
| | **2013** | **2014** | **2015** |
| Total investment in environmental facilities | 29 | 40 | 21 |
| Current costs (before depreciation) | 52 | 47 | 41 |

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 each of the years 2016-2018 are expected to total 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 Group’s company 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.

*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 for details about the Merger Agreement.

27.2 For further information regarding the Acquisition Transaction in China, see section 1.1 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 2011 -

2015.

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.

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. For further information regarding the commercial collaboration agreement subsequent to which the Company will gradually become a distributor in China of formulated agrochemical products of several companies controlled by CNAC, including Sanonda, see section 0 above.

## 29. CORPORATE GOVERNANCE

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

### 29.1 Code of Ethics

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

### 29.2 Internal enforcement plan

- In accordance with the provisions of the Effective Compliance Proceedings in the Securities Authority (Legislative Amendments) Law, 2011, and the organizational culture of compliance with and honoring companies and securities law and the principles of corporate governance, on May 10, 2012, the Company's Board of Directors approved an outline for adoption of an internal enforcement plan and its integration in the Company and in the regions it operates internationally and in its subsidiaries. On that date, the Company's Board of Directors also ratified the appointment of the Company's CFO, Mr. Aviram Lahav, as head of internal enforcement in the Group, and the appointment of the 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.

- The Company adopted a zero tolerance policy toward bribery and corruption an enforcement program regarding Anti-Bribery and Anti-Corruption. The enforcement program is in the process of implementation and assimilation in the Group companies.
- The Company adopted an anti-trust enforcement plan, in order to integrate these laws in Company's processes.

29.3 Negligible transactions and criteria for classification of negligible transactions

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

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

On March 9, 2016, 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.

## 30. LEGAL PROCEEDINGS

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

## 31. THE COMPANY'S GROWTH STRATEGY

Adama strives to be a global leader in the Crop Protection industry. We intend to achieve this goal by executing the following strategies:

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

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

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

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

We intend to utilize our position in China and our relationship with ChemChina to increase our presence in China, where we are already building additional infrastructure. Following on from the 2011 transaction with ChemChina, Adama is working towards the combination with, and integration of, a number of ChemChina subsidiaries in the Crop Protection and related fields. In so doing, we believe that we will have an operational infrastructure and commercial foundation upon which to build a leading Chinese domestic distribution network, thereby becoming one of the only global crop protection providers with significant integrated commercial and operational infrastructure both within and outside of China. We expect to drive significant demand for our products by launching new and advanced AIs and intermediates with higher R&D content. Through the establishment of a significant operational presence in China and the integration of the Chinese Businesses (which we expect will take a number of years), we plan to achieve cost savings and improved margins and efficiencies through backward integration of manufacturing, formulation and global supply chain and logistics capabilities. In particular, our global R&D efforts will be supported by a new R&D center in Nanjing to service our expanded product development needs and enable us to introduce advanced technologies into China and globally. In addition, our advanced formulation center that is currently being constructed in Jiangsu Province will serve as a platform to introduce cost-advantaged crop protection solutions into China and globally.

We expect that our unique positioning and profile in China, including our relationship with ChemChina, should establish us as a partner of choice for companies outside China seeking to access its domestic market, as well as for Chinese companies looking to expand their global footprint. In addition to the combination with the China Businesses, we consider pursuing strategic joint ventures and selected acquisitions to bolster our China platform and commercial infrastructure further.

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

- **Grow Revenues and Increase Profitability.** We believe that we have the capacity and operational leverage to increase profitability through focused execution of our strategy within the framework of prudent working capital management. We expect to grow our revenues and margins over time as we shift to a more differentiated, higher-margin product portfolio and continue to strengthen our product pipeline with significantly more higher-value products, unique mixtures and formulations, as well as innovative and novel products. Similarly, we intend to drive revenue growth through increased penetration of high-growth markets such as China, Brazil, India, Russia, Ukraine and Mexico. We further believe that our investment in developing a manufacturing footprint in China will lower costs, improve manufacturing efficiency and distribution logistics and reduce inventory requirements in many markets worldwide. Over the past years, we have focused on growing and improving our business, infrastructure and brand. Other than our investments with respect to further development of our China operations, we believe that our existing global infrastructure is largely of sufficient scale to support higher revenues, allowing us to enjoy economies of scale and continually improve profitability over time.

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

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

- **Opportunistically Pursue Acquisitions to Enhance Market Access and Strengthen Our Product Portfolio.** Throughout our company's history, we have successfully completed and integrated several add-on acquisitions across the globe. We intend to continue to pursue bolt-on acquisitions, in-licensings and joint ventures that offer attractive opportunities to enhance our market access and position, as well as strengthen and further differentiate our product portfolio. We plan to focus these efforts largely in high-growth geographies, particularly in emerging markets where we aim to gain market share, as well as in gaining access to selected sources of innovation. We have a strong track record of integrating acquisitions and believe that future acquisitions will play an important role in continuing to build towards a leading position in the crop protection industry.

*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

None.

## 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 "Currency Risks" in the Board of Directors' Report under the title “Market Risks – Exposure and Risk Management”, for details.

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

See Section "Exposure to Linkage to Consumer Price Index" and "Interest Risks” in the Board of Directors' Report under the title “Market Risks – Exposure and Risk Management”, 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 affect 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 an off-patent active substance based 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 affect its financial results.

Moreover, the Company also competes in the more widespread off-patent market, with other off-patent active substance based 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 competitors that focus on off-patent active substances (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, which are becoming stricter with time, involves significant investments of time and resources, and rigorous matching of registration 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 and recall of those products already sold from the market 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. Furthermore, 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 "Risk of Raw Material Prices in Currency" in the Board of Directors' Report under the title "Market Risks – Exposure and Risk Management", for details.

☑ 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).

☑ 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 1,433 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.

☑ <u>Failed mergers and acquisitions; difficulties encountered in assimilating acquired operations</u>

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.

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.

- ☑ <u>Production concentrated in a few plants</u>

  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.

- ☑ <u>International taxation</u>

  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.

- ☑ <u>Risks arising from the Company's debt</u>

  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.

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 business combination and operations in China

The Company estimates that it could be exposed to several specific risks relating to the business combination and operations in China, the main ones being as follows:

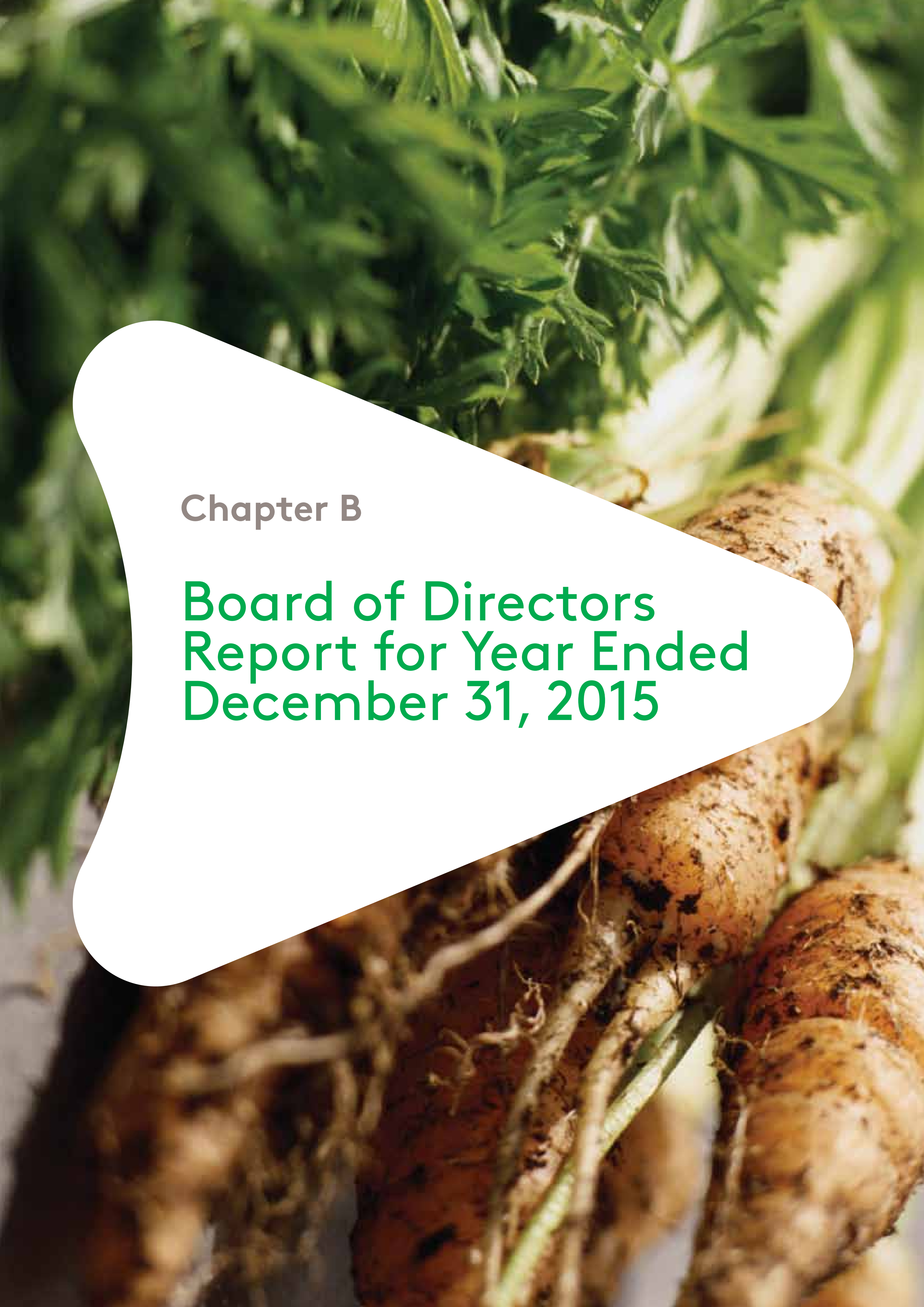
- Economic, political and social environment and governmental policies in China - the business environment in China is very different from the business environment in developed countries, including due to the political structure, extent of government intervention, growth rates, foreign currency controls 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.
- 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 shares that was completed in November 2013, the Company undertook, inter alia, (a) to act to reduce the horizontal competition with Sanonda in the Chinese market; (b) to act to minimize interested party transactions with Sanonda. 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.

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 | | + | |

| Risk Factor | Potential impact on the Company's overall operations | | |
|---|---|---|---|
| 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 business combination and operations in China | | + | |



Chapter B

# Board of Directors Report for Year Ended December 31, 2015

# Board of Directors Report for Year Ended December 31, 2015

**Adama is one of the world's leading crop protection companies. We strive to Create Simplicity in Agriculture - offering farmers effective and efficient products and services that simplify their lives and help them grow. With one of the most comprehensive and diversified portfolios of differentiated, high-quality products, Adama's approximately 4,900 people reach farmers in over 100 countries across the globe, providing them with solutions to control weeds, insects and disease and improve their yields.**

# Financial highlights – fourth quarter and full year 2015, as adjusted

## Significant improvement in both profits and profitability in the quarter capping a strong year for Adama

Sales of $650 million in the quarter and $3,064 million in 2015:

- Sales growth of 12.6% in the fourth quarter and 7.4% in the full year, at constant exchange rates.
- Reported sales declined by 3.6% in the quarter and by 4.9% in the full year as a result of the strength of the US dollar.

The strong growth was driven by a significant increase in sales in growing markets and from geographical expansion, as well as from sales of new and differentiated products. These factors led to an increase in volumes across all our regions, with overall volumes for the Company up by 7.0% in the fourth quarter and by 5.3% in the full year, despite the continued difficult conditions in agricultural markets and challenging weather conditions in many regions.

Gross profit in the quarter rose by 5.8% to $195 million, reflected by a significant increase of 2.6 percentage points in gross margin to 30.0%, and resulting in a stable gross margin of 31.6% for the year. In addition to the aforementioned volume growth, the strong gross margin performance stemmed from a significant improvement in the portfolio mix, price increases in local currencies, and a significant reduction in manufacturing costs.

Operating income tripled in the quarter to reach $30 million, reflected by a significant increase of 3.2 percentage points in operating margin to 4.7%, and resulting in a stable operating margin of 9.9% for the year, further reflecting a continued reduction in operating expenses.

Strong growth of 44.5% in EBITDA in the quarter to $76 million, reflected by a significant increase of 3.9 percentage points in EBITDA margin to 11.7%, as well as an increase in EBITDA margin for the full year to 15.5%.

Improved operating and free cash flow in the quarter, with stable cash flow over the full year.

Reduced levels of both inventory and accounts receivables at the end of 2015 due to continued improvements in supply chain and collections management, with an emphasis on tight control of credit risk.

These results reflect Adama's outperformance of the sector both in the fourth quarter and the full year.

# Results of Operations – Income Statement

## Adjusted Income Statement for the fourth quarter of 2015

| | Q4 2015 $m | Q4 2014 $m | Change $m | % Change CER | % Change USD |
|---|---|---|---|---|---|
| **Revenues** | **650** | **674** | **-24** | **+12.6%** | **-3.6%** |
| Gross profit | 195 | 185 | +10 | | +5.8 |
| % of revenue | 30.0% | 27.4% | | | |
| Operating expenses | 165 | 174 | -9 | | -5.4 |
| **Operating income (EBIT)** | **30** | **11** | **+19** | | **+193.0** |
| % of revenue | 4.7% | 1.5% | | | |
| Financing expenses, net | 40 | 32 | +8 | | +24.5 |
| Net income before taxes | -12 | -22 | +10 | | +43.7 |
| **Net income** | **-20** | **-33** | **+13** | | **+37.7** |
| % of revenue | -3.1% | -4.8% | | | |
| **EBITDA** | **76** | **53** | **+23** | | **+44.5** |
| % of revenue | 11.7% | 7.8% | | | |

## Adjusted Income Statement for full year 2015

| | 2015 $m | 2014 $m | Change $m | % Change CER | % Change USD |
|---|---|---|---|---|---|
| **Revenues** | **3,064** | **3,221** | **-157** | **+7.4%** | **-4.9%** |
| Gross profit | 970 | 1,025 | -55 | | -5.4 |
| % of revenue | 31.6% | 31.8% | | | |
| Operating expenses | 667 | 712 | -45 | | -6.4 |
| **Operating income (EBIT)** | **303** | **313** | **-10** | | **-3.3** |
| % of revenue | 9.9% | 9.7% | | | |
| Financing expenses, net | 133 | 120 | +13 | | +10.5 |
| Net income before taxes | 168 | 198 | -30 | | -15.3 |
| **Net income** | **124** | **151** | **-27** | | **-17.9** |
| % of revenue | 4.1% | 4.7% | | | |
| **EBITDA** | **474** | **480** | **-6** | | **-1.2** |
| % of revenue | 15.5% | 14.9% | | | |

**Income Statement items adjusted in the above tables, as presented in the financial statements (in USD millions)[1]:**

For the fourth quarter of 2015: Operating expenses – $167m (25.7%), operating income (EBIT) – $28m (4.3%), net loss before taxes – $15m (2.3%), net loss – $23m (3.5%), and EBITDA – $74m (11.3%). For the fourth quarter of 2014: Net financing expenses – $36m (5.3%), pretax loss – $26m (3.8%), and net loss – $36m (5.4%).

For 2015: Operating expenses – $669 million (21.9% of sales), operating income (EBIT) – $300m (9.8%), net financing expenses – $140m (4.6%), net income before taxes – $159m (5.2%), net income – $110m (3.6%), and EBITDA – 472 (15.4%). For 2014: Operating expenses – $714m (22.2%), operating income (EBIT) – $311m (9.7%), net financing expenses – $124m (3.7%), net income before taxes – $193m (6.2%), net income – $146m (4.5%) and EBITDA – $478m (14.8%).

[1] The Income Statement items for 2015 that appear in the above tables include adjustments for: a $7 million revaluation in the first two quarters of 2015 in respect of options on debentures issued by the Company; a capital gain of $10 million from the sale of intellectual property in the first quarter of 2015; a $6 million provision in the first and third quarters of 2015 due to a tax related event from 1985; and a $12 million provision in the first and fourth quarters of 2015 due to the early retirement of employees under an agreement from 2010. The Income Statement items for 2014 that appear in the above tables include adjustments for expenses in the amount of $4 million related to the preparation towards an IPO, and for a $2 million provision for the early retirement of employees in the third quarter. For an analysis of the differences between the adjusted Income Statement items and the Income Statement items as reported in the financial statements, see Appendix A.

## Summary of developments in the sector and in the Company's activities, and their effect on the Company's results

- **The Company markedly outperformed the sector in both the fourth quarter and the full year 2015** – as a result of deeper penetration by the Company into its markets, significant scale of launches of new and differentiated products, marked volume growth, reduction of manufacturing and procurement costs as well as operating expenses, combined with the effect of currency hedging, the Company succeeded in achieving these strong results despite the macroeconomic factors that negatively affected both the Company and the sector as a whole.
- **Strengthening of the US dollar against global currencies** – the widespread depreciation of currencies against the US dollar over the course of the year, in particular the 33% depreciation of the Brazilian Real, the 10% depreciation of the Euro and the 11% depreciation of the Australian dollar, had a significant negative effect on the reported sales of all companies in the sector reporting in US dollar terms, including the Company. The hedging transactions effected by the Company mitigated this negative impact to a certain extent. On the other hand, although not to the same extent, the depreciation of the currencies, including the depreciation of the Israeli Shekel against the US dollar, also helped the Company to reduce its costs in US dollar terms.
- **Changes in macroeconomic conditions in Brazil and other markets** – due to the traditionally strong seasonal influence of Brazil in the second half of the year, the effects of the political and economic crisis in the country on the Company's results in this period, and on those of the sector, were significant. In addition to the sharp depreciation of the Brazilian Real against the US dollar, which began at the beginning of 2015 and intensified during the third quarter of the year, the performances of both the Company and the sector generally in Brazil were also impacted by the lowering, during the quarter, of Brazil's credit rating to below Investment Grade, and, as a consequence, by a decrease in the availability of credit to customers. The results in Brazil were therefore also impacted by slower collection, higher costs of currency hedging, and by non-cash tax expenses due to the revaluation of tax reserves as a result of the depreciation of the currency. The Company also endeavored to reduce its exposure to currency and customer credit risks in Brazil by avoiding fulfilling certain orders.

  Additional agricultural markets affected by political and economic instability during the year include Argentina, Greece, Russia and Ukraine.
- **Low agricultural commodities prices in the last two years have led to a deterioration in farmers' profitability which, together with relatively high levels of inventory in the distribution channels, led to a slowdown in demand for crop-protection products** – however, notwithstanding these challenging industry conditions, the Company increased its quantities sold in both the fourth quarter and in the full year 2015, due to the launch of new products and the expansion of its business in both existing and new markets.

- **Significant decrease in the price of oil and its derivatives, as well as in the price of industrial inputs, as a result of the slowdown in the global economy** – the decrease in the prices of oil and other inputs during the year served to reduce the Company's production and procurement costs, through the reduction of energy and transportation costs, as well as the costs of both raw materials and intermediates.
- **Negative impact of El Niño** – the extreme drought conditions in Canada and South Africa, the floods in large areas of South America, and a late start to the rainy season in India were some of the negative effects of the El Niño climate phenomenon felt during the year, which led to a slowdown in demand in these areas.
- **Mergers and acquisitions in the sector** – further to several transactions executed in the sector in 2014, additional transactions were announced during 2015 and in the begining of 2016 that have not yet been completed, among them ChemChina's bid to acquire Syngenta.

The Company believes that the aforementioned macroeconomic trends and conditions prevailing in the sector are expected to continue into 2016. Accordingly, the Company expects that the levels of inventory in the distribution channels may pose challenges for sales in the sector and the Company in 2016, and that the Company's results will continue to be significantly affected by the depreciation of currencies compared to the US dollar. In particular, currency hedging transactions executed by the Company for 2016 are at lower exchange rates than in 2015, such that currencies, net of hedging, are expected to have a negative impact on the Company's results, especially in the first half of 2016.

The Company's estimations regarding projected effects on the Company's results in 2016 constitute forward-looking information as defined in the Israeli 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 projections may not materialize, or materialize in a different manner due, inter alia, to factors which are out of the Company's control, such as developments in the crop protection market, changes in demand for the Company's products, in currencies and in oil prices, and other macroeconomic trends.

# Analysis of the Company's results, as adjusted

## Sales

Sales increased by 12.6% in the quarter and by 7.4% in the year, at constant exchange rates, compared with the corresponding periods last year. This was driven by volume growth in each of the main regions in which the Company operates, resulting in overall volume growth for the Company of 7.0% in the quarter and 5.3% in the year, as well as by the raising of prices in local currency terms, in particular in Brazil, despite the challenging market conditions.

The depreciation of local currencies in the main regions in which the Company operates, although partially mitigated by currency hedging, led to a decrease in sales in US dollar terms of 3.6% and 4.9% in the quarter and in the year, respectively, compared to the parallel periods in 2014.

## Revenues split by region[2]

### Fourth quarter sales:

| | Q4 2015 $m | Q4 2014 $m | Estimated % change in CER | % Change in $ |
|---|---|---|---|---|
| Europe | 132 | 140 | +7.6 | -5.8 |
| North America | 147 | 134 | +9.7 | +9.4 |
| Latin America | 238 | 265 | +20.2 | -9.9 |
| Asia Pacific | 57 | 54 | +14.3 | +3.9 |
| India, Middle East and Africa | 76 | 81 | +0.2 | -5.7 |
| Of which, Israel | 23 | 23 | -0.3 | -1.1 |
| **Total** | **650** | **674** | **+12.6%** | **-3.6%** |

### Full year sales:

| | 2015 $m | 2014 $m | Estimated % change in CER | % Change in $ |
|---|---|---|---|---|
| Europe | 1,116 | 1,187 | +2.9 | -6.0 |
| North America | 573 | 545 | +6.0 | +5.2 |
| Latin America | 736 | 822 | +16.6 | -10.5 |
| Asia Pacific | 273 | 294 | +4.1 | -7.0 |
| India, Middle East and Africa | 366 | 373 | +5.8 | -2.1 |
| Of which, Israel | 94 | 103 | -1.2 | -8.6 |
| **Total** | **3,064** | **3,221** | **+7.4%** | **-4.9%** |

[2] As a result of the organizational change completed by the Company at the end of 2014 (for details, see Section 1.4.4 of Chapter A of the 2014 Periodic Report), as of the first quarter of 2015 the Company presents the distribution of sales according to the above geographical split.

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

The information included in the shaded boxes provides additional, non-material information about other developments and events that affected the Company's operations during the period.

## Europe

Sales in Europe increased by 7.6% in the fourth quarter and by 2.9% in the full year, at constant exchange rates, compared to the corresponding periods in 2014. This growth was achieved despite the very dry weather conditions in certain countries in the region, and was driven by significant volume growth stemming from the launch of new products and the deepening of commercial activities, which was somewhat offset by a decline in selling prices.

In US dollar terms, sales in Europe decreased by 5.8% and 6.0% in the quarter and the year, respectively, compared to the corresponding periods in 2014, reflecting the impact of the depreciation of local currencies.

- In the first half of 2015, a reduction in sugar beet acreage in the northern part of Europe, due to a decrease in quotas set by the European Union as a result of surplus crops in the prior year, led to a decrease in demand for products for this important crop. On the other hand, due to the warm weather in central Europe, there was increased demand for cereal fungicides. In the second half of 2015, the drought in parts of central Europe led to a reduction in acreage for oilseed rape and other winter cereals, leading to a decrease in demand for products for these crops.
- In Ukraine, despite the challenging macroeconomic conditions in the country, the Company significantly increased its sales and improved its profitability as a result of the expansion of its sales network and increasing proximity to leading customers, alongside new launches of differentiated products. Tight management of customer credit also enabled rapid responses and ensured good collection levels, even under the tough conditions prevailing in the country.
- The Company delivered a strong performance in South Eastern Europe and Italy owing to an increased focus on differentiated products and key customers.
- The Company continues to improve its portfolio mix in the region and, among other initiatives, launched BREVIS™ in selected key markets. This is an innovative, patent-protected product for the thinning of apples and pears, which helps foster the growth of larger fruit, without the need for manual work, special lifting equipment and excessive amounts of energy.

## North America

Sales in North America increased by 9.7% in the fourth quarter and by 6.0% in the full year, at constant exchange rates, compared to the corresponding periods in 2014, despite the challenging market conditions in the region, including the harsh drought in Canada. This increase stemmed from the continued focus on increasing engagement with key customers and from the launch of additional products, which led to significant volume growth in both the quarter and in the full year.

In US dollar terms, and despite the depreciation of the Canadian dollar by 16.3% in 2015, sales in North America increased by 9.4% in the quarter and by 5.2% in the year, compared to the corresponding periods in 2014.

- The Company deepened its commercial activities in the United States in order to strengthen its engagement with farmers in crops with high added value, to improve its differentiated portfolio to meet farmers' needs in these crops, and to increase demand for its related products. Among other initiatives, the Company launched NIMITZ™, a novel, patent-protected product that dramatically simplifies the control of nematodes, and in particular, prevents having to engage in complex soil fumigation treatments.
- The Company advanced its collaboration with companies of the ChemChina Group, and during the year, began to commercialize in the United States, in significant volumes, important products from these companies, such as PARAZON® and ETHEPHON.
- The Company's results in Canada were negatively affected by the harsh drought in that country and by the depreciation of the Canadian dollar.
- The positive momentum of the Company's Consumer and Professional Solutions business in the United States continued as a result of the implementation of the Company's strategy to strengthen its direct access to the market, as well as the launch of differentiated products which significantly contributed to its profitability, such as ENCLAVE®, an innovative and unique broad-spectrum fungicide comprised of a mixture of four active ingredients.

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

## Latin America

Sales in Latin America increased by 20.2% in the fourth quarter and by 16.6% in the full year, at constant exchange rates, compared to the corresponding periods in 2014, despite the challenging conditions in the region, including harsh droughts in some areas and floods in others due to El Niño, and the macroeconomic crisis in Brazil, which deteriorated in the second half of 2015. The increase in sales stemmed from both growth in volumes as well as price increases.

In US dollar terms, sales in Latin America decreased by 9.9% in the quarter and by 10.5% in the year, compared to the coresponding periods in 2014, reflecting the impact of the significant depreciation of currencies in the region, which was partially offset by price increases in local currencies.

- The political and economic crisis in Brazil, which worsened in the second half of the year, resulted in a shortage of credit alongside the volatile depreciation of the Brazilian Real, an increase in the country's credit risk and in the costs of hedging. These factors, together with the relatively low prevailing agricultural commodity prices, all contributed to the extremely difficult conditions in the country's agricultural sector, including the exhaustion of customer credit lines and high inventory levels throughout the distribution channels.
- These conditions led the Company to take proactive steps in order to reduce its exposure to the Brazilian crisis, including the decision not to fulfill certain orders, and in so doing, to limit its sales in the country. By taking these steps, the Company succeeded in preserving, and even slightly increasing, its market share, while significantly reducing its exposure to currency and credit risks.
- The Company continued to invest in strengthening its marketing activities in Brazil and in the further differentiation of its portfolio, and launched four unique products during the year.
- In Colombia and the other countries of the Andean region, and in Mexico, the Company delivered good performances, despite the depreciation of the local currencies and difficult weather conditions.

## Asia-Pacific

Sales in Asia-Pacific increased by 14.3% in the fourth quarter and by 4.1% in the full year, at constant exchange rates, compared to the corresponding periods in 2014, despite the harsh El Niño-related drought in several countries of Southeast Asia, such as Thailand. The increase in sales was driven by increased marketing activity and the launch of new products, which resulted in significant volume growth. Prices of some less-differentiated products declined to a certain extent.

In US dollar terms, sales in Asia-Pacific increased by 3.9% in the quarter and decreased by 7.0% in the year, compared to the corresponding periods in 2014, reflecting the impact of the depreciation of the local currencies, most notably of the Australian dollar by 11% over the course of the year.

- The Company has continued to differentiate its portfolio in the region, and launched 10 unique products during the year, including the nematicide NIMITZ™, which was successfully launched in Australia.
- The Company refocused its businesses in several markets in the region, including Thailand, Vietnam and Korea, with an emphasis on building up marketing and distribution networks that improve direct access to customers, as well as promoting products that have high added-value for the farmer.
- In Australia and New Zealand the Company continued with its positive momentum, supported by the new brand, a range of differentiated products and increasing proximity to the farmers.

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

## India, Middle East and Africa

Sales in the region remained stable in the fourth quarter, while sales for the full year increased by 5.8%, at constant exchange rates, compared with the corresponding periods in 2014. This increase stemmed from a significant growth in volumes, resulting from the launch during the year of differentiated products, as well as an increase in sales of products launched during the previous year, combined with expansion in main focus markets, and was achieved despite the drought in several main countries in the region, among them India and South Africa. This growth was partially offset by a decline in selling prices, especially of less-differentiated products.

In US dollar terms, sales in the region decreased by 5.7% in the quarter and by 2.1% in the year, compared to the corresponding periods in 2014, reflecting the impact of the depreciation of the local currencies, most notably of the South African Rand by almost 35%.

- Despite the drought in south west India, the Company's sales in the country grew, and it successfully launched, among others, the differentiated fungicide CUSTODIA™, which is a mixture of two active ingredients, facilitating dual action against a wide range of diseases.
- During 2015 the Company successfully launched its activities in Turkey.
- The Company's performance in South Africa was impacted by harsh drought and by the resulting high levels of inventory in the distribution channels.
- The Company refocused its activities in all markets in the region, with an emphasis on more profitable sales and a reduction in the sale of less-differentiated products, especially in the markets of West Africa.

## The Company is continuing to realize its strategic objectives, including the development and enhancement of its go-to-market approach and its commercial network, the transformation of its product portfolio, the strengthening of its global brand and its commercial and operational integration in China.

### Innovation, Research & Development, and Registration (IDR)

- During 2015, the IDR Division, which was established at the end of the previous year, initiated a comprehensive, in-depth and systematic review of the Company's portfolio, and as a result, is increasingly directing research, development and registration resources towards higher value-added, more unique and differentiated products.
- During the year, innovative, patented products such as NIMITZ™ and BREVIS™ were launched in several key countries in the Americas, Australia, Europe and Israel, and hundreds of new registrations were obtained worldwide.

### Marketing and Product Strategy

- The Company is in the process of implementing a new go-to-market approach, facilitating more direct contact with end customers and increased proximity to farmers, in order to better understand their needs and to provide them with improved solutions. This approach has already been implemented in several key markets such as Brazil and France, and it is expected to be expanded to 20 more countries over the next two years.
- The Company's Marketing function has recently been combined with Product Strategy into a single division, managed by Walter Costa, who joined the Company in early 2016 after having managed FMC's agrochemical business in Brazil.

### Operations

- In the culmination of a 10-year project, during the fourth quarter of 2015 the Company's plants in Israel, located in Ashdod and Neot Hovav, were connected to natural gas power stations. This development is expected to lead to both an improvement in the Company's environmental footprint as well as a reduction in production costs.
- During the year, the Company launched key facilities at Neot Hovav, including the NIMITZ™ production facility, as well as new production lines at the production facility for RIMON™, a differentiated insecticide.

### Build-up and integration of activities in China

- The Company is continuing to progress towards the realizaion of its strategic goals in China, especially the establishment of its commercial and operational activities in the country.
- During the year, the Company started building its sales network by recruiting dozens of new salespeople, and at the beginning of 2016 launched its direct sales activity in the Chinese market. The Company is becoming the sole commercial platform in China for the marketing of formulated products of several CNAC companies.
- On the operational side, the construction of the Company's new, state-of-the-art formulation and packaging center in the city of Huai'an is progressing, and the plant is expected to come on-stream at the end of 2016.

## Gross profit

In the fourth quarter, the Company increased its gross profit in all main regions of its operations, resulting in an increase of 2.6 percentage points in the Company's gross margin compared to the corresponding period in 2014. This increase stemmed from improving the differentiation and focus of its product portfolio, price increases in local currency terms, and significant volume growth, as well as from a marked reduction in production and procurement costs, all against the backdrop of significant negative currency headwinds.

In the full year, despite an improvement in gross margins in most of its main regions, the Company's overall gross margin was largely stable in comparison with 2014, while the gross profit declined in absolute terms. This decline reflects the impact of the depreciation of local currencies, as well as the tight management of currency and credit risks in Brazil with a focus on collections, which was partially mitigated by a continued improvement in the Company's product portfolio, as well as by a significant decrease in manufacturing and procurement costs and the impact of currency hedging.

## Operating income

Tight expense management and the positive effect of the depreciation of the currencies, as well as a decrease in variable expenses, contributed to a marked decrease in operating expenses, both in absolute terms as well as in percentage of sales terms, both in the fourth quarter and in the full year. The reduction in Sales and Marketing expenses, in both absolute and percentage terms, in the quarter and in the full year, as compared with the corresponding periods in 2014, arose mainly from a reduction in payroll, marketing and variable costs. The reduction in General and Administrative costs, in both absolute and percentage terms, in both the quarter and the full year, as compared with the corresponding periods in 2014, was due mainly to a reduction in professional services.

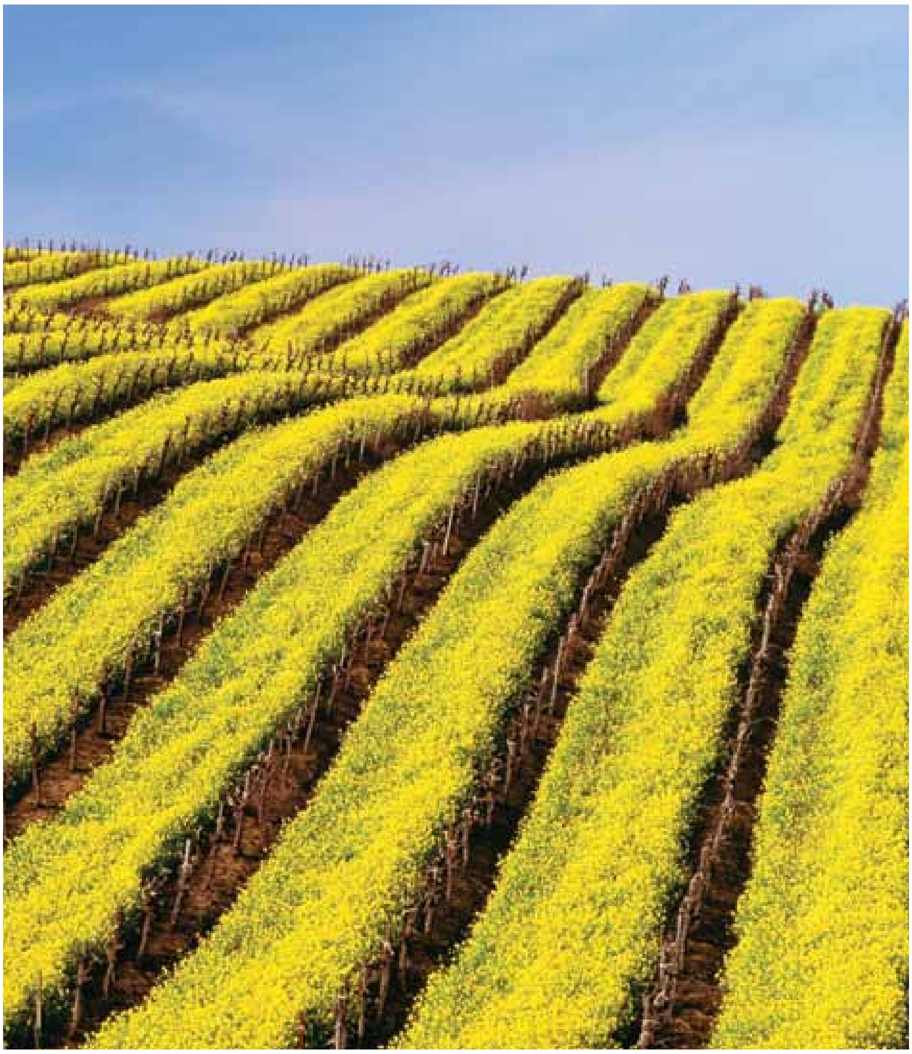
Sales and Marketing expenses in the fourth quarter and in the full year were $130 million (19.9% of sales) and $534 million (17.4% of sales), respectively, as compared with $140 million (20.8% of sales) and $571 million (17.7% of sales), respectively, in the corresponding periods in 2014.

Research and Development expenses in the quarter and the full year were $7 million (1.2% of sales) and $30 million (1.0% of sales), respectively, as compared with $8 million (1.1% of sales) and $34 million (1.0% of sales), respectively, in the corresponding periods in 2014.

General and Administrative expenses in the quarter and in the full year were $27 million (4.1% of sales) and $103 million (3.3% of sales), respectively, compared to $28 million (4.2% of sales) and $112 million (3.5% of sales), respectively, in the corresponding periods in 2014.

## Financing expenses

Financing expenses in the fourth quarter and the full year increased compared to the corresponding periods in 2014 as a result of higher costs of financial hedging, as well as interest rate differentials between the US dollar and local currencies that serve to further increase hedging costs. The elevated cost is caused by the increased volatility in the exchange rates during the year, compared to the corresponding periods in 2014. This increase was partially offset by a decrease in financing expenses related to CPI-linked debentures issued by the Company, as a result of the decrease in the Israeli Consumer Price Index during the year.



## Tax expenses

Tax expenses in the fourth quarter and the full year were $8 million and $44 million, respectively, slightly lower than the $10 million and $47 million, respectively, in the corresponding periods in 2014.

Despite the decrease in pre-tax loss in the quarter, tax expenses were lower relative to the corresponding period in 2014 due to the strengthening of the Brazilian Real against the dollar during the fourth quarter, which led to a revaluation of tax assets and to an erosion of non-cash tax provisions in Brazil.

The decrease in tax expenses for the year is relatively moderate considering the decrease in pre-tax income, which is due to non-cash tax expenses in Brazil resulting from the significant weakening of the Brazilian Real compared to the dollar over the course of the full year, which led to an erosion of tax assets and to a revaluation of non-cash tax provisions in Brazil.

# Revenues by operating segment

## Fourth quarter sales split by operating segment

| | Q4 2015 $m | % | Q4 2014 $m | % | Change $m | Change % |
|---|---|---|---|---|---|---|
| Crop protection (Agro) | 605 | 93.0% | 631 | 93.7% | -26 | -4.2% |
| Other (Non-Agro) | 45 | 7.0% | 43 | 6.3% | +2 | +5.6% |

## Full year sales split by operating segment

| | 2015 $m | % | 2014 $m | % | Change $m | Change % |
|---|---|---|---|---|---|---|
| Crop protection (Agro) | 2,884 | 94.1% | 3,029 | 94.0% | -145 | -4.8% |
| Other (Non-Agro) | 180 | 5.9% | 192 | 6.0% | -12 | -6.3% |

# Financial Condition and Liquidity

Owing to changes made to the Company's Receivables Financing Facility Agreement[3] in the first quarter of 2015, the trade receivables within the framework of the Receivables Financing Facility Agreement (in the amount of $192 million as of December 31, 2015) are not included in the balance sheet.

## Cash flow and investment in fixed assets

In the fourth quarter the Company generated positive operating cash flow of $14 million. Adjusting for the reduction in receivables resulting from the amendment to the Receivables Financing Facility Agreement described above, adjusted operating cash flow in the fourth quarter amounted to $97 million compared to $44 million in the fourth quarter last year.

The improvement in cash flow in the quarter, after adjusting for the reduction in receivables, stemmed from a decrease in net loss, a reduction in inventories, and a decrease in receivables (in light, inter alia, of a reduction in sales in US dollar terms) which were offset by a decrease in payables due to a decrease in procurement and other costs.

In the full year, the Company generated positive operating cash flow of $107 million. Adjusting for the reduction in receivables resulting from the amendment to the Receivables Financing Facility Agreement described above, adjusted operating cash flow in the full year amounted to $168 million, compared to $179 million in 2014.

Despite the decrease in net income in the year, there was no significant change in the operating cash flow in the period (after adjusting for the abovementioned reduction in receivables). Similarly to the quarter, this strong operating cash flow performance in the full year was achieved through the reduction in inventories, a decrease in receivables (in light, inter alia, of a reduction in sales in US dollar terms) which were offset by a decrease in payables due to a decrease in procurement and other costs.

The Company's investments in the fourth quarter and in the full year amounted to $54 million and $193 million, respectively, compared to $39 million and $199 million (adjusting for a deposit in the amount of $53 million whose terms were changed in 2014 and was therefore reclassified as cash), respectively, in the parallel periods last year. These investments included, primarily, investments in product registrations, intangible assets and fixed assets. The investments in fixed assets in the quarter and in the year, which included investments in plant and equipment, including facilities for the maintenance of the environment, amounted, net of investment grants, to $24 million and $117 million respectively, compared to $14 million and $101 million, respectively, in the corresponding periods last year. The investments reflected a stable amount of investment in Israel and an increased amount of investment for construction in China.

In the fourth quarter, the Company generated negative free cash flow of $40 million. Adjusting for the abovementioned reduction in receivables resulting from the amendment to the Receivables Financing Facility Agreement, the Company generated positive adjusted free cash flow in the quarter of $43 million, compared to $5 million in the corresponding quarter in 2014.

In the full year, the Company generated negative free cash flow over the year of $86 million. Adjusting for the abovementioned reduction in receivables resulting from the amendment to the Receivables Financing Facility Agreement, the Company generated negative adjusted free cash flow for the year of $25 million. This compares with positive free cash flow of $33 million in 2014, and (adjusting for the abovementioned reclassification of a $53 million deposit in 2014 as cash) adjusted negative free cash flow of $20 million in 2014.

## Current assets

Total current assets at the end of 2015 amounted to $2,627 million compared to $3,039 million at the end of 2014.[4]

3 For more information about the Receivables Financing Facility Agreement and the amendments made in the first quarter of 2015, see Note 4 to the Company's financial statements as of December 31, 2015.

4 A non-material adjustment of the comparative figures was effected in 2014.

## Cash, current liabilities and long-term loans

The Company's total financial liabilities at the end of 2015, including bank loans and debentures, amounted to $1,554 million (of which 20.8% was short term), compared to $1,640 million (of which 28.9% was short term) at the end of 2014.

The Company's balances of cash and short-term investments at the end of 2015 amounted to $400 million, compared to $416 million at the end of 2014.

The Company's net debt at the end of 2015, including bank loans, debentures, the effects of hedging transactions attributed to debt, net of cash and short-term investments, amounted to $1,184 million, compared to $1,333 million at the end of 2014, which then included receivables under the securitization facility in the amount of $155 million.

As of December 31, 2015, during 2015 and as of the date of publication of this report, the Company complied with the financial covenants included in its securitization plan and financing agreements.[5]

## Shareholders' equity

The Company's shareholders' equity at the end of 2015, after distribution of a $100 million dividend during the year, amounted to $1,567 million, compared to $1,591 million at the end of 2014.[4] Equity as a proportion of the total assets was 36.2% as of December 31, 2015, and 33.6% on December 31, 2014.

The Company's issued and paid-up share capital at the end of 2015 is 137,990,881 ordinary shares of NIS 3.12 par value each.

## Financial ratios

| As at December 31: | 2015 | 2014 |
|---|---|---|
| Ratio of current assets to current liabilities (current ratio) | 1.87 | 1.64 |
| Ratio of current assets, excluding inventory, to current liabilities (quick ratio) | 1.05 | 0.98 |
| Ratio of financial liabilities to total assets[6] | 35.9% | 34.6% |
| Ratio of financial liabilities to total equity, gross[7] | 99.2% | 103.1% |

5 For more information about the financial covenants that apply to the Company pursuant to the provisions of the financing agreements and the Receivables Financing Facility Agreement, see Section 23.4 in Chapter A of the Periodic Report for 2015, and Note 20 to the financial statements as of December 31, 2015.

6 In the comparative figures for 2014, the financial liabilities include also liabilities in respect of the Receivables Financing Facility Agreement in the amount of $155 million which, as of the first quarter of 2015, is no longer included in the balance sheet.

7 In the comparative figures for 2014, a non-material adjustment of the comparative figures was effected such that the financial liabilities include liabilities in respect of the Receivables Financing Facility Agreement in the amount of $155 million which, as of the first quarter of 2015, is no longer included in the balance sheet.

## Financing sources

The Company finances its business operations from its equity and from external funding sources.[8]

## Warning signs[9]

In view of the consolidated financial structure of the Group, 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, unconsolidated 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 Company's consolidated financial statements reflect a positive level of working capital and cash flow from operating activities. This positive working capital, which includes, at the reporting date, a cash balance of $395 million, is the principal source for the repayment of the Company's liabilities.

Based on the structure of the operations of the Group, the manufacturing companies in Israel, ADAMA Makhteshim and ADAMA Agan, 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 and in return for debentures issued by the Company, allocated to the manufacturing companies as loans at identical terms to those of the debentures, including the repayment date.

8 For details, see Section 23, Financing and Credit, and also Section 22.2, Customer Credit, and Section 22.5, Supplier Credit in Chapter A of the 2015 periodic report.

9 As defined in Article 10B(4) of the Securities Regulations (Periodic and Immediate Reports), 1970.

# Market Risks – Exposure and Risk Management

The Company conducts its business in various currencies. Due to its activities, the Company is exposed to market risks, primarily exchange rate fluctuations, partial adjustment of the prices of products to reflect the prices of raw materials, changes in the level of the CPI, and changes in the LIBOR interest rate. The Company's Board of Directors has approved the use of accepted financial instruments for hedging against exposure to exchange rate fluctuations and a rise in the CPI. The Company effects these transactions only through banks and exchanges which must comply with capital adequacy requirements or maintain a level of collateral based on various scenarios.[10]

The exchange rate fluctuations of the currencies during the quarter and the year impact various sections of the Company's financial statements.[11] The net impact of the changes in currency exchange rates in the period after the date of the financial statements on the balance sheet exposure is not material, due to the high rate of balance sheet hedging carried out by the Company.

The Company's Chief Financial Officer ("CFO"), Mr. Aviram Lahav, is responsible for the Company's market risk management.[12]

## The Company's market risk management policy

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

## Currency risks

The Company reports its consolidated financial statements in US dollars, which is its functional currency, while its operations, sales and purchases of raw materials are carried out in various currencies. Therefore, fluctuations in the exchange rate of the selling currency against the purchasing currency impact the Company's results. In the Company's assessment, the Group's most significant exposures are to the Euro, the Israeli Shekel and the Brazilian Real. The Company has lesser exposures to other currencies. The strengthening of the US dollar against the other currencies in which the Company operates reduces the level of the Company's dollar sales and vice versa.

On an annual perspective, around 36% 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.

On an ongoing basis, the Company aggregates its foreign currency exposure deriving from the effect of fluctuations in exchange rates on its assets, including inventory of finished products in selling countries, liabilities and cash flow denominated in foreign currencies. High volatility in the exchange rates of these currencies could increase the costs of transactions to hedge against currency exposure, thereby increasing the Company's financing costs.

The Company uses commonly accepted financial instruments to hedge most of its substantial net balance sheet exposure to any particular currency. Nonetheless, since as part of these operations

[10] For details relating to credit risk and liquidity risk, see Note 29 to the consolidated financial statements of the Company for 2015.

[11] For details of exchange rates of the main currencies in which the Company is active compared to the dollar and details of the Libor rate, refer to Appendix 4.

[12] For information about Mr. Lahav's education, qualifications and business experience, see section 26A in Chapter D of this period report.

the Company hedges against most of its balance sheet exposure and only against part of its economic exposure, exchange rate volatility might impact the Company's results and profitability. As of the date of approval of the financial statements, the Company has hedged most of its balance sheet exposure for 2016 as it is on the date of publication of this report.

In addition, as the Company's product sales depend directly on the cyclical nature of the agricultural seasons, the Company's income and its exposure to the various currencies is not evenly distributed over the year. Countries in the northern hemisphere have similar agricultural seasons and therefore, in these countries, the highest sales are usually during the first half of the calendar year. During this period, the Company is most exposed to the Euro, the Polish Zloty and the British Pound. In the southern hemisphere, the seasons are opposite and most of the local sales are carried out during the second half of the year. During these months, most of the Company's exposure pertains to the Brazilian Real. The Company has more sales in markets in the northern hemisphere and therefore, the Company's sales are higher during the first half of the year than during the second half of the year.[13]

## Exposure to CPI

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

## Risks related to raw material prices

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

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

## Interest rate risks

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

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

[13] For more information, see Note 29 to the Company's financial statements for 2015.

A summary of sensitivity tests carried out by the Company for changes in exchange rates for balance-sheet balances, net of instruments for hedging such balances (in thousands of US dollars) is as follows[14]:

| US Dollar/NIS | Profit (loss) from changes | | Base Asset | Profit (loss) from changes | |
|---|---|---|---|---|---|
| | +10% | +5% | | -5% | -10% |
| Exchange rate | 4.292 | 4.097 | 3.902 | 3.707 | 3.512 |
| **Total** | **(10,381)** | **(8,351)** | **(4,289)** | **3,531** | **8,945** |

| Euro/US Dollar | Profit (loss) from changes | | Base Asset | Profit (loss) from changes | |
|---|---|---|---|---|---|
| | +10% | +5% | | -5% | -10% |
| Exchange rate | 0.980 | 1.034 | 1.088 | 1.143 | 1.197 |
| **Total** | **(376)** | **(179)** | **(4,828)** | **582** | **839** |

| US Dollar/Brazilian Real | Profit (loss) from changes | | Base Asset | Profit (loss) from changes | |
|---|---|---|---|---|---|
| | +10% | +5% | | -5% | -10% |
| Exchange rate | 4.295 | 4.100 | 3.905 | 3.710 | 3.514 |
| **Total** | **(6,510)** | **(2,801)** | **35,449** | **2,642** | **5,929** |

| GBP/US Dollar | Profit (loss) from changes | | Base Asset | Profit (loss) from changes | |
|---|---|---|---|---|---|
| | +10% | +5% | | -5% | -10% |
| Exchange rate | 1.334 | 1.408 | 1.482 | 1.556 | 1.631 |
| **Total** | **(181)** | **(91)** | **1,296** | **91** | **181** |

| US Dollar/Polish Zloty | Profit (loss) from changes | | Base Asset | Profit (loss) from changes | |
|---|---|---|---|---|---|
| | +10% | +5% | | -5% | -10% |
| Exchange rate | 4.291 | 4.096 | 3.901 | 3.706 | 3.511 |
| **Total** | **(3,472)** | **(1,728)** | **34,359** | **1,728** | **3,472** |

| US Dollar/South African Rand | Profit (loss) from changes | | Base Asset | Profit (loss) from changes | |
|---|---|---|---|---|---|
| | +10% | +5% | | -5% | -10% |
| Exchange rate | 17.114 | 16.336 | 15.558 | 8.062 | 7.637 |
| **Total** | **(264)** | **(100)** | **(732)** | **100** | **264** |

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

# Corporate Governance

## Terms of employment and remuneration of the Company's officers

As part of the 2015 financial statement approval process, the Company's Board of Directors discussed the employment and remuneration terms of each of the Company's executive officers[15], in accordance with the Company's remuneration policy.[16]

After examining the remuneration awarded to each of the senior officers, and after being presented with the contribution of each officer during 2015 as well as comparable data, the Board of Directors came to the conclusion that such remunerations comply with the compensation 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 high quality human resources in the Company's global competitive environment and its character as a private company with publicly issued debentures.

## Directors with accounting and financial expertise

As of the date of publication of this report, there are four directors in the Company approved by the Board of Directors as having accounting and financial expertise: Mr. Gustavo Traiber (external director), Ms. Dalit Braun (external director), Mr. Jiashu Cheng (independent director), and Mr. Lu Xiaobao (director).[17]

## 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.

15 Including those stipulated in the provisions of Regulation 21 to the Securities Regulations (Periodic and Immediate Reports), 1970.

16 For details about the Company's compensation policy, see the immediate report published by the Company on November 10, 2014 (reference No. 2014-01-191292).

17 In accordance with the Board of Director's decision, the minimum number of directors with accounting and financial expertise in the Company is two (2). For additional details about the aforementioned directors, see Regulation 26 in Chapter D of this Periodic Report.

## The Internal Auditor

- Mr. Yehoshua Hazenfratz, CPA, serves as internal auditor of the Company.
- To the best of the Company's knowledge, based on the declaration of the internal auditor, the internal auditor complies with the corresponding legal provisions.[18]
- To date, as the internal auditor informed the Company, the internal auditor does not hold any securities of the Company or of any entity related to it.
- To the best of the Company's management's knowledge, and as the Company was informed by the internal auditor, the internal auditor does not have any material business connections or other material connections with the Company or with an entity related to it and the internal auditor's other business connections do not cause a conflict of interest with his position as internal auditor of the Company.
- The internal auditor is an external service provider of the Company on behalf of the accounting firm Shiff Hazenfratz & Co., Risk Control and Management Consultancy, in which he is a partner. Other than his position as the internal auditor of the Company, the internal auditor is not employed by the Company, nor provides it with any other external services.
- Mr. Yehoshua Hazenfratz was appointed to serve as the Company's internal auditor at the recommendation of the Company's Audit Committee, and in terms of the Company's Board of Directors resolution of November 2007. In the Company's Audit Committee and Board of Directors meetings, Mr. Hazenfratz was appointed as the internal auditor after his qualifications and experience were examined 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. In February 2012, the Company's Board of Directors approved the continuation of Mr. Hazenfratz's service as internal auditor of the Company.[19]
- The person within the organization who is in charge of the internal auditor is the Company's Chief Executive Office ("CEO").
- The internal auditor's audit plan is an annual plan that is derived from a multi-year work plan. The internal auditor's annual work plans are prepared by the internal auditor of the Company, in coordination with, and with the approval of, the Board of Directors, under the supervision of the CEO, and approved by the Board of Directors after receiving the recommendations of the Company's Audit Committee. The considerations guiding the preparation of the plan are based on the issues considered to be appropriate for in-depth examination according to their risk level, for the purpose of locating deficiencies, streamlining systems, guaranteeing protection of the Company's assets, and ensuring compliance with the Company's procedures and the laws of the countries in which the Company operates. The audit work plan is adapted to the developments and findings of the audit. Changes in the work plan are contingent upon the approval of the Board of Directors.
- The internal audit work plan also includes auditing the follow-up of implementation of the recommendations of the internal auditor and the Audit Committee by the Company's management, or by the internal auditor.
- The internal auditor receives an invitation, together with background material, to the Company's Audit Committee meetings and is present at the Committee meetings at which significant transactions are examined and approved.[20] 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.

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18 The internal auditor complies with the provisions of Section 146 to the Companies Law and with the provisions of Section 8 to the Internal Audit Law

19 Pursuant to the provisions of Amendment No. 17 to the Companies Law, 1999 entering into effect.

20 As the term is defined in the fourth amendment to the Securities Regulations (Periodic and Immediate Reports), 1970.

- The internal auditor also serves as the internal auditor of the Group companies in Israel, ADAMA Makhteshim and ADAMA Agan. The auditing of the Group outside Israel is carried out by the accounting firm Deloitte.
- Material investees of the Company are audited according to a multi-year audit plan that includes a range of auditing topics, once every several years for each investee.
- The scope of the internal auditor's service is determined by the Audit Committee based on the audit plan that is approved by the Board of Directors. In 2015, the number of internal audit work hours at the Company and its subsidiaries totaled to approximately 3,059 hours. The scope of the work is set according to the needs of the audit plan and is not limited by the Company.

| | Work hours |
|---|---|
| Internal audit in the Company and its investees | 3,059 |
| Internal audit in the Company's investees | 2,340 |
| Internal audit of operations in Israel | 2,115 |
| Internal audit of operations outside of Israel | 944 |

The scope of the auditing work hours in the Company and its investees is set based on the audit plan proposed by the internal auditor in conjunction with the management and approved by the Audit Committees of the various Boards of Directors.

- The internal auditor and the team of employees under him are required to carry out the audit while strictly complying with the criteria prescribed for conducting a professional, reliable, independent audit that is not dependent on the audited body. The Board of Directors relied on the internal auditor's reports concerning his compliance with the professional standards according to which the audit is carried out.
- The internal auditor of the Company has free, 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 outside Israel, the internal auditor examines whether audits have been conducted in each subsidiary and whether there is a work plan for the following year, based on reports the internal auditor receives from the auditors of the relevant companies.
- At the meetings of the Audit Committee in 2015, 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.[21]
- In the opinion of the Company's Board of Directors, the scope, nature and continuity of the internal auditor's activities and his work plan are reasonable and fulfill the Company's internal audit goals.
- The remuneration paid to the internal auditor is based on working hours and according to the work plan that is approved by the Board of Directors. At the beginning of each year, the auditor submits a proposal for the annual audit plan which includes the planned number of work hours. The Board of Directors determines the audit work plan and the number of work hours. The auditor does not exceed the number of work hours without the consent of the Board of Directors. In the event that additional tasks are allocated to the auditor during the course of the audit year, the Board of Directors determines the number of work hours for the additional tasks. In 2015 the internal auditor's remuneration for his work in Israel amounted to approximately $109 thousand. The total payment for audit activities outside of Israel amounted to

[21] On January 19, 2015 the Audit Committee discussed two reports issued in January 2015. On February 15, 2015, the Audit Committee discussed two reports issued in February 2015. On June 9, 2015, the Audit Committee discussed a report issued in June 2015. On July 22, 2015, the Audit Committee discussed a report issued in July 2015. On November 5, 2015, the Audit Committee discussed a report issued in October 2015. On January 13, 2016, the Audit Committee discussed two reports, one of which was issued at the end of December 2015, and the other in January 2016. And on January 17, 2016, the Audit Committee discussed a report issued in January 2016.

approximately $162 thousand. The Company estimates that since the remuneration is based on working hours, such remuneration does not affect the professional considerations of the internal auditor.

## Donations

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

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

The Company has decided to focus on activities for the benefit

of the community in education and in a variety of excellence programs, as well as on bridging gaps and strengthening at-risk populations. The Company puts special emphasis on the promotion of education in subjects like chemistry, agriculture and sustainability, which are fields that align with the core of the Company's business activities, as well as on investments connected to health, culture, art, sport, heritage, welfare, and in Israel also to those serving in the IDF.

In 2015 the Company donated an amount of approximately $1.5 million, of which approximately $1.3 million in Israel.

## Company's auditor

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

The fees paid to KPMG in 2015 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 $950.3 thousand (for 20.6 thousand work hours), compared to $1,069 thousand (for 21.1 thousand hours) in 2014. KPMG did not provide other services to the Company in Israel during 2015. In 2014, KPMG's fees for other services amounted to $350 thousand (for 6 thousand work hours).

Fees paid to KPMG in 2015 for auditing services outside of Israel amounted to $2,522 thousand (for 30.0 thousand working hours), compared to $3,028 thousand (for 27.6 thousand hours) in 2014. KPMG did not provide other services for the Company outside of Israel during 2015. In 2014, KPMG's fees for other services outside of Israel amounted to $763 thousand (for 5.6 thousand work hours).

The fees for auditing services are more than half of the total paid to the auditors by the Company in the reporting year. The fees are paid on the basis of working hours. The Company's Board of Directors approves the auditors' fees.

## Approval process of the financial statements

The members of the Financial Statements Review Committee (the "Committee") in the Company are members of the Audit Committee – Mr. Gustavo Traiber, who acts as Chairman of the Committee, Ms. Dalit Braun, and Mr. Jiashu Cheng. All the Committee Members gave a declaration prior to their appointment, concerning their education and experience, based on which the Company regards them as having accounting and financial expertise or as having the ability to read and understand financial statements.[22] As part of the process for approval of the financial statements, the CFO presented to the Committee a detailed document with 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 10, 2016 to review the financial statements for the year ended December 31, 2015.[23]

Representatives of the Company's auditors, who are invited to the meetings of the Financial Statements Review Committee and of the Board of Directors at which the financial statements (which are sent several days prior to the meeting) are discussed and approved, provided their comments and responded to questions 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

[22] For details about the education and experience of the Committee Members, see Regulation 26 to Chapter D to this period report.

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

the Board of Directors, within a reasonable period of time prior to the date of the Board's discussions.

When presenting the financial statements to the Board of Directors, the Company's CEO 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 presented a detailed document with 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, 2015 and resolved to approve them.

# Buybacks

The Company did not repurchase any Company securities in 2015.

For information concerning index-linked balances and events that occurred after the date of the report connected to the Company's financial state, see Note 29 and Note 32 to the Company's financial statements for 2015, respectively. For information about the debentures held by the public at the reporting date, see Appendix B.

The Company's Board of Directors and management express their gratitude to the Company's officers, managers and employees, and thank them for their large contribution, willingness, and ability to cope with the challenges that the Company faced in 2015

| | | |
|---|---|---|
| **Yang Xingqiang**<br>Chairman of the Board | **Chen Lichtenstein**<br>President & CEO | **Aviram Lahav**<br>CFO |

March 14, 2016

# Appendix

## Appendix A – Analysis of the gaps between the adjusted income statement items and the income statement items in the financial statements

| | Adjusted | | Adjustments | | Reported | |
|---|---|---|---|---|---|---|
| $m | Q4 2015 | Q4 2014 | Q4 2015 | Q4 2014 | Q4 2015 | Q4 2014 |
| Revenues | 650 | 674 | - | - | 650 | 674 |
| Gross profit | 195 | 185 | - | - | 195 | 185 |
| Operating expenses | 165 | 174 | 2.4 | - | 167 | 174 |
| Operating income (EBIT) | 30 | 11 | -2.4 | - | 28 | 11 |
| Finance expenses, net | 40 | 32 | - | 3.5 | 40 | 36 |
| Net income before taxes | -12 | -22 | -2.4 | -3.5 | -15 | -26 |
| Net income | -20 | -33 | -2.4 | -3.5 | -23 | -36 |
| EBITDA | 76 | 53 | -2.4 | - | 74 | 53 |

| | Adjusted | | Adjustments | | Reported | |
|---|---|---|---|---|---|---|
| $m | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Revenues | 3,064 | 3,221 | - | - | 3,064 | 3,221 |
| Gross profit | 970 | 1,025 | - | - | 970 | 1,025 |
| Operating expenses | 667 | 712 | 2.4 | 1.8 | 670 | 714 |
| Operating income (EBIT) | 303 | 313 | -2.4 | -1.8 | 300 | 311 |
| Finance expenses, net | 133 | 120 | 6.5 | 3.5 | 140 | 124 |
| Net income before taxes | 168 | 198 | -8.9 | -5.3 | 159 | 193 |
| Net income | 124 | 151 | -14.5 | -5.3 | 110 | 146 |
| EBITDA | 474 | 480 | -2.4 | -1.8 | 472 | 478 |

The income statement items for 2015 that appear in the above tables include adjustments for: the revaluation in the first and second quarter of options on debentures issued by the Company in the first quarter of 2015 in the amount of $6.5 million; capital gain of $10 million from the sale of intellectual property in the first quarter of 2015; a tax provision of $5.6 million in the first and third quarters of 2015 for an event that occurred in 1985; and a provision of $12.4 million in the first and fourth quarters of 2015 due to the early retirement of employees resulting from an agreement executed in 2010.

The income statement items for 2014 that appear in the above tables include adjustments that are due to expenses for the preparation towards an IPO in the amount of $3.5 million, and for a provision of $1.8 million in the third quarter for the early retirement of employees resulting from an agreement executed in 2010.

# Appendix B – Details of the Company's debentures as at the end of 2015

| 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 (in NIS millions) |
|---|---|---|---|---|---|---|---|
| **Series B** (1) (3) (4) (5) (8) | Dec. 06 | ilAA- (9) | 1,650 | CPI-linked annual interest | 5.15% | 5.1% | 4,225 (10) |
| | Jan. 12 | | 514 | | | | |
| | Jan. 13 | | 600 | | | | |
| | Feb. 15 | | 533.33 | | | | |
| | Feb. 15 | | 533 | | | | |
| | Feb-May 15 | | 267 | | | | |
| **Series D** (2) (3) (5) (6) (7) | Dec. 06 | ilAA- (9) | 235 | Annual interest | 6.50% | 0.6% | 411.7 |
| | Mar. 09 | | 472 | | | | |
| | Jan. 12 | | 541 | | | | |
| | Feb. 14 | | 488 | | | | |

| Series | Dates of interest payments | Dates of principal payments | Linkage basis | Nominal par value at December 31, 2015 (in NIS millions) | CPI-linked nominal par value at December 31, 2015 (in NIS millions) | Carrying value of debenture balances at December 31, 2015 (in USD millions) | Carrying value of interest payable on December 31, 2015 (in USD millions) | Fair value at December 31, 2015 (in USD millions) |
|---|---|---|---|---|---|---|---|---|
| **Series B** (1) (3) (4) (5) (8) | Twice a year on May 31 and Nov. 30 of each of the years 2006-2036 | Nov. 30 of each of the years 2020- 2036 | CPI for October 2006 | 3,483.1 (10) | 4,162.5 (10) | 1,054 (10) | 4.5 (10) | 1,082.9 (10) |
| **Series D** (2) (3) (5) (6) (7) | Twice a year on May 31 and on Nov, 30 in each of the years 2006-2016 | Nov. 30 of each of the years 2011- 2016 | Unlinked | 388.5 | 388.5 | 100.8 | 0.5 | 105.5 |

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 1, 2015, the Company issued, in a private placement by way of series expansion, NIS 533,330,000 par value of debentures (Series B). For more details, see the Company's immediate report 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), which, as to the date of this report, were exercised in full.

9 438,520 options were exercised and converted into NIS 43,852,000 par value of debentures (Series B) of the Company.

10 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). On July 6, 2015, Maalot ratified the aforementioned rating for the Company (Ref. 2015-01-066279). On August 18, 2015, Maalot notified that there is no immediate change in the Company's rating following the possible transaction by the Company's shareholders to exchange their Company shares for shares of Hubei Sanonda Co. Ltd. (Ref. 2015-01-098901).

11 Net of debentures purchased by a wholly-owned subsidiary, which, as of December 31, 2015, holds 67,909,858 debentures (Series B), which as to the end of the reported year, accounts for 1.91% of total issued debentures (Series B).

# Appendix C - Sensitivity analysis tables

Effects of exchange rate changes on balance sheet hedging transactions (in USD thousands)

| | Profit (loss) from changes | | Fair value | Profit (loss) from changes | |
|---|---|---|---|---|---|
| | +10% | +5% | | -5% | -10% |
| EUR/USD | 1,539 | 779 | (42,039) | (376) | (1,077) |
| GBP/USD | 1,385 | 693 | 1,627 | (693) | (1,385) |
| USD/ZAR | 1,336 | 700 | 1,911 | (700) | (1,336) |
| USD/PLN | 346 | 181 | 1,591 | (181) | (346) |
| USD/ILS | (147,994) | (77,158) | (33,919) | 72,338 | 146,559 |
| USD/BRL | 21,185 | 11,046 | 101 | (11,205) | (21,766) |

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 | 7 | 3 | (42,039) | (3) | (7) |
| GBP/USD | 0 | 0 | 1,627 | 0 | 0 |
| USD/ZAR | 0 | 0 | 1,911 | 0 | 0 |
| USD/PLN | 0 | 0 | 1,591 | 0 | 0 |
| USD/ILS | (32) | (17) | (33,919) | 18 | 37 |
| USD/BRL | (28) | (14) | 101 | 15 | 31 |

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 | (18) | (9) | (42,039) | 9 | 18 |
| GBP/USD | (3) | (1) | 1,627 | 1 | 3 |
| USD/ZAR | 11 | 6 | 1,911 | (6) | (11) |
| USD/PLN | 3 | 1 | 1,591 | (1) | (3) |
| USD/ILS | (5) | (3) | (33,919) | 3 | 5 |
| USD/BRL | 733 | 367 | 101 | (367) | (733) |

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) | (42,039) | 2 | 4 |
| GBP/USD | 2 | 1 | 1,627 | (1) | (2) |
| USD/ZAR | (2) | (1) | 1,911 | 1 | 2 |
| USD/PLN | (2) | (1) | 1,591 | 1 | 2 |
| USD/ILS | 16 | 8 | (33,919) | (8) | (16) |
| USD/BRL | (52) | (26) | 101 | 26 | 52 |

### 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 | 44,384 | 22,013 | 24,483 | (21,113) | (41,476) |
| GBP/USD | 1,385 | 1,643 | 1,060 | (1,643) | (1,385) |
| USD/PLN | 1,865 | 977 | 710 | (977) | (1,865) |
| USD/ILS | (10,659) | (5,584) | (3,331) | 5,584 | 10,659 |

### 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 | 70 | 35 | 24,483 | (35) | (70) |
| GBP/USD | 0 | 0 | 1,060 | 0 | (0) |
| USD/PLN | 0 | 0 | 710 | 0 | 0 |
| USD/ILS | 0 | 0 | (3,331) | (0) | 0 |

### 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 | (333) | (167) | 24,483 | 167 | 333 |
| GBP/USD | (8) | (4) | 1,060 | 4 | 8 |
| USD/PLN | 4 | 2 | 710 | (2) | (4) |
| USD/ILS | (12) | (6) | (3,331) | 6 | 12 |

### 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 | 13 | 7 | 24,483 | (7) | (13) |
| GBP/USD | 6 | 3 | 1,060 | (3) | (6) |
| USD/PLN | (2) | (1) | 710 | 1 | 2 |
| USD/ILS | 47 | 24 | (3,331) | (24) | (47) |

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

| | Profit (loss) from changes | | Base Asset | Profit (loss) from changes | |
|---|---|---|---|---|---|
| | +10% | +5% | | -5% | -10% |
| Rate | 4.292 | 4.097 | 3.902 | 3.707 | 3.512 |
| **Assets** | | | | | |
| Cash and cash equivalents | (2,181) | (1,091) | 21,810 | 1,091 | 2,181 |
| Receivables | (1,009) | (504) | 10,088 | 504 | 1,009 |
| Financial assets | (1,667) | (833) | 16,667 | 833 | 1,667 |
| Investments, long term loans and debit balances | (3) | (2) | 32 | 2 | 3 |
| **Total assets** | **(4,860)** | **(2,430)** | **48,597** | **2,430** | **4,860** |
| **Other long-term liabilities** | | | | | |
| Bank and other credit | (0) | (0) | (1) | 0 | 0 |
| Trade payables | 11,985 | 5,992 | 119,848 | (5,992) | (11,985) |
| Other payables | 8,739 | 4,370 | 87,391 | (4,370) | (8,739) |
| Current tax liabilities | 72 | 36 | 724 | (36) | (72) |
| Debentures | 115,717 | 57,858 | 1,157,169 | (57,858) | (115,717) |
| Other long term liabilities | 18 | 9 | 180 | (9) | (18) |
| Employee benefits | 5,942 | 2,971 | 59,423 | (2,971) | (5,942) |
| **Total liabilities** | **142,473** | **71,237** | **1,424,734** | **(71,237)** | **(142,473)** |
| **Difference** | **137,614** | **68,807** | **(1,376,137)** | **(68,807)** | **(137,614)** |
| **Instruments for hedging cash balances** | | | | | |
| Options | (64,183) | (33,257) | 659,250 | 27,353 | 58,380 |
| Forward contracts | (64,155) | (33,605) | 712,598 | 33,605 | 64,155 |
| **Total** | **(147,994)** | **(77,158)** | **1,371,848** | **72,338** | **146,559** |
| **Difference** | **(10,381)** | **(8,351)** | **(4,289)** | **3,531** | **8,945** |
| **Instruments for hedging projected transactions** | | | | | |
| Forward contracts | (10,659) | (5,584) | 116,397 | 5,584 | 10,659 |
| **Total** | **(10,659)** | **(5,584)** | **116,397** | **5,584** | **10,659** |

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

| | Profit (loss) from changes | | Base Asset | Profit (loss) from changes | |
|---|---|---|---|---|---|
| | +10% | +5% | | -5% | -10% |
| Rate | 0.980 | 1.034 | 1.088 | 1.143 | 1.197 |
| **Assets** | | | | | |
| Cash and cash equivalents | (6,448) | (3,224) | 64,476 | 3,224 | 6,448 |
| Short term investments | (1) | (0) | 8 | 0 | 1 |
| Receivables | (10,381) | (5,190) | 103,808 | 5,190 | 10,381 |
| Financial assets | (1,514) | (757) | 15,137 | 757 | 1,514 |
| Current tax assets | (268) | (134) | 2,682 | 134 | 268 |
| Investments, long term loans and debit balances | (234) | (117) | 2,342 | 117 | 234 |
| **Total assets** | **(18,845)** | **(9,423)** | **188,453** | **9,423** | **18,845** |
| **Other long-term liabilities** | | | | | |
| Bank and other credit | 588 | 294 | 5,879 | (294) | (588) |
| Trade payables | 9,188 | 4,594 | 91,884 | (4,594) | (9,188) |
| Other payables | 6,212 | 3,106 | 62,115 | (3,106) | (6,212) |
| Current tax liabilities | 192 | 96 | 1,920 | (96) | (192) |
| Bank loans (including current maturities) | 1 | 0 | 5 | (0) | (1) |
| Other long term liabilities | 65 | 33 | 653 | (33) | (65) |
| Put options for non-controlling interests | 304 | 152 | 3,039 | (152) | (304) |
| Employee benefits | 381 | 190 | 3,805 | (190) | (381) |
| **Total liabilities** | **16,930** | **8,465** | **169,300** | **(8,465)** | **(16,930)** |
| **Difference** | **(1,915)** | **(958)** | **19,153** | **958** | **1,915** |
| **Instruments for hedging cash balances** | | | | | |
| Options + Forward contracts | 1,539 | 779 | (23,981) | (376) | (1,077) |
| **Total** | **1,539** | **779** | **(23,981)** | **(376)** | **(1,077)** |
| **Difference** | **(376)** | **(179)** | **(4,828)** | **582** | **839** |
| **Instruments for hedging projected transactions** | | | | | |
| Options | 26,947 | 13,295 | (298,880) | (12,394) | (24,040) |
| Forward contracts | 22,838 | 11,419 | (222,004) | (11,419) | (22,838) |
| **Total** | **44,384** | **22,013** | **(520,884)** | **(21,113)** | **(41,476)** |

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

| | Profit (loss) from changes | | Base Asset | Profit (loss) from changes | |
|---|---|---|---|---|---|
| | +10% | +5% | | -5% | -10% |
| Rate | 4.295 | 4.100 | 3.905 | 3.710 | 3.514 |
| **Assets** | | | | | |
| Cash and cash equivalents | (2,496) | (1,248) | 24,955 | 1,248 | 2,496 |
| Trade receivables | (25,983) | (12,992) | 259,831 | 12,992 | 25,983 |
| Financial assets | (1,918) | (959) | 19,175 | 959 | 1,918 |
| Investments, long term loans and debit balances | (2,610) | (1,305) | 26,101 | 1,305 | 2,610 |
| **Total assets** | **(33,006)** | **(16,503)** | **330,062** | **16,503** | **33,006** |
| **Other long-term liabilities** | | | | | |
| Trade payables | 1,051 | 526 | 10,510 | (526) | (1,051) |
| Other payables | 2,389 | 1,194 | 23,887 | (1,194) | (2,389) |
| Current tax liabilities | 285 | 142 | 2,849 | (142) | (285) |
| Bank credit (including current maturities) | 144 | 72 | 1,438 | (72) | (144) |
| Other long term liabilities | 1,443 | 721 | 14,429 | (721) | (1,443) |
| **Total liabilities** | **5,311** | **2,656** | **53,113** | **(2,656)** | **(5,311)** |
| **Difference** | **(27,695)** | **(13,847)** | **276,949** | **13,847** | **27,695** |
| **Instruments for hedging cash balances** | | | | | |
| Options | 2,589 | 1,318 | (28,000) | (1,477) | (3,169) |
| Forward contracts | 18,596 | 9,728 | (213,500) | (9,728) | (18,596) |
| **Total** | **21,185** | **11,046** | **(241,500)** | **(11,205)** | **(21,766)** |
| **Difference** | **(6,510)** | **(2,801)** | **35,449** | **2,642** | **5,929** |

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

| | Profit (loss) from changes | | Base Asset | Profit (loss) from changes | |
|---|---|---|---|---|---|
| | +10% | +5% | | -5% | -10% |
| Rate | 1.334 | 1.408 | 1.482 | 1.556 | 1.631 |
| **Assets** | | | | | |
| Cash and cash equivalents | (372) | (186) | 3,723 | 186 | 372 |
| Trade receivables | (2,171) | (1,085) | 21,705 | 1,085 | 2,171 |
| Financial assets | (43) | (22) | 432 | 22 | 43 |
| **Total assets** | **(2,586)** | **(1,293)** | **25,860** | **1,293** | **2,586** |
| **Other long-term liabilities** | | | | | |
| Bank and other credit | 112 | 56 | 1,121 | (56) | (112) |
| Trade payables | 162 | 81 | 1,618 | (81) | (162) |
| Other payables | 746 | 373 | 7,455 | (373) | (746) |
| **Total liabilities** | **1,019** | **510** | **10,194** | **(510)** | **(1,019)** |
| **Difference** | **(1,567)** | **(783)** | **15,666** | **783** | **1,567** |
| **Instruments for hedging cash balances** | | | | | |
| Forward contracts | 1,385 | 693 | (14,370) | (693) | (1,385) |
| **Total** | **1,385** | **693** | **(14,370)** | **(693)** | **(1,385)** |
| **Difference** | **(181)** | **(91)** | **1,296** | **91** | **181** |
| **Instruments for hedging projected transactions** | | | | | |
| Forward contracts | 1,385 | 1,643 | 34,004 | (1,643) | (1,385) |
| **Total** | **1,385** | **1,643** | **34,004** | **(1,643)** | **(1,385)** |

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

| | Profit (loss) from changes | | Base Asset | Profit (loss) from changes | |
|---|---|---|---|---|---|
| | +10% | +5% | | -5% | -10% |
| Rate | 4.291 | 4.096 | 3.901 | 3.706 | 3.511 |
| **Assets** | | | | | |
| Cash and cash equivalents | (2,002) | (1,001) | 20,022 | 1,001 | 2,002 |
| Trade receivables | 630 | 315 | (6,299) | (315) | (630) |
| Financial assets | (274) | (137) | 2,739 | 137 | 274 |
| Prepayments net of provision for taxes | (64) | (32) | 636 | 32 | 64 |
| **Total assets** | **(1,710)** | **(855)** | **17,098** | **855** | **1,710** |
| **Other long-term liabilities** | | | | | |
| Bank and other credit | 969 | 485 | 9,691 | (485) | (969) |
| Trade payables | 432 | 216 | 4,322 | (216) | (432) |
| Other payables | 390 | 195 | 3,904 | (195) | (390) |
| Other long term liabilities | 82 | 41 | 820 | (41) | (82) |
| Current tax liabilities | 41 | 21 | 410 | (21) | (41) |
| Employee benefits | 4 | 2 | 39 | (2) | (4) |
| **Total liabilities** | **1,919** | **959** | **19,186** | **(959)** | **(1,919)** |
| **Difference** | **209** | **104** | **(2,088)** | **(104)** | **(209)** |
| **Instruments for hedging cash balances** | | | | | |
| Forward contracts | 346 | 181 | (3,823) | (181) | (346) |
| **Total** | **346** | **181** | **(3,823)** | **(181)** | **(346)** |
| **Difference** | **555** | **286** | **(5,911)** | **(286)** | **(555)** |
| Inventories* | (4,027) | (2,014) | 40,270 | 2,014 | 4,027 |
| Difference including inventory | (3,472) | (1,728) | 34,359 | 1,728 | 3,472 |
| **Instruments for hedging projected transactions** | | | | | |
| Forward contracts | 1,865 | 977 | 21,257 | (977) | (1,865) |
| **Total** | **1,865** | **977** | **21,257** | **(977)** | **(1,865)** |

* 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)

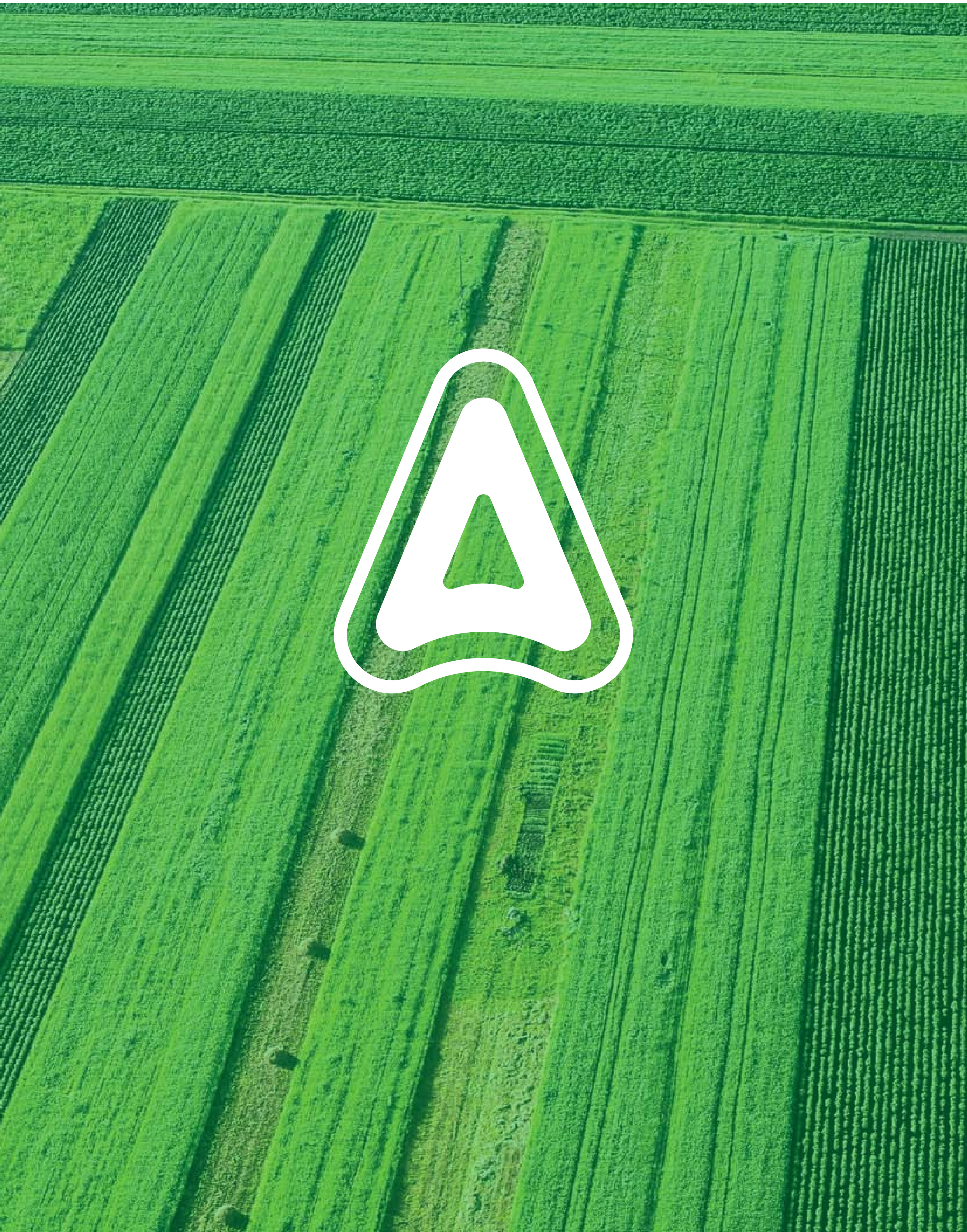
| | Profit (loss) from changes | | Base Asset | Profit (loss) from changes | |
|---|---|---|---|---|---|
| | +10% | +5% | | -5% | -10% |
| Rate | 17.114 | 16.336 | 15.558 | 14.780 | 14.002 |
| **Assets** | | | | | |
| Cash and cash equivalents | (323) | (161) | 3,229 | 161 | 323 |
| Trade receivables | (1,334) | (667) | 13,337 | 667 | 1,334 |
| Financial assets | (34) | (17) | 338 | 17 | 34 |
| **Total asset** | **(1,690)** | **(845)** | **16,904** | **845** | **1,690** |
| **Other long-term liabilities** | | | | | |
| Trade payables | 11 | 5 | 108 | (5) | (11) |
| Other payables | 70 | 35 | 696 | (35) | (70) |
| Current tax liabilities | 10 | 5 | 103 | (5) | (10) |
| **Total liabilitie** | **91** | **45** | **907** | **(45)** | **(91)** |
| **Difference** | **(264)** | **(100)** | **(732)** | **100** | **264** |
| **Instruments for hedging cash balances** | | | | | |
| Forward contracts | 1,336 | 700 | (16,729) | (700) | (1,336) |
| Total | **1,336** | **700** | **(16,729)** | **(700)** | **(1,336)** |
| **Difference** | **(264)** | **(100)** | **(732)** | **100** | **264** |
| **Instruments for hedging projected transactions** | | | | | |
| Forward contracts | 33 | 17 | (448) | (17) | (33) |
| **Total** | **33** | **17** | **(448)** | **(17)** | **(33)** |

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

| | Profit (loss) from changes | | Fair value | Profit (loss) from changes | |
|---|---|---|---|---|---|
| | +10% | +5% | | -5% | -10% |
| **Changes in linked NIS interest rates** | | | | | |
| Debentures Series B | 45,424 | 23,103 | (1,082,871) | (23,920) | (48,695) |
| CPI transaction | 0 | 0 | (1,970) | (0) | (0) |
| **Total** | **45,424** | **23,103** | **(1,084,841)** | **(23,920)** | **(48,695)** |
| **Changes in unlinked NIS interest rates** | | | | | |
| Debentures Series D | 52 | 26 | (105,521) | (26) | (53) |
| **Total** | **52** | **26** | **(105,521)** | **(26)** | **(53)** |
| **Changes in USD interest rates** | | | | | |
| USD loans | 750 | 377 | (66,603) | (381) | (766) |
| USD investments | (5) | (2) | 573 | 2 | 5 |
| **Total** | **745** | **375** | **(66,030)** | **(379)** | **(761)** |
| **Changes in BRL interest rates** | | | | | |
| Investments in BRL | (182) | (93) | 3,001 | 97 | 197 |
| Loans in BRL | 19 | 10 | (1,282) | (10) | (20) |
| **Total** | **(163)** | **(83)** | **1,719** | **87** | **177** |

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

| | December 31 | | | Q4 Average | | | Annual Average | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2015 | 2014 | Change | 2015 | 2014 | Change | 2015 | 2014 | Change |
| EUR/USD | 1.088 | 1.215 | (10.4%) | 1.095 | 1.249 | (12.3%) | 1.110 | 1.327 | (16.4%) |
| USD/BRL | 3.905 | 2.656 | 47.0% | 3.842 | 2.545 | 51.0% | 3.331 | 2.354 | 41.5% |
| USD/PLN | 3.901 | 3.507 | 11.2% | 3.893 | 3.374 | 15.4% | 3.770 | 3.155 | 19.5% |
| USD/ZAR | 15.558 | 11.557 | 34.6% | 14.195 | 11.213 | 26.6% | 12.742 | 10.836 | 17.6% |
| AUD/USD | 0.731 | 0.819 | (10.8%) | 0.720 | 0.855 | (15.8%) | 0.752 | 0.901 | (16.6%) |
| GBP/USD | 1.482 | 1.559 | (4.9%) | 1.518 | 1.583 | (4.1%) | 1.529 | 1.647 | (7.2%) |
| USD/ILS | 3.902 | 3.889 | 0.3% | 3.872 | 3.824 | 1.3% | 3.878 | 3.571 | 8.6% |
| USD L 3M | 0.61% | 0.26% | 138.8% | 0.41% | 0.24% | 70.8% | 0.31% | 0.23% | 34.8% |



## Chapter C

# Financial Statements as at December 31, 2015

# Adama Agricultural Solutions Ltd.

# Consolidated Financial Statements
# as of December 31, 2015
# in US Dollars

**Financial Statements as of December 31, 2015**

**Contents**

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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, 2015. 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.

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In our opinion, the Company maintained, in all material respects, effective audited control components as of December 31, 2015.

We have also audited, in accordance with generally accepted auditing standards in Israel, the Company's consolidated financial statements as of December 31, 2015 and 2014 and for each of the three years in the period ended December 31, 2015 and our report dated March 14, 2016 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 14, 2016

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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, 2015 and 2014 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, 2015. These financial statements are the responsibility of the Company's Board of Directors and of its Management. Our responsibility is to express an opinion on these financial statements based on our audit.

We did not audit the financial statements of certain consolidated subsidiaries whose assets constitute 5% and 4.9% of the total consolidated assets as of December 31, 2015 and 2014, respectively, and whose revenues constitute about 9%, 9.1% and 8.6% of the total consolidated revenues for the years ended December 31, 2015, 2014 and 2013, respectively. Furthermore, we did not audit the financial statements of equity accounted investees the investment in which amounted to approximately USD 7,387 thousand and USD 7,126 thousand as of December 31, 2015 and 2014, respectively, and the Group's share in their profits amounted to approximately USD 1,268 thousand, USD 1,820 thousand and USD 405 thousand for the years ended December 31, 2015, 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, 2015 and 2014 and their results of operations, changes in equity and cash flows, for each of the three years in the period ended December 31, 2015, 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, 2015, and our report dated March 14, 2016 expressed an unqualified opinion on the effectiveness of such components.

Somekh Chaikin
Certified Public Accountants (Isr.)

March 14, 2016

**Consolidated Statements as of Financial Position as of December 31**

| | Note | 2015<br>$ thousands | 2014<br>$ thousands |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | | **395,352** | 405,276 |
| Short-term investments | | **4,730** | 11,008 |
| Trade receivables | 4 | **771,818** | 1,073,735 |
| Trade receivable as part of securitization transaction not yet eliminated | 4 | **26,367** | - |
| Subordinated note in respect of sale of trade receivables | 4 | **71,293** | - |
| Prepaid expenses | | **15,811** | 18,268 |
| Financial and other assets, including derivatives | 5 | **180,528** | 298,297 |
| Tax deposits less provision for taxes | 17 | **12,361** | 13,720 |
| Inventories | 6 | **1,149,058** | * 1,219,191 |
| **Total current assets** | | **2,627,318** | 3,039,495 |
| **Long-term investments, loans and receivables** | | | |
| Investments in equity-accounted investee companies | | **70,397** | 76,993 |
| Other financial investments and receivables | 7 | **48,035** | 45,143 |
| Non-financial investments and other receivables, including non-current inventory | 8 | **35,941** | 22,548 |
| | | **154,373** | 144,684 |
| **Fixed assets** | | | |
| Cost | 9 | **1,651,652** | 1,574,623 |
| Less – accumulated depreciation | | **864,345** | 808,167 |
| | | **787,307** | 766,456 |
| **Deferred tax assets** | 17 | **75,196** | * 82,623 |
| **Intangible assets** | | | |
| Cost | 10 | **1,651,529** | 1,609,214 |
| Less – accumulated amortization | | **964,080** | 905,323 |
| | | **687,449** | 703,891 |
| **Total non-current assets** | | **1,704,325** | 1,697,654 |
| **Total assets** | | **4,331,643** | 4,737,149 |

| | Note | 2015<br>$ thousands | 2014<br>$ thousands |
|---|---|---|---|
| **Current liabilities** | | | |
| Loans and credit from banks and other lenders | 11 | **222,800** | 371,206 |
| Current maturities of debentures | 15 | **100,789** | 102,022 |
| Trade payables | 12 | **554,357** | 650,829 |
| Other payables | 13 | **469,292** | 659,814 |
| Current tax liabilities | 17 | **25,627** | 34,321 |
| Put options to holders of non-controlling interests | | **32,430** | 33,384 |
| **Total current liabilities** | | **1,405,295** | 1,851,576 |
| **Non-current liabilities** | | | |
| Long-term loans from banks | 14 | **173,708** | 264,139 |
| Debentures | 15 | **1,056,380** | 902,638 |
| Other long-term liabilities | 16 | **29,233** | 29,161 |
| Deferred tax liabilities | 17 | **22,595** | 19,695 |
| Employee benefits | 18 | **70,552** | 70,457 |
| Put options to holders of non-controlling interests | | **7,040** | 8,434 |
| **Total non-current liabilities** | | **1,359,508** | 1,294,524 |
| **Total liabilities** | | **2,764,803** | 3,146,100 |
| **Equity** | | | |
| Share capital | | **125,595** | 125,595 |
| Share premium | | **623,829** | 623,829 |
| Capital reserves | | **(309,030)** | (265,354) |
| Retained earnings | | **1,126,239** | * 1,106,592 |
| **Equity attributable to the owners of the Company** | | **1,566,633** | 1,590,662 |
| **Non-controlling interests** | | **207** | 387 |
| **Total equity** | 21 | **1,566,840** | 1,591,049 |
| **Total liabilities and equity** | | **4,331,643** | 4,737,149 |

* Immaterial adjustment of the comparative figures - see Note 2D.

| 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 14, 2016

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

## Consolidated Statements of Income for the year ended December 31

| | Note | 2015<br>$ thousands | 2014<br>$ thousands | 2013<br>$ thousands |
|---|---|---|---|---|
| Revenues | 22 | **3,063,870** | 3,221,298 | 3,076,355 |
| Cost of sales | 23 | **2,094,281** | 2,195,993 | 2,108,282 |
| **Gross profit** | | **969,589** | 1,025,305 | 968,073 |
| Other income | | **(14,385)** | (4,711) | (12,815) |
| Selling and marketing expenses | 24 | **534,454** | 570,581 | 522,050 |
| General and administrative expenses | 25 | **102,535** | 111,933 | 114,485 |
| Research and development expenses | 26 | **30,197** | 33,554 | 33,667 |
| Other expenses | | **16,681** | 2,947 | 1,697 |
| | | **669,482** | 714,304 | 659,084 |
| **Operating income** | | **300,107** | 311,001 | 308,989 |
| Financing expenses | | **286,498** | 252,693 | 273,176 |
| Financing income | | **(146,926)** | (128,724) | (132,611) |
| Financing expenses, net | 27 | **139,572** | 123,969 | 140,565 |
| **Share of income (losses) of equity-accounted investee companies** | | **(1,498)** | 5,885 | 3,197 |
| **Profit before taxes on income** | | **159,037** | 192,917 | 171,621 |
| Income taxes | 17 | **49,262** | 46,902 | 44,550 |
| **Profit for the year** | | **109,775** | 146,015 | 127,071 |
| **Attributable to:** | | | | |
| The owners of the Company | | **110,108** | 146,405 | 127,248 |
| Holders of non-controlling interests | | **(333)** | (390) | (177) |
| **Profit for the year** | | **109,775** | 146,015 | 127,071 |

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

## Consolidated Statements of Comprehensive Income for the year ended December 31

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| | $ thousands | $ thousands | $ thousands |
| **Profit for the year** | **109,775** | 146,015 | 127,071 |
| **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 | **(32,159)** | (25,499) | (16,691) |
| Effective portion of change in fair value of cash flow hedges | **58,521** | 56,426 | (19,145) |
| Net change in fair value of cash flow hedges transferred to the statement of income | **(70,060)** | 14,356 | (13,174) |
| Taxes in respect of other comprehensive income items that were or will be transferred to the statement of income in succeeding periods | **106** | (3,023) | 118 |
| **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** | **(43,592)** | 42,260 | (48,892) |
| **Other comprehensive income that will not be transferred to the statement of income** | | | |
| Re-measurement of defined benefit plan | **3,404** | 935 | 170 |
| Taxes in respect of other comprehensive income items that will not be transferred to the statement of income | **(436)** | (53) | (47) |
| **Total other comprehensive income for the year that will not be transferred to the statement of income, net of tax** | **2,968** | 882 | 123 |
| **Total comprehensive income for the year** | **69,151** | 189,157 | 78,302 |
| **Total comprehensive income attributable to:** | | | |
| The owners of the Company | **69,483** | 189,592 | 78,351 |
| Holders of non-controlling interests | **(332)** | (435) | (49) |
| **Total comprehensive income for the year** | **69,151** | 189,157 | 78,302 |

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

## Consolidated Statements of Changes in Equity for the year ended December 31

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

* Immaterial adjustment of the comparative figures - see Note 2D.
(1) Including treasury shares that were cancelled in the amount of $245,548 thousand.

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

## Consolidated Statements of Changes in Equity for the year ended December 31

| | Share capital | Share premium | Capital reserves (1) | Retained earnings | Total equity attributable to the owners of the Company | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|
| | $ thousands | $ thousands | $ thousands | $ thousands | $ thousands | $ thousands | $ thousands |
| **For the year ended December 31, 2014** | | | | | | | |
| Balance as of January 1, 2014 | 125,595 | 623,829 | (307,096) | * 953,423 | 1,395,751 | 1,001 | 1,396,752 |
| **Total comprehensive income for the year** | | | | | | | |
| Profit for the year | – | – | – | 146,405 | 146,405 | (390) | 146,015 |
| **Other comprehensive income** | | | | | | | |
| Foreign currency translation differences 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 for the year, net of tax** | – | – | 42,305 | 882 | 43,187 | (45) | 43,142 |
| **Total comprehensive income for the year** | – | – | 42,305 | 147,287 | 189,592 | (435) | 189,157 |
| Dividends to holders of non-controlling interests holding a put option | – | – | – | (1,994) | (1,994) | – | (1,994) |
| Transactions with holders of non-controlling interests | – | – | (480) | – | (480) | 480 | – |
| Share-based payments | – | – | – | 7,984 | 7,984 | – | 7,984 |
| Elimination of non-controlling interests due to loss of control of subsidiary | – | – | – | – | – | (659) | (659) |
| Exercise of options granted to employees of a subsidiary | – | – | (83) | (108) | (191) | – | (191) |
| **Balance as of December 31, 2014** | 125,595 | 623,829 | (265,354) | * 1,106,592 | 1,590,662 | 387 | 1,591,049 |

* Immaterial adjustment of the comparative figures - see Note 2D.
(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) | * 828,978 | 1,320,740 | 636 | 1,321,376 |
| **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) | * 953,423 | 1,395,751 | 1,001 | 1,396,752 |

* Immaterial adjustment of the comparative figures - see Note 2D.
(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**

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| | $ thousands | $ thousands | $ thousands |
| **Cash flows from operating activities** | | | |
| Profit for the year | **109,775** | 146,015 | 127,071 |
| **Adjustments** | | | |
| Depreciation and amortization | **168,457** | 167,180 | 157,001 |
| Impairment of assets | **3,084** | – | – |
| Gain on sale of investment | **–** | – | (3,619) |
| Loss (gain) on realization of fixed and other assets, net | **(10,659)** | 258 | (442) |
| Amortization of discount/premium and debt issuance costs | **(2,334)** | (2,813) | 667 |
| Share of losses (income) of equity-accounted investee companies | **1,498** | (5,885) | (3,197) |
| Share-based payments expenses | **8,998** | 7,984 | – |
| Changes due to put options to holders of non-controlling interests | **433** | 3,185 | 10,878 |
| Adjustment of long-term liabilities | **(12,221)** | (132,639) | 106,599 |
| SWAP transactions | **(481)** | (481) | (7,882) |
| Change in provision for income tax and tax deposits, net | **851** | (7,395) | 11,461 |
| Decrease (increase) in deferred taxes, net | **9,602** | (370) | (8,060) |
| **Changes in assets and liabilities** | | | |
| Decrease (increase) in trade and other receivables | **26,708** | (252,736) | (139,548) |
| Decrease (increase) in inventories | **26,426** | (22,668) | 10,648 |
| Increase (decrease) in trade and other payables | **(225,346)** | 299,319 | 98,787 |
| Change in employee benefits | **2,219** | (19,834) | 2,161 |
| **Net cash from operating activities** | **107,010** | 179,120 | 362,525 |
| **Cash flows from investing activities** | | | |
| Acquisition of fixed assets | **(117,859)** | (100,525) | (84,867) |
| Additions to intangible assets | **(97,669)** | (101,009) | (113,554) |
| Short-term investments, net | **6,108** | (1,136) | (9,456) |
| Long-term investments, net | **7** | 52,208 | (52,429) |
| Proceeds from sale of fixed and intangible assets | **13,323** | 3,925 | 1,616 |
| Investment grant received | **1,340** | – | – |
| Investment in equity-accounted investee company | **-** | (6,528) | (58,294) |
| Dividend from equity-accounted investee company | **1,509** | 7,288 | 2,097 |
| Disposal of subsidiaries | **(101)** | (261) | (1,603) |
| Proceeds from sale of investment | **–** | – | 4,508 |
| Acquisition of subsidiaries net of cash acquired | **–** | – | (9,568) |
| **Net cash used in investing activities** | **(193,342)** | (146,038) | (321,550) |

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

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

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| | $ thousands | $ thousands | $ thousands |
| **Cash flows from financing activities** | | | |
| Receipt of long-term loans from banks | **15,650** | 97,237 | 118,304 |
| Repayment of long-term loans and liabilities from banks and others | **(74,320)** | (109,974) | (130,649) |
| Repayment of debentures | **(99,909)** | (99,909) | (160,959) |
| Increase (decrease) in short-term liabilities to banks, net | **76,796** | (1,426) | 15,191 |
| SWAP settlements | **–** | – | 21,309 |
| Dividend paid to owners of the Company | **(100,000)** | – | – |
| Dividend to holders of non-controlling interests | **(2,427)** | (2,185) | (2,412) |
| Issuance of debentures, net of issuance costs | **256,859** | 146,806 | 177,215 |
| Proceeds from bond options | **4,505** | – | – |
| Acquisition of non-controlling interests | **–** | (30,000) | – |
| Payment of contingent consideration – in respect of business combination | **–** | (5,000) | – |
| Fundraising costs | **(746)** | (2,741) | – |
| **Net cash from (used in) financing activities** | **76,408** | (7,192) | 37,999 |
| **Net increase (decrease) in cash and cash equivalents** | **(9,924)** | 25,890 | 78,974 |
| **Cash and cash equivalents at the beginning of the year** | **405,276** | 379,386 | 300,412 |
| **Cash and cash equivalents at the end of the year** | **395,352** | 405,276 | 379,386 |

**Additional information:**

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Interest paid in cash | **(107,478)** | (96,384) | (95,215) |
| Interest received in cash | **41,276** | 29,786 | 21,878 |
| Taxes paid in cash, net | **(34,108)** | (47,798) | (29,257) |

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

# Note 1 - General

**A. Description of the Company and its activities**

1. Adama Agricultural Solutions Ltd. is an Israel-resident company that was incorporated in Israel, and its official address is at Golan Street in Airport City Park. The Group's consolidated financial statements as of December 31, 2015, 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, 2015 and 2014, 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.

2. Sales of agrochemical products are directly impacted by the timing of the agricultural seasons (in each of the various markets), the weather in every region and the cyclical pattern of the harvests. Therefore, the Company's income is not uniform or spread evenly throughout the quarters of the year. The agricultural seasons in countries located in the northern hemisphere (mainly the United States and Europe) take place in the first two quarters of the year and, accordingly, in these countries the sales are usually highest in the first half of the year. On the other hand, in the southern hemisphere, the seasonal trends are the opposite and most of the local sales are made in the second half of the year, except for Australia where most of the sales are made in April through July.

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

**B. Definitions**

In these financial statements:

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

## Note 2 - Basis for Financial Statement Preparation

### A. Declaration of compliance with International Financial Reporting Standards (IFRS)

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

The consolidated financial statements were authorized for issue by the Company’s Board of Directors on March 14, 2016.

### 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. Naturally, in view of the preliminary stage of the clarification of the legal claim, the actual outcome could be different from the assessment made before the claim was filed.

  For further information regarding the Company's exposure to claims – see Note 19 regarding contingent liabilities.

- Impairment of assets – the Company evaluates the need for recording a provision for impairment of goodwill at least annually, on a fixed date. In addition, each reporting date, the Company evaluates whether events have occurred or whether there have been changes in circumstances that indicate that impairment has occurred in one or more of the other non-monetary assets. If there are signs of impairment, an examination is made as to whether the amount at which the investment in the asset is stated can be recovered from the discounted cash flows expected from that asset and, if necessary, an impairment provision is recorded up to the recoverable amount. The discounted cash flows are calculated using a pre-tax discount rate that represents the market's assessment of the time value of money and the specific risks attributed to the asset. Determination of the estimated cash flows is based on past experience of this asset or similar assets, and the Company's best assessment of the economic conditions that will prevail during the remaining estimated useful life of the asset. Changes in the Company's assessments, as noted, could lead to material changes in the book value of the assets and the operating results.

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

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

- Estimated useful life of intangible assets – intangible assets that have a defined useful life are amortized systematically over their estimated useful life. The amortization period reflects the best estimate of the period in which future economic benefits are expected to accrue to the Company. Use of other assumptions could lead to a different assessment of the estimated period in which future economic benefits are expected to be received.

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

- Income taxes – the Company and Group companies are assessed for income tax purposes in a large number of jurisdictions and, therefore, Company management is required to use considerable judgment in determining the total provision for taxes and attribution of income. Deferred taxes are calculated at the tax rates expected to be in effect when they are realized. Some of the Group companies create deferred tax assets in respect of losses carried forward for tax purposes in cases where it is expected to utilize these losses in the foreseeable future. Changes in these assumptions could lead to material changes in the book values of the tax assets and tax liabilities and in the operating results.

  For additional information regarding deferred taxes and taxes on income – see Note 17.

- Employee benefits – the Group's liabilities for long-term post-employment and other benefits are calculated according to the estimated future amount of the benefit to which the employee will be entitled in consideration for his services during the current period and prior periods. The benefit is stated at present value net of the fair value of the plan's assets, based on actuarial assumptions. Changes in the actuarial assumptions could lead to material changes in the book value of the liabilities and in the operating results.

  For additional information regarding employee benefits – see Note 18.

- Derivative financial instruments – the Group enters into transactions in derivative financial instruments for the purpose of hedging risks related to foreign currency, 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 time to maturity of each contract, while using market interest rates of a similar instrument as of the measurement date. Changes in the assumptions and the calculation model could lead to material changes in the fair value of the assets and liabilities and in the operating results.

- Inventories – inventories are measured in the financial statements at the lower of cost or net realizable value. Net realizable value is an estimate of the selling price in the ordinary course of business, after deducting the estimated cost to complete and the costs required to execute the sale. The selling price is estimated on the basis of the expected selling price at the time of realization of inventories. A reduction in the expected selling price could lead to an impairment of the inventories.

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

### D. Immaterial adjustment of the comparative figures

During the first quarter of 2015, an immaterial error was found in calculation of the unrealized income in respect of inventory sold between the Group's subsidiaries. The impact of the correction on the comparative figures is in the following items: retained earnings, in the amount of $7.4 million, constituting 0.7% of the retained earnings as previously report, inventory, in the amount of $10.4 million, and deferred tax assets, in the amount of $3 million.

## Note 3 - Significant Accounting Policies

The accounting policies set out below have been applied consistently for all periods presented in these consolidated financial statements, and have been applied consistently by Group entities. In this Note, matters have been marked in bold with respect to which the Group has chosen accounting alternatives permitted in the accounting standards.

### A. Basis for Consolidation

(1) **Business combinations**

The Group applies the acquisition method with respect to all business combinations. The acquisition date is the date on which the acquirer obtains control over the acquiree. Control exists where the Group is exposed or has rights to variable returns from its involvement with the acquiree and it has the ability to affect those returns through its power over the acquiree. Substantive rights held by the Group and others are taken into account when assessing control.

The Group recognizes goodwill on acquisition according to the fair value of the consideration transferred including any amounts recognized in respect of non-controlling interests in the acquiree as well as the fair value on the acquisition date of any pre-existing equity right of the Group in the acquiree, less the net amount attributed in the acquisition to the identifiable assets acquired and the liabilities assumed.

On the acquisition date, the Group recognizes a contingent liability assumed in a business combination if there is a present obligation resulting from past events and its fair value can be reliably measured.

The consideration transferred includes the fair value of any contingent consideration. After the acquisition date, the Group recognizes changes in the fair value of contingent consideration classified as a financial liability in profit or loss.

# 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 as part of the preparation of the consolidated financial statements.

(4) **Structured entities**

The Group operates with a structured entity for purposes of securitization trade receivables. 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 trade receivables, was included in the consolidated financial statements when the Group had control over the entity per its definition is in Paragraph (1) above.

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

Associates are those companies in which the Group has significant influence over the financial and operating policies, but where control or joint control over them has not been achieved. There is a rebuttable presumption whereby a holding at the rate of 20% to 50% in the investee entity confers significant influence. When examining the existence of significant influence, account is taken of potential voting rights that may be exercised or converted immediately for shares of the investee company.

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

Investments in associates and joint arrangements are accounted for using the equity method of accounting and are initially recognized at cost. The cost of the investment includes transaction costs. The consolidated financial statements include the Group's share in the revenues and expenses in the income or loss and other comprehensive income of investee companies accounted for using the equity method of accounting, from the date on which the significant influence or joint control exists until the date that significant influence or joint control ceases.

# Note 3 - Significant Accounting Policies (cont'd)

## A. Basis for Consolidation (cont'd)

### (6) <u>Non-controlling interests</u>

Non-controlling interests constitute the equity of a subsidiary that cannot be attributed, directly or indirectly, to the parent company.

*Measurement of non-controlling interests on the date of the business combination*
Non-controlling interests which are instruments that confer a present ownership interest and entitle their holders to a share of net assets in the event of liquidation (for example: ordinary shares), are measured at the date of the business combination at their proportionate interest in the identifiable assets and liabilities of the acquiree.

*Allocation of profit or loss and other comprehensive income to the shareholders*
Profit or loss and any component of other comprehensive income are allocated to the owners of the Company and to the non-controlling interests. The total profit or loss and other comprehensive income is allocated to the owners of the Company and to the non-controlling interests even if as a result the balance of the non-controlling interests will be negative.

*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)

**A. Basis for Consolidation (cont'd)**

(7) **Loss of control**

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

**B. Functional currency and presentation currency**

(1) **General**

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

(2) **Foreign currency transactions**

Transactions in foreign currency are translated into the Group's functional currency according to the exchange rate in effect on the transaction dates. Monetary assets and liabilities denominated in foreign currency on the reporting date are translated into the functional currency according to the exchange rate prevailing on that date. Exchange rate differences in respect of monetary items are the difference between the amortized cost in the functional currency at the beginning of the year, adjusted for the effective interest and for payments during the period, and the amortized cost in foreign currency translated according to the exchange rate at the end of the period. Exchange rate differences are recognized directly in "financing expenses" in the consolidated statement of income.

Non-monetary items denominated in foreign currency and measured based on historical cost are translated using the exchange rate in effect on the date of the transaction.

(3) **Foreign Operations**

The assets and liabilities of foreign operations, including goodwill and adjustments to fair value recorded at acquisition, are translated into Dollars according to the exchange rates prevailing on the date of the report. Income and expenses of foreign operations are translated into Dollars according to the exchange rates that were in effect on the dates of the transactions.

Foreign currency differences in respect of the translation are recognized in other comprehensive income and are presented in equity as part of capital reserve.

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

When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the Translation Reserve related to that foreign operation is reclassified to profit or loss as a part of the gain or loss on the disposal.

Generally, exchange rate differences in respect of loans received from or provided to foreign operations, including foreign operations that are subsidiaries, are recognized in profit and loss in the consolidated financial statements. Where settlement of loans received from or provided to the foreign operations is not planned and is not expected in the foreseeable future, gains and losses from exchange rate differences deriving from these monetary items are included as part of a net investment in the foreign operations, are recognized in other comprehensive income, and are presented within equity as part of the Translation Reserve.

## Note 3 - Significant Accounting Policies (cont'd)

### C. Financial Instruments

### (1) Non-derivative financial instruments

Initial recognition of financial assets
The Group initially recognizes loans and receivables and deposits on the date that they are created. All other financial assets acquired in a regular way purchase, including assets designated at fair value through profit or loss, are recognized initially on the trade date on which the Group becomes a party to the contractual provisions of the instrument, meaning on the date the Group undertook to purchase the asset. Non-derivative financial instruments include 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 less 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 and derivatives that are not used for hedging.

*Hedge accounting*

On the commencement date of the accounting hedge, the Group formally documents the relationship between the hedging instrument and hedged item, including the Group's risk management objectives and strategy in executing the hedge transaction, together with the methods that will be used by the Group to assess the effectiveness of the hedging relationship.

The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, whether the hedge is expected to be "highly effective" in offsetting the changes in the fair value of cash flows that can be attributed to the hedged risk during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80–125 percent.

With respect to a cash-flow hedge, a forecasted transaction that constitutes a hedged item must be highly probable and must give rise to exposure to changes in cash flows that could ultimately affect profit or loss.

Measurement of derivative financial instruments

Derivative financial instruments are recognized initially at fair value; attributable transaction costs are recognized in profit or loss as incurred.

# Note 3 - Significant Accounting Policies (cont'd)

## C. Financial Instruments (cont'd)

### (3) Derivative financial instruments, including hedge accounting (cont'd)

Measurement of derivative financial instruments (cont'd)

Subsequent to the initial recognition, changes in the fair value of derivatives used to hedge cash flows are recognized through other comprehensive income directly in a hedging reserve, with respect to the part of the hedge that is effective. Regarding the portion of the hedge that is not effective, the changes in fair value are recognized in profit and loss. The amount accumulated in the hedging reserve is reclassified to profit and loss in the period in which the hedged cash flows impact profit or loss and is presented in the same line item in the statement of income as the hedged item.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, the hedge accounting is discontinued. The cumulative gain or loss previously recognized in a hedging reserve through other comprehensive income remains in the reserve until the forecasted transaction occurs or is no longer expected to occur. If the forecasted transaction is no longer expected to occur, the cumulative gain or loss in respect of the hedging instrument in the hedging reserve is reclassified to profit or loss.

*Economic hedge*
Hedge accounting is not applied with respect to derivative instruments used to economically hedge financial assets and liabilities denominated in foreign currency or CPI linked. Changes in the fair value of such derivatives are recognized in profit or loss as financing income or expenses.

*Derivatives that are not used for hedging*
Changes in the fair value of derivatives that are not used for hedging are recognized in profit or loss as financing income or expenses.

### (4) CPI-linked assets and liabilities not measured at fair value

The value of CPI-linked financial assets and liabilities that are not measured according to fair value are revalued in every period, according to the actual rate of increase/decrease in the CPI.

### (5) Share capital

*Ordinary shares*
Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of ordinary shares and options for shares are recognized as a deduction from equity.

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

*Treasury shares*
When share capital recognized in equity is repurchased by the Group, the amount of the consideration paid, including direct costs, net of the tax effect, is deducted from equity and classified as treasury shares. **Upon cancellation of the treasury shares, the amount of the consideration paid for them is deducted from the capital reserves.**

## Note 3 - Significant Accounting Policies (cont'd)

### D. Fixed assets

#### (1) Recognition and measurement

**Fixed-asset items are measured at cost less accumulated depreciation and accrued impairment losses.** Cost includes expenditures that can be directly attributed to purchase of the asset. The cost of self-constructed assets includes the cost of the materials and direct labor costs, as well as additional costs that are directly attributable to bringing the asset to the position and condition necessary for it to function as management intended, as well as an estimate of the costs to dismantle and remove the item, to restore its location and capitalized borrowing costs. The cost of purchased software, which is an integral part of operating the related equipment, is recognized as part of the cost of such equipment.

Spare parts, servicing equipment and stand-by equipment are classified as fixed assets when they meet the definition of fixed assets in IAS 16; otherwise, they are classified as inventory.

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

Changes in the obligation to dismantle and remove the items and to restore the site on which they are located, other than changes deriving from the passing of time, are added to or deducted from the cost of the asset in the period in which they occur. The amount deducted from the cost of the asset shall not exceed the balance of the carrying amount, and any balance is recognized immediately in profit or loss.

The gain or loss from disposal of a fixed-asset item is determined by comparing the consideration from disposal of the asset to its book value, and is recognized net in the "other income" or "other expenses" items, as applicable, in the statement of income.

#### (2) Subsequent costs

The cost of replacing part of a fixed-asset item and other subsequent expenses are recognized if it is probable that the future economic benefits associated with them will flow to the Group and if their cost can be measured reliably. The carrying amount of the replaced part of a fixed asset item is derecognized. Current maintenance costs of fixed-asset items are recognized in profit or loss as incurred.

#### (3) Depreciation

Depreciation is a systematic allocation of the depreciable amount of an asset over its useful life. The depreciable amount is the cost of the asset, or other amount substituted for cost, less its residual value.

An asset is depreciated from the date it is ready for use, meaning the date it reaches the location and condition required for it to operate in the manner intended by management.

# Note 3 - Significant Accounting Policies (cont'd)

**D. Fixed Assets (cont'd)**

**(3) Depreciation (cont'd)**

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of every fixed-asset item, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Freehold land are not depreciated.

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

| | | |
|---|---|---|
| Buildings | 25–50 years | |
| Facilities and equipment | 22 years | |
| Furniture, equipment and accessories | 7–17 years | – mainly 14 years |
| Motor vehicles | 5–7 years | |
| Computers and auxiliary equipment | 3–5 years | |

The estimates regarding the depreciation method, useful lives and residual values are reviewed at least at the end of each reporting year and adjusted where necessary.

**E. Intangible Assets**

**1. Goodwill**

Goodwill that arises upon the acquisition of subsidiaries is presented as part of intangible assets. For information regarding measurement of goodwill upon initial recognition – see Paragraph A(1) of this Note.

In subsequent periods, goodwill is measured at cost less accrued impairment losses.

**2. Research and development**

Expenditures related to research activities undertaken for the purpose of acquiring know-how and new scientific or technical knowledge are recognized in profit and loss as incurred.

Development activities relate to a plan for the production of new products or processes or significant improvement of existing products or processes. Expenditures for development activities are recognized as an intangible asset only if: it is possible to reliably measure the development costs; it is technically and commercially possible to implement the product or process; future economic benefit is expected from the product and the Group has intentions and sufficient resources to complete development of the asset and then use or sell it. The expenditures capitalized in respect of development activities include the cost of materials and overhead expenses that can be directly attributed to preparing the asset for its intended use. Other costs for development activities are recognized in profit and loss as incurred.

In subsequent periods, capitalized development costs are measured at cost less accumulated amortization and accrued impairment losses.

## Note 3 - Significant Accounting Policies (cont'd)

**E. Intangible Assets (cont'd)**

**3. Other intangible assets**

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortization and accrued impairment losses.

**4. Subsequent costs**

Subsequent costs are recognized as an intangible asset only where they increase the future economic benefit embodied in the asset in respect of which they were expended. All other costs are recognized in profit or loss as incurred.

**5. Amortization**

Amortization is a systematic allocation of the amortizable amount of an intangible asset over its useful life. The amortizable amount is the cost of the asset, less its residual value.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of the intangible assets from the date they are available for use, since this method most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Goodwill that has an indefinite useful life is not systematically amortized but is tested at least once a year for impairment.

Intangible assets generated within the Group are not systematically amortized as long as they are not available for use, i.e. they are not yet in the condition required in order that they will be able to be used as intended by Management.

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

- Product registration – mainly 8 years.
- Intangible assets on purchase of products – mainly 20 years.
- Marketing rights – 5 to 10 years.
- Rights to use trademarks – mainly 4 years.

Registration costs incurred for products that can be identified and separated, and which in the Company's estimation will produce future economic benefit, are recognized as an asset in the "intangible assets" category and are amortized over the period of economic benefit they are expected to provide.

The amortization methods, useful lives and residual values are reviewed at least at the end of each reporting year and are adjusted where necessary.

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.

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

In a lease of land and buildings, the land and buildings components are examined separately for purposes of classifying the lease, where a significant consideration in classification of the land component is the fact that land normally has an indefinite useful life.

## G. Inventory

Inventory is measured at the lower of cost or net realizable value. **The cost of the inventories of raw materials, packaging materials, spare parts, maintenance materials and purchased materials is determined according to a weighted-average formula**, which includes the costs of acquiring the inventory and bringing it to its current location and condition. The cost of finished products and of products in process is determined on the basis of average production costs, including materials, labor and factory expenses. The cost includes the allocable part of the production overhead, based on normal capacity. Net realizable value is the estimated selling price during the ordinary course of business, after deduction of the estimated completion costs and the estimated costs required to execute the sale.

Long-term inventory is inventory the Company expects to realize in a period of more than the upcoming 12 months.

## H. Capitalization of Borrowing Costs

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

## I. Impairment

### 1. Non-derivative financial assets

A financial asset not presented at fair value through profit or loss is tested for impairment when objective evidence exists indicating that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be reliably estimated.

# Note 3 - Significant Accounting Policies (cont'd)

## I. Impairment (cont'd)

**Non-derivative financial assets (cont'd)**

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

All impairment losses are recorded in profit or loss.

*Reversal of impairment loss*
An impairment loss is reversed if the reversal can be related objectively to an event that occurred after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in profit or loss.

## 2. Non-financial assets

*Timing of impairment testing*
The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there are indications of impairment. If such indications exist, the asset's recoverable amount is calculated. Once a year and on the same date, or more frequently if there are indications of impairment, the Group estimates the recoverable amount of each cash-generating unit that contains goodwill, or intangible assets that have indefinite useful lives or are unavailable for use.

*Determining cash-generating units*
For purposes of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets ("cash-generating unit").

*Measurement of recoverable amount*
The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the specific risks attributed to the asset or cash-generating unit, for which the estimated future cash flows expected to derive from the asset or cash-generating unit were not adjusted.

*Allocation of goodwill to cash-generating units*
Subject to an operating segment ceiling test (before the aggregation of similar segments), for purposes of goodwill impairment testing, cash-generating units to which goodwill has been allocated are aggregated so that the level at which the goodwill impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. In cases where goodwill is not monitored for internal reporting purposes, it is allocated to operating segments (before the aggregation of similar segments) and not to a cash-generating unit (or group of cash-generating units) lower in level than an operating segment.

Goodwill acquired in a business combination is allocated to cash-generating units, including those existing in the Group before the business combination, that are expected to benefit from synergies of the combination.

## Note 3 - Significant Accounting Policies (cont'd)

### I. Impairment (cont'd)

### 2. Non-financial assets (cont'd)

*Recognition of impairment loss*
Impairment losses are recognized if the carrying amount of an asset or the cash-generating unit exceeds its estimated recoverable amount and such losses are recognized in profit and loss. Regarding cash-generating units that include goodwill, an impairment loss is recognized when the carrying amount of the cash-generating unit, after gross-up of the goodwill, exceeds its recoverable amount. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to these units and then to reduce the carrying amounts of the other assets in the cash-generating unit, on a pro rata basis.

*Reversal of impairment loss*
An impairment loss in respect of goodwill is not reversed. In respect of other assets, for which impairment losses were recognized in prior periods, at every reporting date an examination is made as to whether there are indications that the losses have decreased or no longer exist. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount, but only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

### 3. Investments in associates and joint ventures

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

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

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

## Note 3 - Significant Accounting Policies (cont'd)

### J. Employee Benefits

### 1. Post-employment benefits

The Group has a number of post-employment benefit plans. The plans are generally funded by deposits with insurance companies or in funds managed by a trustee, and they are classified either as defined contribution plans or as defined benefit plans.

a. Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions to a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognized as an expense in profit or loss in the periods during which related services are rendered by employees.

b. Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation, in respect of defined benefit plans for post-employment benefits, is calculated separately for each plan by estimating the future amount of the benefit to which an employee will be entitled as compensation for his services during the current and past periods. This benefit is presented according to present value after deducting the fair value of the plan assets. The Group determines the net interest on the net defined benefit liability (asset) in respect of a defined benefit by multiplying the net liability (asset) in respect of a defined benefit by the discount rate used to measure the defined benefit obligation as they were determined at the beginning of the annual reporting period.

The discount rate is determined according to the yield as of the date of the report on high-quality, CPI-linked corporate debentures, which are denominated in NIS and the maturity dates of which approximate the terms of the Group's obligation. The calculations are performed by a licensed actuary using the "projected unit credit method".

When on the basis of the calculations a net asset is created for the Group, the asset is not recognized as an asset of the Group, since the Group is not entitled to refunds or a reduction in future deposits.

Remeasurement of the net defined benefit liability (assets) includes actuarial gains and losses and the return on plan assets (excluding interest). Remeasurements are recognized immediately, directly in retained earnings through other comprehensive income.

Interest costs on a defined benefit obligation and interest income on plan assets that were recognized in profit or loss are presented under financing income and expenses, respectively.

## Note 3 - Significant Accounting Policies (cont'd)

### J. Employee Benefits (cont'd)

### 2. Other long-term employee benefits

The Group's net obligation for long-term employee benefits, which are not attributable to post-employment benefit plans, is for the amount of the future benefit to which employees are entitled for services that were provided during the current and prior periods. The amount of these benefits is discounted to its present value and the fair value of the assets related to these obligations is deducted therefrom. The discount rate is determined according to the yield as of the date of the report on high-quality, CPI-linked corporate debentures, which are denominated in NIS and the maturity dates of which approximate the terms of the Group's obligation. The calculations use the "projected unit credit method" method. Actuarial gains and losses are recorded in income and loss in the period in which they arise.

### 3. Termination benefits

Termination benefits to employees are recognized as an expense when the Group has clearly undertaken, with no real chance of cancellation, to terminate employees before they reach the customary retirement age according to a formal, detailed plan. The benefits given to employees upon voluntary retirement are charged when the Group proposes a plan to the employees encouraging voluntary retirement, it is expected that the proposal will be accepted and the number of employees that will accept the proposal can be reliably estimated. If the benefits are payable more than 12 months after the end of the reporting period, they are discounted to their present value. The discount rate used is the yield on the reporting date on highly-rated corporate debentures denominated in the same currency, that have maturity dates approximating the terms of the Group's obligation.

### 4. Short-term benefits

Obligations for short-term employee benefits are measured on a non-discounted basis, and the expense is recorded when the related service is provided. A provision for short-term employee benefits in respect of cash bonuses is recognized in the amount expected to be paid where the Group has a current legal or constructive obligation to pay the said amount for services provided by the employee in the past and the amount can be estimated reliably.

Classification of employee benefits for measurement purposes as short-term benefits or as other long-term benefits is determined based on the Company's forecast with respect to full settlement of the benefits.

### 5. Share-based payment transactions

The fair value on the date of grant of share-based payment awards granted to employees is recognized as a salary expense, with a corresponding increase in equity, over the period wherein unconditional entitlement to the awards is obtained. The amount recognized as an expense in respect of share-based payment awards that are conditional upon meeting service and non-market performance conditions is adjusted to reflect the number of awards that are expected to vest.

## Note 3 - Significant Accounting Policies (cont'd)

### K. Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation.

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

**Legal claims**

A provision for claims is recognized if, as a result of a past event, the Group has a present legal or constructive obligation and it is more likely than not that the Group will be required to use its economic resources to settle the obligation and the amount of obligation can be reliably estimated. Where the impact of the time value is material, the provision is measured at its present value.

### L. Revenues

**(1) Sale of goods**

Revenues from the sale of goods in the ordinary course of business is measured at the fair value of the consideration received or receivable, net of returns, discounts and commercial and quantity discounts. Where the credit period is short and constitutes the accepted credit in the industry, the future consideration is not discounted.

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

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

If it is expected that a discount will be granted and its amount can be measured reliably, the discount is deducted from the revenue from sale of the goods.

Discounts to customers that are conditional upon the customers' compliance with certain targets, such as minimal annual purchases, are included in the financial statements as a deduction from revenue, in proportion to the rate of compliance with the targets, only when it is probable that the targets will be achieved and the amount of the discount can be reasonably determined.

The timing of transferring the risks and rewards changes according to the specific terms of the sale contract. Regarding sales of products in Israel, transfer of the risks and rewards generally exists when the products arrive at the customer's warehouse, although regarding certain international shipments the transfer occurs when the products are loaded on the shipper's transport vehicles.

## Note 3 - Significant Accounting Policies (cont'd)

### L. Revenues (cont'd)

### (2) Commissions

When the Group acts as an agent and not as a primary supplier, the revenue is recognized in the amount of the net commission.

### M. Financing Income and Expenses

Financing income includes interest income on funds invested, 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.

**Exchange rate gains and losses in respect of financial assets and liabilities are reported on a net basis**.

Results of derivatives transactions which are not used for hedging are reported in net amounts.

### N. Income Taxes Expense

Taxes on income include current and deferred taxes. Current tax and deferred taxes are recognized in profit or loss except to the extent that they relate to a business combination, or are recognized directly in equity or in other comprehensive income to the extent they relate to items recognized directly in equity or in other comprehensive income.

*Current taxes*
Current tax is the amount of tax expected to be paid (or received) on the taxable income for the year, calculated using the applicable tax rates based on the laws enacted or substantively enacted as of the date of the report. Current taxes also include taxes in respect of prior years.

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

# Note 3 - Significant Accounting Policies (cont'd)

## N. Income Taxes Expense (cont'd)

*Uncertain tax positions*
A provision for uncertain tax positions, including additional tax and interest expenses, is recognized when it is more probable than not that the Group will have to use its economic resources to settle the obligation.

*Deferred taxes*
Deferred taxes are recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. The Group does not recognize deferred taxes for the following temporary differences:
- The initial recognition of goodwill;
- The initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable income; and
- Differences deriving from investments in subsidiaries, joint arrangements and associates, to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future, either by way of selling the investment or by way of distributing dividends in respect of the investment.

Deferred taxes are measured at the tax rates expected to apply to the temporary differences when they are utilized, based on the laws that have been enacted or substantively enacted as of the reporting date.

A deferred tax asset is recognized in respect of tax loss carryforwards, tax benefits and deductible temporary differences, where it is expected that in the future there will be taxable income against which they can be utilized. Deferred tax assets are reviewed at every reporting date and to the extent it is not expected that the related tax benefits will be realized, they are reduced.

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

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

*Offset of deferred tax assets and liabilities*
The Group offsets deferred tax assets and liabilities if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to the same taxable income taxed by the same tax authority for the same taxable entity, or on different taxable entities, where they intend to settle current tax assets and liabilities on a net basis or their tax assets and liabilities will be settled concurrently.

*Additional tax on dividend distribution*
The Group may be required to pay additional tax in case of distribution of dividends by the Group companies. This additional tax was not included in the financial statements, since the policy of the Group is not to distribute a dividend which creates an additional tax liability for the recipient company in the foreseeable future.

*Inter-company transactions*
Deferred tax in respect of inter-company transactions in the consolidated financial statements is recorded according to the tax rate applicable to the procuring company.

# Note 3 - Significant Accounting Policies (cont'd)

## O. Government Grants

Grants received from the Chief Scientist in respect of research and development projects are treated as forgivable loans, according to IAS 20. Grants received from the Chief Scientist are recognized as liabilities according to their fair value on the date the grants were received unless it was reasonably certain on that date that the amount received will not be repaid. The amount of the liability is reexamined in each period and any changes in the present value of the cash flows, discounted at the original interest rate of the grant, are recognized in the profit or loss. The difference between the amount received and the fair value on the date the grant is received, is recognized as a reduction of research and development expenses.

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

## P. Segment Reporting

An operating segment is a component of the Group that meets the following three conditions:

1. It engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions between the Group companies;
2. Its operating results are reviewed regularly by the Group's chief operating decision maker in order to make decisions regarding resources to be allocated to the segment and to assess its performance; and
3. Separate financial information is available in respect thereof.

## Q. Environmental Costs

The current costs for operation and maintenance of facilities for the prevention of environmental pollution and projected provisions, for environmental rehabilitation costs stemming from current or past activities, are recorded in the statement of income. The costs of constructing facilities to prevent environmental pollution, which increase the life expectancy of a facility or its efficiency, or decrease or prevent the environmental pollution, are added to the cost of the fixed assets and are depreciated according to the Group's regular depreciation policies.

## R. New standards

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

A final version of the standard, which includes revised guidance on the classification and measurement of financial instruments, and a new model for measuring impairment of financial assets. This guidance has been added to the chapter dealing with general hedge accounting requirements issued in 2013.

## Note 3 - Significant Accounting Policies (cont'd)

### R. New standards (cont'd)

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

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

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

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

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

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

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

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

**(C) IFRS 16 – *Leases***

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

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

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

## Note 4 - Trade Receivables

| | December 31 | |
|---|---|---|
| | 2015 | 2014 |
| | $ thousands | $ thousands |
| Foreign | **792,669** | 1,073,930 |
| Domestic (Israel) | **10,296** | 35,476 |
| | **802,965** | 1,109,406 |
| Less – provision for doubtful accounts | **(31,147)** | (35,671) |
| | **771,818** | 1,073,735 |

| | December 31 | |
|---|---|---|
| | 2015 | 2014 |
| | $ thousands | $ thousands |
| Non-current trade receivables | **20,089** | 12,492 |
| Current trade receivables | **802,965** | 1,109,406 |
| Trade receivable as part of securitization transaction not yet eliminated | **26,367** | |
| Less – provision for doubtful accounts | **(31,147)** | (35,671) |
| | **818,274** | 1,086,227 |

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

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

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

Every year the credit facility is re-approved in accordance with the Securitization Program. As at the date of the report, the Securitization Agreement was approved up to July 31, 2016.

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

## Note 4 - Trade Receivables (cont'd)

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

In the month following acquisition of the debt, the Company pays the Acquiring Company in cash most the price of the debt while the remainder is recorded as a subordinated liability that is paid after collection of the debt sold. If the customer does not pay its debt on the anticipated repayment date, the Company bears interest up to the earlier of the date on which the debt is actually repaid or the date on which the Acquiring Company is indemnified by the insurance company (the actual costs are not significant and are not expected to be significant).

The Acquiring Company will not have a right of recourse to the Company in respect of the amounts paid in cash, except regarding debts with respect to which a commercial dispute arises between the companies and their customers, that is, a dispute the source of which is a claim of non-fulfillment of an obligation of the seller in the supply agreement covering the product, such as: a failure to supply the correct product, a defect in the product, delinquency in the supply date, and the like.

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

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

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

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

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

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

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

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

## Note 4 - Trade Receivables (cont'd)

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

## Note 5 - Financial and Other Assets, Including Derivatives*

| | December 31 | |
|---|---|---|
| | 2015 | 2014 |
| | $ thousands | $ thousands |
| Claims from the government in respect of participations and tax refunds | **59,331** | 56,799 |
| Receivables in respect of transactions in derivatives | **78,790** | 167,986 |
| Financial institutions | **4,528** | 55,505 |
| Income receivable | **982** | 1,918 |
| Advances to suppliers | **23,200** | 5,422 |
| Other | **13,697** | 10,667 |
| | **180,528** | 298,297 |

* 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 | |
|---|---|---|
| | **2015** | **2014** |
| | **$ thousands** | **$ thousands** |
| Finished goods and commercial inventory | **735,768** | *759,913 |
| Work in progress | **81,317** | 106,052 |
| Raw materials | **296,748** | 317,970 |
| Packaging materials | **15,081** | 13,725 |
| Spare parts and maintenance materials | **20,144** | 21,531 |
| | **1,149,058** | 1,219,191 |
| Additional information: | | |
| Merchandise in transit (included in the inventories balance) | **19,315** | 37,776 |

*Immaterial adjustment of the comparative figures – see Note 2D.

| | December 31 | |
|---|---|---|
| | **2015** | **2014** |
| | **$ thousands** | **$ thousands** |
| Non-current inventory | **35,565** | 21,938 |
| Current inventory | **1,149,058** | 1,219,191 |
| | **1,184,623** | 1,241,129 |

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 $29 million and $19.8 million as of December 31, 2015 and 2014, respectively.

## Note 7 - Other Financial Investments and Receivables

### A. Composition

| | December 31 | |
|---|---|---|
| | **2015** | **2014** |
| | **$ thousands** | **$ thousands** |
| Long-term investments, loans and receivables | **17,844** | 20,142 |
| Non-current trade receivables | **20,089** | 12,492 |
| Receivables in respect of transactions in derivatives | **6,860** | 9,448 |
| Call option in respect of business combination transaction | **3,249** | 3,068 |
| | **48,042** | 45,150 |
| Less – current maturities | **7** | 7 |
| | **48,035** | 45,143 |

## Note 7 - Other Financial Investments and Receivables (cont'd)

### B. Maturities

The other financial investments and receivables are repayable as follows:

| | $ thousands |
|---|---|
| First year (current maturities) | **7** |
| Second year | **8, 516** |
| Third year | **2,925** |
| Fourth year | **3, 255** |
| Fifth year and thereafter | **24,615** |
| Without fixed maturity date | **8,724** |
| | **48,042** |

## Note 8 - Non-Financial Investments and Other Receivables, including Non-Current Inventory

| | December 31 | |
|---|---|---|
| | 2015 | 2014 |
| | $ thousands | $ thousands |
| Non-current inventory | **35,565** | 21,938 |
| Non-financial assets | **376** | 610 |
| | **35,941** | 25,548 |

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

## 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, 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) |
| Disposal of subsidiaries | (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) |
| Disposal of subsidiaries | (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 |

* 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 Ashdod 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, 2015, fixed asset items totalling $1,975 thousand (2014 – $3,618 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, 2015 is $11,771 thousand.

# Note 9 - Fixed Assets (cont'd)

## E. Investment grants

Investment grants received for the purchase of fixed assets

| | Balance as of December 31 | |
|---|---|---|
| | **2015** | **2014** |
| | **$ thousands** | **$ thousands** |
| Buildings and equipment in the Group's plants | **114,023** | 112,683 |

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 the assets of the subsidiaries in Israel in favor of the State of Israel. For some of the investments, if the Group does not comply with the conditions for receipt of the grant, it will have to refund the amount of the grants, fully or partially, plus interest and linkage difference as per law.

## F. Capitalized borrowing costs

| | Balance as of December 31 | |
|---|---|---|
| | **2015** | **2014** |
| | **$ thousands** | **$ thousands** |
| Borrowing costs | **23,248** | 22,705 |

## G. Additional Information

The Group has fully-depreciated assets that are still in use. The cost of these assets as of December 31, 2015 is $308,621 thousand (December 31, 2014 – $298,047 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 | Total |
|---|---|---|---|---|---|---|---|
| | $ thousands | $ thousands | $ thousands | $ thousands | $ thousands | $ thousands | $ thousands |
| **Cost** | | | | | | | |
| Balance as of January 1, 2015 | **879,418** | **236,253** | **320,141** | **60,718** | **67,761** | **44,923** | **1,609,214** |
| Additions (2) | **83,005** | **(8,028)** | **-** | **8,389** | **(223)** | **4,338** | **87,481** |
| Disposals | **(30,993)** | **-** | **(5,549)** | **(737)** | **(6,960)** | **(4)** | **(44,243)** |
| Disposal of subsidiaries | **(918)** | **-** | **-** | **-** | **-** | **(5)** | **(923)** |
| Balance as of December 31, 2015 | **930,512** | **228,225** | **314,592** | **68,370** | **60,578** | **49,252** | **1,651,529** |
| **Accumulated amortization** | | | | | | | |
| Balance as of January 1, 2015 | **521,519** | **47,483** | **215,604** | **37,083** | **56,511** | **27,123** | **905,323** |
| Additions (2) | **76,631** | **(1,481)** | **14,152** | **6,234** | **1,912** | **3,566** | **101,014** |
| Disposals | **(30,130)** | **-** | **(5,549)** | **(711)** | **(6,960)** | **(4)** | **(43,354)** |
| Loss from impairment | **1,175** | **-** | **-** | **-** | **-** | **-** | **1,175** |
| Disposal of subsidiaries | **(78)** | **-** | **-** | **-** | **-** | **-** | **(78)** |
| Balance as of December 31, 2015 | **569,117** | **46,002** | **224,207** | **42,606** | **51,463** | **30,685** | **964,080** |
| **Amortized balance as of December 31, 2015** | **361,395** | **182,223** | **90,385** | **25,764** | **9,115** | **18,567** | **687,449** |

(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 effect of foreign currency translation differences in respect of foreign operations.

## Note 10 - Intangible Assets (cont'd)

| | Product registration | Goodwill | Intangible assets on purchase of products(1) | Software | Marketing rights and trademarks | Other | 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 (2) | 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 (2) | 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 effect of foreign currency translation differences in respect of foreign operations.

# Note 11 - Loans and Credit from Banks and Other Lenders

**A. Composition**

| | December 31 2015 | December 31 2014 |
|---|---|---|
| | $ thousands | $ thousands |
| **Credit from banks** | | |
| Overdrafts | **15,225** | 10,234 |
| Short-term credit | **103,725** | 286,587 |
| | **118,950** | 296,821 |
| Current maturities – other | **109** | 109 |
| Current maturities of long-term loans from banks | **103,741** | 74,276 |
| | **222,800** | 371,206 |

**B.** Regarding financial covenants – see Note 20C.

# Note 12 - Trade Payables

| | December 31 2015 | December 31 2014 |
|---|---|---|
| | $ thousands | $ thousands |
| Open accounts | **511,534** | 615,014 |
| Post-dated checks | **42,823** | 35,815 |
| | **554,357** | 650,829 |

# Note 13 - Other Payables

| | December 31 2015 | December 31 2014 |
|---|---|---|
| | $ thousands | $ thousands |
| Liabilities to employees and other liabilities in respect of salaries and wages | **103,333** | 109,415 |
| Government institutions | **11,819** | 9,642 |
| Payables in respect of transactions in derivatives | **125,640** | 295,554 |
| Financial institutions | **13,078** | 6,471 |
| Accrued expenses | **77,904** | 81,618 |
| Payables in respect of intangibles assets | **11,757** | 9,042 |
| Payables in respect of business combination | **8,237** | 827 |
| Liabilities for discounts | **61,004** | 92,955 |
| Provisions for legal claims | **12,930** | 11,233 |
| Other | **43,590** | 43,057 |
| | **469,292** | 659,814 |

## Note 14 - Long-Term Loans from Banks

### A. Composition

| | December 31 2015 | December 31 2014 |
|---|---|---|
| | $ thousands | $ thousands |
| Loans from banks | **277,449** | 338,415 |
| Less – current maturities | **103,741** | 74,276 |
| | **173,708** | 264,139 |

**B.** Regarding the commitment of the Company and certain subsidiaries to banks to maintain certain financial covenants, mainly debt-equity and profitability ratios – see Note 20C.

## Note 15 - Debentures

On December 4, 2006, the Company issued to institutional investors three series of debentures, Series B, C and D, in the aggregate amount of NIS 2,350 million par value, in exchange for their par value.

During 2008, the Company purchased by itself and through a wholly-owned subsidiary, a cumulative total of NIS 80.4 million par value debentures (Series B), at a total cost of $16,425 thousand. Due to the Company's purchase, debentures with a par value of NIS 12.5 million were de-listed from trading.

On March 25, 2009, the Company issued debentures by expanding Series C and D, in the total amount of NIS 1,133 million par value debentures for a consideration of 101.56% and 98.95% of its par value, respectively.

On January 16, 2012, the Company issued debentures by expanding Series B and D, in the total amount of NIS 1,054 million par value debentures for a consideration of 85.84% and 103.36% of their par values, respectively.

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

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

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

## Note 15 - Debentures (cont'd)

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

1. Series B debentures, in the amount of NIS 3,563.5 million par value, linked to the CPI and bearing interest at the base annual rate of 5.15%. The debenture principal is to be repaid in 17 equal payments in the years 2020 through 2036. The issuance costs for this series amounted to $4,144 thousand.

2. Series C debentures, in the amount of NIS 1,126 million par value, linked to the CPI and bearing interest at the base annual rate of 4.45%. The debenture principal repaid in 4 equal payments in the years 2010 through 2013. The issuance costs for this series amounted to $1,591 thousand.

3. Series D debentures, in the amount of NIS 1,735.4 million par value, unlinked and bearing interest at the base annual rate of 6.5%. The debenture principal of the series issued in 2006 and 2009 is to be repaid in 6 equal payments in the years 2011 through 2016. The debenture principal of the series issued in 2012 is to be repaid in 5 equal payments in the years 2012 through 2016 and the debenture principal of the series issued in 2014 is to be repaid in 3 equal payments in the years 2014 through 2016. The issuance costs for this series amounted to $2,775 thousand.

On November 30, 2010 through 2013, the Company repaid a total of NIS 1,126 million par value debentures (Series C), which amounted to about $358.3 million, as payment of the debenture principal of Series C. The principal payment made on November 30, 2013, was the final payment where as a result thereof the principal was repaid in full.

On November 30, 2011 through 2015, the Company repaid a total of NIS 1,346.8 million par value debentures (Series D), which amounted to about $354.3 million, as payment of the debenture principal of Series D.

### A. Linkage base and interest rates:

| | Linkage terms | Interest rate as of balance sheet date<br>% | Par value<br>NIS thousands | Total<br>$ thousands |
|---|---|---|---|---|
| Debentures – Series B | CPI | 5.15 | 3,483,117 | 1,056,380 |
| Debentures – Series D | Unlinked | 6.5 | 388,546 | 100,789 |
| Total | | | 3,871,663 | 1,157,169 |

### B. Repayment dates:

| | $ thousands |
|---|---|
| First year (current maturities) | 100,789 |
| Second year | - |
| Third year | - |
| Fourth year | - |
| Fifth year and thereafter | 1,056,380 |
| | 1,157,169 |

## Note 16 - Other Long-Term Liabilities

| | December 31 2015 | December 31 2014 |
|---|---|---|
| | $ thousands | $ thousands |
| Liabilities in respect of claims | **2,267** | 1,920 |
| Long-term transactions in derivatives | **4,107** | 5,865 |
| Liability in respect of business combinations | **1,991** | 8,360 |
| Liability in respect of payments to the Chief Scientist | **1,590** | 1,730 |
| Other provisions and liabilities | **19,278** | 11,286 |
| | **29,233** | 29,161 |

## 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 2013–2015:
2015 – 26.5%
2014 – 26.5%
2013 – 25%

On January 4, 2016, the Knesset plenum passed the Law for amending the Income Tax Ordinance (Number 216) - 2016 which determined, inter alia, that the corporate tax rate would be reduced by 1.5% to a rate of 25% as from 2016 onwards.

If the law had been substantively enacted before December 31, 2015, the effect of the change on the financial statements as at December 31, 2015 was insignificant.

(2) In January 12, 2012 Amendment 188 to the Income Tax Ordinance (New Version) - 1961 (hereinafter - “the Ordinance”) was published in the Official Gazette. The amendment amended Section 87A to the Ordinance, and provides a temporary order whereby Accounting Standard No. 29 “Adoption of International Financial Reporting Standards (IFRS)” that was issued by the Israel Accounting Standards Board shall not apply when determining the taxable income for the tax years 2007-2011 even if this standard was applied when preparing the financial statements (hereinafter - “the Temporary Order”). On July 31, 2014 Amendment 202 to the Ordinance was issued, by which the Temporary Order was extended to the 2012 and 2013 tax years. Taxable income for 2014,was also calculated by the Temporary Order above.

(3) The subsidiaries outside of Israel are assessed based on the tax laws in the country of their residence.

# Note 17 - Income Taxes (cont'd)

## B. Benefits under the Law for the Encouragement of Capital Investments

Industrial enterprises of companies in Israel were granted “Approved Enterprise” or “Beneficiary Enterprise” status under the Israeli Law for the Encouragement of Capital Investments, 1959. Part of the income deriving from the “Approved Enterprise” or “Beneficiary Enterprise” during the benefit period is subject to tax at the rate of up to 25% (the total benefit period is seven years and in certain circumstances up to ten years, but may not exceed 14 years from the date of the Letter of Approval and 12 years from the date the “Approved Enterprise” commenced operations or not more than 12 years from the election year for a “Benefitted Enterprise”).

Other industrial enterprises of subsidiaries in Israel are entitled to a tax exemption for periods of between two and six years and a tax rate of up to 25% for the remainder of the benefit period. Should a dividend be distributed from the tax-exempt income, the subsidiaries will be liable for tax on the income from which the dividend was distributed at a rate of 25%.

The aforementioned benefits are conditional upon compliance with certain conditions specified in the Law, related Regulations and the Letters of Approval, in accordance with which the investments in the Approved Enterprises were made. Failure to meet these conditions may lead to cancellation of the benefits, in whole or in part, and to repayment of any benefits already received, together with interest. Management believes that the companies are in compliance with these conditions.

## C. Amendment to the Law for the Encouragement of Capital Investments, 1959

On December 29, 2010 the Knesset approved the Economic Policy Law for 2011-2012, which includes an amendment to the Law for the Encouragement of Capital Investments – 1959 (hereinafter – “the Amendment”). The Amendment is effective from January 1, 2011 and its provisions apply to preferred income derived or accrued in 2011 and thereafter by a preferred company, per the definition of these terms in the Amendment. Companies can choose not to be included in the scope of the amendment to the Encouragement Law and to stay in the scope of the law before its amendment until the end of the benefits period of its approved/beneficiary enterprise.

The Amendment provides that only companies in Development Area A will be entitled to the grants track and that they will be entitled to receive benefits under this track and under the tax benefits track at the same time. In addition, the existing tax benefit tracks were eliminated (the tax exempt track, the “Ireland” track and the “Strategic” track) and two new tax tracks were introduced in their place, a preferred enterprise and a special preferred enterprise, which mainly provide a uniform and reduced tax rate for all the company’s income entitled to benefits. On August 5, 2013 the Knesset passed the Law for Changes in National Priorities (Legislative Amendments for Achieving Budget Objectives in the Years 2013 and 2014) – 2013, which raised the tax rates on preferred income as from the 2014 tax year as follows: 9% for Development Area A and 16% for the rest of the country (compared with 7% for Development Area A and 12.5% for the rest of the country in 2013). Furthermore, an enterprise that meets the definition of a special preferred enterprise is entitled to benefits for a period of 10 consecutive years and a reduced tax rate of 5% in Development Area A and of 8% in the rest of the country.
The Amendment also provides that no tax will apply to a dividend distributed out of preferred income to a shareholder that is an Israeli resident company. A tax rate of 20% shall apply to a dividend distributed out of preferred income to an individual shareholder or foreign resident, subject to double taxation prevention treaties.

# Note 17 - Income Taxes (cont'd)

### C. Amendment to the Law for the Encouragement of Capital Investments, 1959 (cont'd)

Furthermore, the Amendment provides relief with respect to the non-payment of tax on a dividend received by an Israeli resident 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 (hereinafter- “the relief”). Furthermore, a distribution from profits of the exempt enterprise will be subject to tax by the distributing company.

As of the report date, the companies in Israel adopted the amendment to the Law and, accordingly, the deferred taxes that are expected to be realized 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.

### E. Deferred tax assets and liabilities

### (1) Deferred tax assets and liabilities recognized

Deferred taxes are calculated at the tax rate expected to be in effect on the date of the reversal, as stated above. Deferred taxes for subsidiaries operating outside of Israel were calculated according to the relevant tax rates in each country.

# Note 17 - Income Taxes (cont'd)

## E. Deferred tax assets and liabilities (cont'd)

### (1) Deferred tax assets and liabilities recognized

The movement in deferred tax assets and liabilities is attributed to the following items:

| | Fixed assets and intangible assets | Employee benefits | Tax loss carryforwards | Inventories | Other | Total |
|---|---|---|---|---|---|---|
| | $ thousands | $ thousands | $ thousands | $ thousands | $ thousands | $ thousands |
| **Deferred tax asset (liability) balance as at January 1, 2014** | (64,970) | 14,664 | 37,354 | * 52,405 | 26,198 | 65,651 |
| Changes recognized in the statement of income | (2,218) | (2,061) | 2,942 | 4,159 | (3,038) | (216) |
| Disposal of subsidiaries | – | – | (42) | – | – | (42) |
| Changes recognized in other comprehensive income | 660 | (264) | 77 | 107 | (3,045) | (2,465) |
| **Deferred tax asset (liability) balance as at January 1, 2015** | (66,528) | 12,339 | 40,331 | 56,671 | 20,115 | 62,928 |
| Changes recognized in the statement of income | **(3,997)** | **712** | **(3,742)** | **1,706** | **(5,477)** | **(10,798)** |
| Changes recognized in other comprehensive income | **219** | **(415)** | **(14)** | **-** | **681** | **471** |
| **Deferred tax asset (liability) balance as at December 31, 2015** | **(70,306)** | **12,636** | **36,575** | **58,377** | **15,319** | **52,601** |

| | December 31 2015 | December 31 2014 |
|---|---|---|
| | $ thousands | $ thousands |
| **Presented in:** | | |
| Deferred tax assets | **75,196** | * 82,623 |
| Deferred tax liabilities | **(22,595)** | (19,695) |
| **Total** | **52,601** | 62,928 |

* Immaterial adjustment of the comparative figures – see Note 2D.

# 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 2015 | December 31 2014 |
|---|---|---|
| | $ thousands | $ thousands |
| Tax losses | **242,373** | 262,757 |

Deferred tax assets have not been recognized in respect of these items, since it is not probable that foreseeable future taxable profit will be available against which the Group can use the benefits therefrom.

## F. Components of income taxes expenses (income)

| | For the year ended December 31 | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| | $ thousands | $ thousands | $ thousands |
| **Current tax expenses (income)** | | | |
| Current year | **34,381** | 48,250 | 50,204 |
| Adjustments for previous years, net | **4,083** | (1,564) | 3,133 |
| | **38,464** | 46,686 | 53,337 |
| **Deferred tax expenses (income)** | | | |
| Creation and reversal of temporary differences | **9,982** | 216 | (17,105) |
| Change in the tax rate | **816** | – | 8,318 |
| | **10,798** | 216 | (8,787) |
| **Total income taxes expenses** | **49,262** | 46,902 | 44,550 |

# 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 | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| | $ thousands | $ thousands | $ thousands |
| Profit before taxes on income | **159,037** | 192,917 | 171,621 |
| Company's main tax rate | **26.5%** | 26.5% | 25% |
| Tax calculated according to the main tax rate | **42,145** | 51,123 | 42,905 |
| Tax benefits from Approved Enterprises | **(4,278)** | (1,668) | (3,246) |
| Difference between measurement basis of income for financial statement and for tax purposes | **26,925** | 11,663 | 8,106 |
| Taxable income and temporary differences at other tax rates | **(26,569)** | (19,949) | (14,677) |
| Taxes in respect of prior years | **4,083** | (1,564) | 3,133 |
| Temporary differences and losses in the report year for which deferred taxes were not created | **5,009** | 7,545 | 9,816 |
| Utilization of tax losses from prior years for which deferred taxes were not created | **(2,484)** | (1,904) | (4,235) |
| Creation of deferred taxes for tax losses from previous years for which deferred taxes were not created in the past | **(1,228)** | (5,525) | (20,288) |
| Non-deductible expenses and other differences | **4,843** | 7,181 | 14,718 |
| Effect of change in tax rate in respect of deferred taxes | **816** | – | 8,318 |
| | **49,262** | 46,902 | 44,550 |
| Effective tax rate | **30.98%** | 24.31% | 25.96% |

## H. Income taxes in respect of other comprehensive income

| | For the year ended December 31 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2015 | | | 2014 | | | 2013 | | |
| | 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 | **58,521** | **(6,254)** | **52,267** | 56,426 | (1,500) | 54,926 | (19,145) | (620) | (19,765) |
| Net changes in fair value of cash flow hedges transferred to the statement of income | **(70,060)** | **6,360** | **(63,700)** | 14,356 | (1,523) | 12,833 | (13,174) | 738 | (12,436) |
| Re-measurement of defined benefit plan | **3,404** | **(436)** | **2,968** | 935 | (53) | 882 | 170 | (47) | 123 |
| Total | **(8,135)** | **(330)** | **(8,465)** | 71,717 | (3,076) | 68,641 | (32,149) | 71 | (32,078) |

## Note 17 - Taxes on Income (cont'd)

### I. Final tax assessments

Adama Agan, Adama Makhteshim, Lycored and the Company have 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 $489.6 million.

The Group has created a deferred tax asset of approximately $37 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(9).

**Employee Benefits**

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| | $ thousands | $ thousands |
| Present value of unfunded obligations | **23,757** | 24,159 |
| Present value of funded obligations | **36,658** | 40,630 |
| Total present value of obligations | **60,415** | 64,789 |
| Less – fair value of plan's assets | **(16,794)** | 18,408 |
| Total recognized liability for defined benefit plan, net | **43,621** | 46,381 |
| Liability in respect of early retirement | **32,271** | 30,598 |
| Liability for other short-term benefits | **19,734** | 19,827 |
| Liability for other long-term benefits | **16,758** | 16,956 |
| Total employee benefits, net | **112,384** | 113,762 |
| Presented in the following items: | | |
| Other payables | **41,832** | 43,305 |
| Long-term employees benefits | **70,552** | 70,457 |
| | **112,384** | 113,762 |

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 | |
|---|---|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| | $ thousands | $ thousands | $ thousands | $ thousands | $ thousands | $ thousands |
| Balance as of January 1 | **64,789** | 71,272 | **18,408** | 20,085 | **46,381** | 51,187 |
| **Expense/income recognized in profit and loss:** | | | | | | |
| Current service cost | **3,308** | 3,409 | – | – | **3,308** | 3,409 |
| Past service cost | **–** | 154 | – | – | **–** | 154 |
| Interest costs | **2,215** | 1,995 | **607** | 559 | **1,608** | 1,436 |
| Changes in exchange rates | **(1,078)** | (7,718) | **(575)** | (2,216) | **(503)** | (5,502) |
| **Included in other comprehensive income:** | | | | | | |
| Actuarial losses from changes in the demographic assumptions | **(469)** | (672) | **–** | – | **(469)** | (672) |
| Actuarial gains (losses) from changes in the financial assumptions | **(3,614)** | 8,213 | **–** | – | **(3,614)** | 8,213 |
| Other actuarial gains (losses) | **(243)** | (7,460) | **(663)** | 641 | **420** | (8,101) |
| Actual return less interest income | **(50)** | 104 | **(309)** | 479 | **259** | (375) |
| Foreign currency translation differences in respect of foreign operations | **(44)** | (81) | **–** | – | **(44)** | (81) |
| **Additional movements:** | | | | | | |
| Benefits paid | **(4,214)** | (4,427) | **(2,008)** | (2,570) | **(2,206)** | (1,857) |
| Contributions paid by the Group | **–** | – | **1,134** | 1,430 | **(1,334)** | (1,430) |
| Classification of short-term employee benefits | **(185)** | – | **–** | – | **(185)** | – |
| **Balance as of December 31** | **60,415** | 64,789 | **16,794** | 18,408 | **43,621** | 46,381 |

## Note 18 - Employee Benefits (cont'd)

**(2) Actuarial assumptions and sensitivity analysis**

The principal actuarial assumptions at the reporting date (weighted average)

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| | % | % | % |
| Discount rate on December 31 | **1.7** | 1.4 | 0.8 |

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, 2015 | |
|---|---|---|
| | Increase of 1% | Decrease of 1% |
| | $ thousands | $ thousands |
| Discount rate | **(5,399)** | **6,742** |

**(3) Impact of the plan on the Group's future cash flows**

The Group expects $1,084 thousand in contributions to be paid to the funded defined benefit plan in 2016.

**(4) Post-employment benefit plans – defined contribution plans**

| | For the year ended December 31 | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| | $ thousands | $ thousands | $ thousands |
| Amount recognized as an expense in respect of defined contribution plan | **3,093** | 3,237 | 3,202 |

## Note 19 - Commitments and Contingent Liabilities

**A. Commitments**

1. On December 30, 2015, the Company's general meeting of shareholders has resolved (after the approval of the board of directors from December 30, 2015 and the approval of the Remuneration Committee and the Audit Committee from December 29 2015) to approve the framework decision of the Company regarding the entry into agreement with annual insurance policies for the insurance of directors and officers, under which the liability of directors and officers of the Company and its subsidiaries in Israel and abroad will be insured, from time to time, including directors and officers who are controlling shareholders of the Company (hereinafter - "insurance policies") provided that said agreements meet the conditions set forth in the framework decision. The insurance policies will be for several insurance periods which in aggregate will not exceed five years (i.e. 5-year insurance periods the last of which is up to December 31, 2020).

# Note 19 - Commitments and Contingent Liabilities (cont'd)

## A. Commitments (cont'd)

1. (cont'd)

The liability of directors and officers of the Company and its subsidiaries (including officers who might be considered controlling shareholders) is covered by an insurance policy, in which the liability limit is $100 million for each insurance occurrence and for the insurance period plus reasonable legal defense expenses in accordance with the terms of the policy. On January 1, 2016, the Company entered into an insurance policy agreement with Clal Insurance Company for the period ending December 31, 2016 in accordance with the terms of the framework decision as specified above and according to the Company's remuneration policy.

2. On October 8, 2007, the General Meeting of the shareholders of the Company approved 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 (hereinafter - "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.

On August 10, 2015 the Company's general meeting of shareholders after the approval by the board of directors dated August 10, 2015 and the approval of the Remuneration Committee from August 6, 2015 approved the grant of a commitment for exemption of officers and directors serving in the Company and to officers and directors who will serve on the Company from time to time. The conditions of the exemption commitment are identical for all officers and directors of the Company and in accordance with the provisions of the Companies Law, 1999 (hereinafter - the "Companies Law"), the Company's articles and its remuneration policy.

3. Regarding undertakings of the Company and its subsidiaries as part of a securitization agreement – see Note 4.

4. Regarding undertakings with interested parties – see Note 28.

# Note 19 - Commitments and Contingent Liabilities (cont'd)

## A. Commitments (cont'd)

5. In July 2006, Adama Agan entered into an agreement with Ashdod Energy Ltd. (hereinafter – "Ashdod Energy"), which was modified from time to time, pursuant to which Adama Agan rents to Ashdod Energy, as a subtenant, approximately 13.5 Dunams of land, in the construction period and about 8 Dunams in the operation period according to the terms of the agreement, which is part of a 22.25 Dunams of land rented by Adama Agan from Israel Lands Administration, on which Ashdod Energy will construct and operate a power plant for production of electricity and steam, based on the use of natural gas.
Furthermore, according to the agreement, Ashdod Energy will supply electricity and steam to Adama Agan for a period of 24 years and 11 months from the financial closing date or until the end of the rental period of the adjacent real estate (as defined in the agreement), whichever is earlier and in any case for a period that will not end before 24 years and 11 months from October 10, 2010. 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. As of the report date, the construction of the power plant was completed and now operates.

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 operate own and deliver a power plant in Naot Hovav (hereinafter - "the Agreement"). As a result of the Agreement, the parties signed a sub-rental agreement, pursuant to which Adama Makhteshim rents to Negev Energy, as a subtenant, an area of 19,317 square meters, for the purpose of building and operating a power plant pursuant to the agreement (hereinafter - "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) according to a capitalized lease contract.

   Pursuant to the Agreement, Negev Energy will construct and operate a power plant for production of electricity and steam, based on the use of natural gas. 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 years and eleven 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. As of the report date, the construction of the power plant was completed and now operates.

## Note 19 - Commitments and Contingent Liabilities (cont'd)

### A. Commitments (cont'd)

7. In November 2013, the Company acquired, through a subsidiary, 10.6% of the issued and paid-up share capital of Hubei Sanonda Co. Ltd. (hereinafter – "Sanonda 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.

   For details regarding the approval of an agreement for the sale of Sanonda Ltd. Class B shares which are held by the Company to Sanonda Ltd., subject to the completion of the Sanonda transaction, as mentioned below, see Note 19A(8) below.

8. On October 1, 2014, an agreement was signed pursuant to which the Company entered into an undertaking with CNAC whereby on the completion date of the transaction and subject to fulfillment of its contingent terms, including the receipt of the required governmental approvals and all of the approvals required from third parties the Company will acquire, 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").(hereinafter – "the purchase agreement").

   The undertaking in the purchase 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 purchase agreement, the Purchaser is to pay the Seller, in cash, on the completion date, the amount of 1,987 million yuans (hereinafter – "the Consideration") constituting as of December 31, 2015 about $306 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.

# Note 19 - Commitments and Contingent Liabilities (cont'd)

## A. Commitments (cont'd)

8. (cont'd)

Pursuant to the provisions of the purchase agreement and since the transaction was not completed by March 31, 2015, the parties hold discussions concerning the alternatives to carry out the transaction, under which the Company and its shareholders are examining various possibilities with respect to execution of the business combination between the Company and the Companies in China, this being either by means of completion of the transaction, by necessary changes or in other ways including by share exchanges among the shareholders of the Company and Sanonda Ltd. as listed below.

On August 16, 2015, the Company announced that shareholders of the Company have informed that they are exploring a possible transaction with Sanonda Ltd under which - the Company's shareholders will transfer all of their shares in the Company to Sanonda Ltd. in return for shares of Sanonda Ltd such that after the transaction, the Company will be fully owned by Sanonda Ltd. (the " Sanonda transaction").

In this regard, Sanonda Ltd. Company submitted a proposal to purchase Class B shares of Sanonda Ltd. that are held by the Company, in a consideration of HK $ 7.70 per share and a total of HK $ 485 million (about $ 62 million) for all B shares, subject to the approval of the Board and the general meeting of Sanonda Ltd and subject to the completion of the Sanonda transaction. On February 4, 2016, the audit committee, the board of directors and shareholders approved the Company's agreement to sell Class B shares of Sanonda Ltd. that are held by the Company, under the above conditions, and subject to the completion of the Sanonda transaction.

The Company also announced that it is considering the possibility of distributing dividends to its current shareholders at an estimated amount of $ 250 million before and next to the completion of the transaction. A dividend of $ 100 million was declared and distributed to the Company's shareholders on December 2015.

As the Company was informed, the process of negotiations and the approval of the Sanonda transaction is expected be long and take several months, during which the relevant aspects of the transaction will be examined, including its effect on the agreement to purchase the shares of the companies in China, as defined above, from October 2014. It is also clarified that there is still uncertainty concerning the maturing of the process into binding agreements, the precise structure and the conditions of such agreements and what will be their impact on the Company. As the process matures and the agreements are signed, the completion of the Sanonda transaction will be subject to significant conditions, including, among other things, obtaining all regulatory approvals required in China, including in connection with the agreement for the sale of B shares and all other conditions that will be required by the shareholders of the Company.

# Note 19 - Commitments and Contingent Liabilities (cont'd)

## A. Commitments (cont'd)

9. On October 31, 2010, the Company announced that it reached agreements with the new Histadrut and the workers committees of the subsidiaries in Israel, 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").

(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) A special fund will be established to assist the employees and those retiring voluntarily.

The employees' representatives committed not to cause any work disruptions due to matters settled within the framework of the agreements between the parties, including with respect to a future transfer of control in the Company.

On November 6, 2010, the Company's management gave the Adama Makhteshim Workers Council its consent in principle, in accordance with the stipulations in the agreement of principles, whereby during the years 2013-2014, up to 50 permanent workers may retire in addition to those already listed in the agreement of principles, subject to all the conditions provided in the agreement of principles.

During 2015, in addition to provisions recorded in previous years, the Company recorded a provision in an amount of $12 million reported in other expenses.

## B. Contingent liabilities

1. In accordance with the Israeli Law for the Encouragement of Capital Investments, 1959, Company subsidiaries received grants from the State of Israel in respect of investments in fixed assets made as part of plant expansion plans approved by the Investments Center. Receipt of the grants is conditional upon fulfilment of the terms of the Letter of Approval that include, among others, exports at certain rates. If the companies do not comply with the required terms, they will have to refund the amounts of the grants, together with interest from the date of their receipt. Managements of the subsidiaries believe that they are in compliance with the conditions of the approval. See also Note 9E.

# Note 19 - Commitments and Contingent Liabilities (cont’d)

**B. Contingent liabilities (cont’d)**

2. In accordance with the Israeli Law for the Encouragement of Research and Development in Industry, 1984, subsidiaries received grants from the State of Israel in respect of the research and development expenses they incurred on projects approved by the Israeli Industrial Research and Development Administration. Receipt of the grants is conditional upon compliance with the terms of the letter of approval which includes, among other things, the payment of royalties to the State of Israel at rates of between 2%–3.5% of the sales of the products, up to the amount of the State’s participation.

   The balance of the State’s participation in the said companies’ research and development programs (net of royalties paid in respect thereof), after deduction of unsuccessful research projects, amounts to approximately $1.6 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.

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 carrying out surveys of risks according to a methodology that was determined by Ministry of Environmental Protection..Adama Agan also submitted to the Water Commission a detailed plan for treating the ground water that was accepted in principle by the Water Commission.
   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 regard.
   As part of the integrated environmental regulation process, Adama Makhteshim’s plant in Naot Hovav has been required to submit an historical ground survey. This survey was submitted to the Ministry of Environmental Protection in early 2015. 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.

# Note 19 - Commitments and Contingent Liabilities (cont'd)

## D. Claims against subsidiaries

In the ordinary course of business, legal claims were filed against subsidiaries, including lawsuits, regarding claims for patent infringement. Inter alia, from time to time, the Company, similar to other companies operating in the market of products for plant protection is exposed to class actions for large amounts, which it must defend against while incurring considerable costs, even if these claims, from the start, have no basis. In the estimation of the Company's management, based, inter alia, on opinions of its legal counsel regarding the prospects of the proceedings, the financial statements include appropriate provisions where necessary to cover the exposure resulting from the claims. 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 $15.3 million.

2. 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 $5.5 million. In addition, tax demands were filed against the Company, in the amount of about $10.5 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 claims ended

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. On February 29, 2016, the appeal was fully rejected.

# Note 20 - Liens and Financial Covenants

**A. Liabilities to banks secured by liens:**

The Company and its subsidiaries have made commitments to banks not to register liens on their assets in favor of other parties, except for specific liens in the amount of about $2 million, for securing liabilities in the amount of about $600 thousand, to the benefit of the party financing the acquisition on certain terms, except for creation of liens related to receipt of investment grants, as stated in Paragraph B. below, and except for a lien on trade receivables within the scope of the securitization agreement – see Note 4.

**B.** In order to secure fulfilment of the conditions of investment grants received (see Note 9E), the Company's subsidiaries have registered floating liens in unlimited amounts on all of their assets.

**C.** (1) The main financial covenants included in the financing agreements as of December 31, 2015, are as follows:

(a) The ratio of the interest-bearing financial liabilities (net debt) to the Company's equity shall not exceed 1.25. As of December 31, 2015 the ratio was 0.8.

(b) The ratio of the interest-bearing financial liabilities (net debt) to earnings before financing expenses, taxes, depreciation and amortization (EBITDA) for 12 months shall not exceed a ratio 4. As of December 31, 2015, the ratio of the Company's interest-bearing financial liabilities (net debt) to the EBITDA for 12 months was 2.5.

(c) The Company's equity will not be less than $1.22 billion. As of December 31, 2015, the Company's equity amounted to $1,567 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, 2015, the retained earnings were $1,126 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 interest bearing financial liabilities (net debt) and its equity will not exceed 1.25. As of December 31, 2015, the ratio was 0.8.

(2) The ratio between the Company's interest bearing financial liabilities (net debt) and the EBITDA for 12 months will not exceed 4. As of December 31, 2015, this ratio was 2.5.

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, 2015, 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 | |
|---|---|---|
| | **2015** | **2014** |
| Share capital issued and paid-up at December 31, in thousands of shares of NIS 3.12 par value | **137,991** | 137,991 |
| Authorized share capital, in thousands of shares | **300,000** | 300,000 |

The holders of the ordinary shares have the right to receive dividends as they will be declared from time to time and the right to vote at the Company's General Meetings, based one vote per share.

On November 9, 2014, the Company's Board of Directors and the Company's shareholders approved a reverse split of the Company's ordinary share capital, in a ratio of 3.12:1 (*i.e.,* each 3.12 ordinary shares of the Company will become 1 ordinary share of NIS 3.12 par value of the Company), effective as of the date of the Board Resolution.
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:

| | 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 | 1,667,377 | - | 53,964 | - | 1,721,341 |
| **Total options outstanding as of December 31, 2014** | 7,654,850 | 988,799 | 1,744,923 | 361,808 | 10,750,380 |
| Forfeited during the year | 649,356 | - | - | - | 649,356 |
| **Total options outstanding as of December 31, 2015** | 7,005,494 | 988,799 | 1,744,923 | 361,808 | 10,101,024 |

# Note 21 - Equity (cont'd)

## D. Share-based payments (cont'd)

3. The parameters used in application of the binomial model are as follows:

| | First grant | Second grant | Third grant | Fourth grant |
|---|---|---|---|---|
| Share price (dollars) | 19.08 | 19.87 | 21.31 | 16.00 |
| Original exercise price (dollars)* | 19 | 19.00 | 19 | 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.

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 2015 amounts to $8,998 thousand (in 2014 - $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, 2015 is $880,691 thousand.

## Note 21 - Equity (cont'd)

### 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.

In December 2015, the Company's Board of Directors resolved to distribute dividends of $ 100 million (NIS 0.72468 per ordinary share). On December 7, 2015, the Company distributed such dividend.

## Note 22 - Revenues

| | For the year ended December 31 | | |
|---|---|---|---|
| | **2015** | **2014** | **2013** |
| | **$ thousands** | **$ thousands** | **$ thousands** |
| Sales outside of Israel | **2,969,533** | 3,118,093 | 2,967,174 |
| Sales in Israel | **94,337** | 103,205 | 109,181 |
| | **3,063,870** | 3,221,298 | 3,076,355 |

## Note 23 - Cost of Sales

| | For the year ended December 31 | | |
|---|---|---|---|
| | **2015** | **2014** | **2013** |
| | **$ thousands** | **$ thousands** | **$ thousands** |
| Materials and commercial inventory | **1,694,215** | 1,767,501 | 1,733,433 |
| Salaries and related expenses | **112,023** | 118,120 | 112,275 |
| Outsourcing | **88,134** | 76,517 | 79,282 |
| Other production expenses | **144,841** | 160,856 | 160,409 |
| Depreciation | **58,725** | 55,017 | 51,565 |
| | **2,097,938** | 2,178,011 | 2,136,964 |
| Change in finished goods, commercial inventory and work in process | **(3,657)** | 17,982 | (28,682) |
| | **2,094,281** | 2,195,993 | 2,108,282 |

## Note 24 - Selling and Marketing Expenses

| | For the year ended December 31 | | |
|---|---|---|---|
| | **2015** | **2014** | **2013** |
| | **$ thousands** | **$ thousands** | **$ thousands** |
| Salaries and related expenses | **176,425** | 184,386 | 166,025 |
| Commissions and delivery costs | **83,558** | 94,164 | 83,106 |
| Advertising and sales promotion | **47,311** | 54,890 | 50,235 |
| Depreciation and amortization | **101,786** | 105,148 | 98,543 |
| Registration | **15,226** | 16,886 | 16,758 |
| Professional services | **11,658** | 13,754 | 15,513 |
| Insurance | **13,066** | 13,524 | 12,347 |
| Royalties | **2,700** | 2,005 | 2,709 |
| Other | **82,724** | 85,824 | 76,814 |
| | **534,454** | 570,581 | 522,050 |

## Note 25 - General and Administrative Expenses

| | For the year ended December 31 | | |
|---|---|---|---|
| | **2015** | **2014** | **2013** |
| | **$ thousands** | **$ thousands** | **$ thousands** |
| Salaries and related expenses | **45,120** | 46,911 | 50,148 |
| Depreciation and amortization | **5,954** | 5,214 | 5,112 |
| Bad and doubtful debts | **9,783** | 6,740 | 3,326 |
| Professional services | **13,575** | 19,485 | 24,650 |
| Insurance, tax and fees | **3,236** | 4,086 | 3,495 |
| Other | **24,867** | 29,497 | 27,754 |
| | **102,535** | 111,933 | 114,485 |

## Note 26 - Research and Development Expenses

| | For the year ended December 31 | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| | $ thousands | $ thousands | $ thousands |
| Salaries and related expenses | **15,462** | 16,692 | 16,097 |
| Field tests | **2,173** | 2,444 | 2,542 |
| Professional services | **4,728** | 6,717 | 6,556 |
| Materials | **320** | 393 | 910 |
| Other | **7,514** | 7,308 | 7,562 |
| | **30,197** | 33,554 | 33,667 |

## Note 27 - Financing Expenses (Income), Net

| | For the year ended December 31 | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| | $ thousands | $ thousands | $ thousands |
| **Financing Income:** | | | |
| Interest income on trade receivables, net | **27,051** | 23,651 | 18,794 |
| Interest income on investments from banks and others | **10,461** | 5,677 | 4,566 |
| Net change in fair value of derivative financial assets | **84,415** | 15,941 | 108,574 |
| Exchange rate differences, net | **-** | 74,620 | – |
| CPI income in respect of debentures | **22,783** | 7,768 | 223 |
| Interest income in respect of plan assets | **607** | 559 | 454 |
| Other income | **1,609** | 508 | – |
| Financing income recorded in the income statement | **146,926** | 128,724 | 132,611 |
| **Financing expenses:** | | | |
| Loss in respect of sale of trade receivables | **7,625** | 6,931 | 6,568 |
| Revaluation of put options, net | **1,992** | 3,563 | 10,878 |
| Interest expenses on debentures | **63,462** | 60,857 | 67,025 |
| CPI expenses on debentures | **14,421** | 6,957 | 19,270 |
| Interest expenses on short and long-term loans | **50,095** | 38,429 | 35,082 |
| Exchange rate differences, net | **127,781** | 19,106 | 129,428 |
| Interest expenses on post-employment benefits | **2,215** | 1,995 | 2,088 |
| Net change in fair value of derivative financial assets | **10,111** | 109,160 | – |
| Fundraising costs | – | 3,537 | – |
| Revaluation of options on debentures | **6,512** | – | – |
| Other expenses | **2,284** | 2,158 | 2,837 |
| Financing expenses recorded in the income statement | **286,498** | 252,693 | 273,176 |
| Financing expenses, net recorded in the income statement | **139,572** | 123,969 | 140,565 |

# 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, the Company is 60%-held by CNAC (through an indirect subsidiary) and 40%-held by Koor Industries Ltd. ("Koor").

**Negligible transactions**

Pursuant to Regulation 41(a)(6) to the Securities Regulations (Annual Financial Statements), 2010 (hereinafter - "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 (hereinafter - "the Periodic Reports Regulations") and in Regulation 54 of the Securities Regulations (Details of Prospectus and Draft Prospectus – Structure and Form), 1969 (hereinafter - "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.

<u>Types of transactions that might constitute negligible transactions</u>

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)

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)

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) for the purchase/sale of products, raw materials, active ingredients and and formulations).

If the Company does not have available information that enables an examination of the classification of interested party transactions as negligible transactions, then the cumulative total of all the transactions of that type as a negligible transaction will be deemed a negligible transaction, unless one of the following two conditions are met: (a) the transaction itself, as an individual transaction, is not negligible; or (b) the cumulative total of the transactions is material for the Company.

Separate transactions which are interdependent, so that they are actually part of the same undertaking (for example, negotiating a group of transactions on a consolidated basis) will be examined as a single transaction.

The total transactions classified as negligible by the Company's investees will be deemed negligible also at the Company level. Transactions of the Company's investees, which have been classified by them as not negligible, will be examined against the relevant criteria at the Company level.

It is clarified that a transaction that is not in the Company's ordinary course of business, or that is not on market terms, or that may have a significant impact on the Company's profits, assets or liabilities, will not be classified as a negligible transaction.

## Note 28 - Transactions and Balances with Related and Interested Parties (cont'd)

### A. Transactions with interested parties (cont'd)

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 2015, the expenses involved with interested party transactions, as stated, which were classified as negligible in accordance with the provisions of this procedure, amounted to about $2,412 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) On October 17, 2011, the Company completed the merger transaction with a corporation from CC Group (the merger agreement). Upon the completion of the merger agreement, the shareholders' agreement for settling their relations came into force and effect.

(2) The Company entered into a number of undertakings with Clal Insurance Company Ltd. (hereinafter – "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).

## Note 28 - Transactions and Balances with Related and Interested Parties (cont'd)

### A. Transactions with interested parties (cont'd)

Transactions included in Sections 270(4) and 270(4A) of the Companies Law, 1999 ("the Companies Law") (see Regulation 21A and 22 to Part D of the Periodic Report) (cont'd)

(A) Transactions included in Section 270(4A) to the Companies Law (cont'd)

(3) 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)(7).

On February 4, 2016, the Company's audit committee, the board of directors and the shareholders of the Company approved the Company's entry into agreement for selling B shares of Sanonda that are held by the Company under the conditions specified in Note 19(a)(8) and subject to the completion of Sanonda transaction as described in Note 19(a)(8) above.

(4) 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(8).

(5) On December 3, 2015, the Company's shareholders meeting (after obtaining the approval of the board of directors from December 3, 2015, and the approval of the audit committee from December 1, 2015) approved the agreement of the subsidiary's (indirectly) in China (Adama) for commercial collaboration with 5 agrochemical companies controlled by CNAC including Sanonda Ltd. (CNAC companies) under which Adama shall become gradually the exclusive distributor of formalized agrochemical products of CNAC companies in China.

(6) On December 30, 2015 the Company's general meeting of shareholders (after approval by the board of directors dated December 30, 2015 and the audit committee from December 29, 2015) approved the Company's joining as a party to the Cash pooling agreement, the parties to which are: (1) China National Chemical Corporation (the "CNAC"); (2) Companies held directly and indirectly by CC (together with CC and Company. "the Settlement Companies"); (3) a foreign bank (the "Bank"), the audit committee, the board of directors and the shareholders approved an additional agreement of the Company with CC, which regulates other aspects relating to the Cash pooling agreement ("the intercompany agreement).

## Note 28 - Transactions and Balances with Related and Interested Parties (cont'd)

### A. Transactions with interested parties (cont'd)

To secure the obligations of the settlement companies towards the bank, each of the settlement companies will create a first ranking charge on the rights in the designated account in favour of the bank. CC, will extend simultaneously a guarantee to secure the obligations of the settlement companies. In the event of a debt of any of the settlement companies towards the bank and other than in the event of insolvency event, the bank may be repaid according to the repayment preference as follows: (1) by exercising the charge of the settlement company; (2) by exercising CC guarantee; (3) by exercising the charge of another settlement company. In the event of an insolvency event, the provisions of the above repayment preference are not applicable. Under the intercompany agreement, CC committed that upon an insolvency event, it will do its utmost efforts such that amounts are not offset from the Company's accounts or the charge is not exercised on the Company's accounts only after the bank or the settlement companies (as the case may be) exhausted all other sources according to the Cash pooling agreement including CC guarantee and the charges extended by all of the settlement companies.

Simultaneously with entering into the Cash pooling agreement, CC and the Company entered into an intercompany agreement under which mechanisms were set to assure that the Company's transactions in the account and activities relating to the Company are approved in advance, the Company was granted information rights regarding the settlement companies and their financial position and CC commitment was granted to fully indemnify the Company if any amounts are offset from its account or if the charge is exercised on its account which is subject to the settlement.

The Company's audit committee, board of directors and shareholders determined an immaterial amount for the Company as the maximum amount to be deposited in the Company's accounts that are subject to the settlement (the maximum amount). The maximum amount may be changed by a resolution of the Company's competent organs.

(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) In 2015 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.

(3) During 2015, and in the ordinary course of business, the Company sold its products to Futuro Y Opciones.Com S.A.C.I.F.y. A., The company operates in Argentina, which to the best of the Company's knowledge is 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).

(4) 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 | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| | $ thousands | $ thousands | $ thousands |
| Interested Parties* | | | |
| Revenues | **2,449** | 2,858 | 196 |
| Expenses | **32,060** | 20,942 | 34,405 |
| Equity-Accounted Investee Companies* | | | |
| Revenues | **23,419** | 27,675 | 23,036 |
| Expenses | **999** | 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 | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| | $ thousands | $ thousands | $ thousands |
| Salaries and related benefits to interested party employed by the Group | **2,008** | 2,078 | 2,504 |
| Number of interested parties | **1** | 2 | 1 |
| Share based payments to interested party employed by the Group | **1,250** | 1,251 | – |
| Number of interested parties | **1** | 1 | – |
| Fees to other directors | **261** | 363 | 252 |
| Number of directors | **7** | 4 | 4 |

## C. Balances with related and interested parties

| | December 31 2015 | December 31 2014 |
|---|---|---|
| | $ thousands | $ thousands |
| Interested Parties* | | |
| Trade receivables | **1,430** | 1,226 |
| Trade payables | **7,361** | 7,175 |
| Equity-Accounted Investee Companies* | | |
| Trade receivables | **4,352** | 6,465 |
| Loans granted | **7,338** | 7,474 |
| Trade payables | **128** | 67 |

* 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:

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| | $ thousands | $ thousands | $ thousands |
| Direct salary | **2,894** | 4,352 | 4,979 |
| Short-term bonuses* | **2,906** | 3,598 | 6,041 |
| Post-employment benefits and others | **1,161** | 2,035 | 2,375 |
| Share-based payments** | **3,364** | 4,069 | – |
| | **10,325** | 14,054 | 13,395 |

* 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 (cont’d)

The Group’s risk management policy are established to identify and analyze the risks facing the Group, to set appropriate risk limits and controls and monitoring of the risks and to monitor risks and adherence to limits. The 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 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 1.8% (2014 and 2013 – 1.7%) of the Group’s revenues derive from sales to an individual customer.

Company management has prescribed a credit policy, whereby the Company performs current ongoing credit evaluations of existing and new customers, and every new customer is examined thoroughly regarding the quality of his credit, before offering him the Group’s customary shipping and payment terms. The examination made by the Group includes an outside credit rating, if any, and in many cases, receipt of documents from an insurance company. A credit limit is prescribed for each customer, setting the maximum open amount of the trade receivable balance. These limits are examined annually. Customers that do not meet the Group’s criteria for credit quality may do business with the Group on the basis of a prepayment or against furnishing of appropriate collateral.

Most of the Group’s customers have been doing business with it for many years. In monitoring customer credit risk, the customers were grouped according to a characterization of their credit, based on geographical location, industry, aging of receivables, maturity, and existence of past financial difficulties. Customers defined as “high risk” are classified to the restricted customer list and are supervised by management. In certain countries, mainly, Brazil, customers are required to provide property collaterals (such as agricultural lands and equipment) against execution of the sales, the value of which is examined on a current ongoing basis by the Company. In these countries, in a case of a doubtful debt, the Company records a provision for the amount of the debt less the value of the collaterals provided and acts to realize the collaterals.

# Note 29 - Financial Instruments (cont'd)

## B. Credit risk (cont'd)

The Group closely monitors the economic situation in Eastern Europe and south America where necessary it 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, (the effect of the additional on trade receivables for which no specific impairment was identified is immaterial) and the component of a general loss that is determined for groups of similar assets in countries in which the customer diversification is high and the balance is immaterial. The general loss provision is determined based on historical information regarding payment statistics relating to events that occurred in the past.

*Cash and deposits in banks*
The Company holds cash and deposits in banks with a high credit rating. These banks are also required to comply with capital adequacy or maintenance of a level of security based on different situations.

*Guarantees*
The Company’s policy is to provide financial guarantees only to investee companies.

### (1) Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure notwithstanding the carrying amount of security.

The maximum exposure to credit risk for trade receivables at the reporting date, according to geographic regions was as follows:

| | December 31 2015 | December 31 2014 |
|---|---|---|
| | $ thousands | $ thousands |
| Israel | **3,032** | 35,361 |
| Latin America | **453,028** | 471,320 |
| Europe | **123,104** | 253,601 |
| North America | **68,602** | 140,826 |
| Asia Pacific | **62,323** | 84,330 |
| India, Middle East and Africa | **108,185** | 100,789 |
| | **818,274** | 1,086,227 |

The Group's most significant customer is an agricultural corporation that constitutes $22,178 thousand out of the total carrying value of trade receivables as of December 31, 2015 (as of December 31, 2014 – $21,221 thousand).

# Note 29 - Financial Instruments (cont'd)

**B. Credit risk (cont'd)**

**(2) Aging of receivables and allowance for doubtful accounts**

Presented below is the aging of trade receivables:

| | December 31 2015 | December 31 2014 |
|---|---|---|
| | $ thousands | $ thousands |
| Not past due | **718,617** | 971,313 |
| Past due by less than 90 days | **67,000** | 93,068 |
| Past due by more than 90 days | **63,804** | 57,517 |
| | **849,421** | 1,121,898 |

The movement in the provision for doubtful accounts during the year was as follows:

| | 2015 | 2014 |
|---|---|---|
| | $ thousands | $ thousands |
| Balance as of January 1 | **35,671** | 46,871 |
| Additions during the year | **9,783** | 6,740 |
| Write-off of bad debts | **(6,275)** | (14,772) |
| Exchange rate differences | **(8,032)** | (3,168) |
| Balance as of December 31 | **31,147** | 35,671 |

**C. Liquidity risk**

Liquidity risk is the risk that the Group will encounter difficulty in meeting its financial obligation when they come due. The Group's approach to managing its liquidity risk is to assure, to the extent possible, an adequate degree of liquidity for meeting its obligations timely, under ordinary conditions and under pressure conditions, without sustaining unwanted losses or hurting its reputation.

The cash-flow forecast is determined both at the level of the various entities as well as of the consolidated level. The Company examines the current forecasts of its liquidity requirements in order to ascertain that there is sufficient cash for the operating needs, including the amounts required in order to comply with the financial liabilities, while taking strict care that at all times there will be unused credit frameworks so that the Company will not exceed the credit frameworks granted to it and the financial covenants with which it is required to comply with. These forecasts take into consideration matters such as the Company’s plans to use debt for financing its activities, compliance with required financial covenants, compliance with certain liquidity ratios and compliance with external requirements such as laws or regulation.

The surplus cash held by the Group companies, which is not required for financing the current ongoing operations, is invested in short-term interest-bearing investment channels.

# Note 29 - Financial Instruments (cont'd)

## C. Liquidity risk (cont'd)

Presented below are the contractual maturities of the financial liabilities at undiscounted amounts, including estimated interest payments:

| | As of December 31, 2015 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Carrying amount | Contractual cash flow | First year | Second year | Third year | Fourth year | Fifth year and above |
| | $ thousands | $ thousands | $ thousands | $ thousands | $ thousands | $ thousands | $ thousands |
| **Non-derivative financial liabilities** | | | | | | | |
| Credit from banks | **15,225** | **15,313** | **15,313** | **-** | **-** | **-** | **-** |
| Short-term loans from banks | **103,725** | **105,647** | **105,647** | **-** | **-** | **-** | **-** |
| Trade payables | **554,357** | **554,357** | **554,357** | **-** | **-** | **-** | **-** |
| Other payables | **363,152** | **363,152** | **363,152** | **-** | **-** | **-** | **-** |
| Debentures (1) | **1,157,169** | **1,868,539** | **161,197** | **54,403** | **54,403** | **54,403** | **1,544,132** |
| Long-term loans from banks (1) | **277,449** | **304,578** | **116,087** | **64,760** | **86,878** | **18,455** | **18,398** |
| Other long-term liabilities (1) | **13,668** | **17,181** | **109** | **277** | **12,703** | **133** | **3,959** |
| **Derivative financial liabilities** | | | | | | | |
| Foreign currency derivatives | **127,777** | **127,777** | **123,670** | **4,107** | **-** | **-** | **-** |
| CPI/shekel forward transactions | **1,970** | **1,970** | **1,970** | **-** | **-** | **-** | **-** |
| | **2,614,492** | **3,358,514** | **1,441,502** | **123,547** | **153,984** | **72,991** | **1,566,489** |

(1) Including current maturities

# 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

As at December 31, 2015, the Group has bank loans totaling 52 million and securitized trade receivables totaling $192 million, which contain financial covenants. For information on the financial covenants, see Note 20C to 20E. Interest payments on the variable-interest rate loans and the future cash flows on contingent consideration and put options to holders of non-controlling interests, may be different from the amounts described in the table above.
Except for these financial liabilities, it is not expected that the cash flows included in the analysis of maturity dates will occur significantly earlier or in significantly different amounts.

# Note 29 - Financial Instruments (cont'd)

## D. Market risks

Market risk is the risk that changes in market prices, such as foreign exchange rates, CPI, interest rates and prices of capital instruments, will affect the Group's revenues or the value of its holdings in its financial instruments. The objective of market risk management is to manage and monitor the exposure to market risks within acceptable parameters, while optimizing the return.

During the ordinary course of business, the Group purchases and sells derivatives and assumes financial liabilities for the purpose of managing market risks. All such transactions are carried out within the guidelines set by the Finance Committee.

### (1) CPI/Linkage and foreign currency risks

*Currency risk*
The Group is exposed to currency risk from its sales, purchases, expenses and loans denominated in currencies that differ from the Group's functional currency. The main exposure is in Euro, Brazilian real and in NIS. In addition, there are smaller exposures to various currencies such as the British pound, Polish zloty, Australian dollar and Indian rupee, Argentine peso, Canadian dollar, South African Rand and Ukraine Hryunia.

The Group uses foreign currency derivatives – forward transactions, 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, 2015**

| | Denominated in or linked to the Dollar | In Euro | In Brazilian real | CPI-linked NIS | Unlinked NIS | Denominated in or linked to other foreign currency | Non-monetary items | Total |
|---|---|---|---|---|---|---|---|---|
| | $ thousands | $ thousands | $ thousands | $ thousands | $ thousands | $ thousands | $ thousands | $ thousands |
| Assets – | | | | | | | | |
| Cash and cash equivalents | 161,732 | 64,476 | 24,955 | - | 21,810 | 122,379 | - | 395,352 |
| Short-term investments | 3,001 | 8 | - | - | - | 1,721 | - | 4,730 |
| Trade receivables | 198,594 | 89,037 | 259,831 | - | 6,208 | 244,515 | - | 798,185 |
| Subordinated note in respect of sale of trade receivables | 51,361 | 14,771 | - | - | 3,880 | 1,281 | - | 71,293 |
| Financial and other assets including derivatives* | 82,093 | 15,137 | 19,175 | - | 16,667 | 24,257 | 39,010 | 196,339 |
| Current tax assets | 1,600 | 2,682 | - | | - | 8,079 | - | 12,361 |
| Inventories | - | - | - | | - | - | 1,149,058 | 1,149,058 |
| Investments, loans and other long-term debt balances | 17,490 | 2,342 | 26,101 | - | 32 | 2,070 | 106,338 | 154,373 |
| Deferred tax assets | - | - | - | - | - | - | 75,196 | 75,196 |
| Fixed assets | - | - | - | - | - | - | 787,307 | 787,307 |
| Intangible assets | - | - | - | - | - | - | 687,449 | 687,449 |
| | 515,871 | 188,453 | 330,062 | - | 48,597 | 404,302 | 2,844,358 | 4,331,643 |
| Liabilities – | | | | | | | | |
| Loans and credit from banks (not including current maturities) | 51,731 | 5,879 | - | - | - | 61,340 | - | 118,950 |
| Trade payables | 295,174 | 91,884 | 10,510 | - | 119,848 | 36,941 | - | 554,357 |
| Other payables* | 207,350 | 62,115 | 23,887 | 6,480 | 80,910 | 78,001 | 10,549 | 469,292 |
| Current tax liabilities | 11,646 | 1,920 | 2,849 | - | 724 | 8,488 | - | 25,627 |
| Put option to holders of non-controlling interests | 36,431 | 3,039 | - | - | - | - | - | 39,470 |
| Loans from banks (including current maturities) | 275,085 | 5 | 1,438 | - | - | 921 | - | 277,449 |
| Debentures (including current maturities) | - | - | - | 1,056,380 | 100,789 | - | - | 1,157,169 |
| Other long-term liabilities (including current maturities) | 10,821 | 653 | 14,429 | - | 180 | 3,259 | - | 29,342 |
| Deferred tax liabilities | - | - | - | - | - | - | 22,595 | 22,595 |
| Employee benefits | 760 | 3,805 | - | | 59,423 | 6,564 | - | 70,552 |
| | 888,998 | 169,300 | 53,113 | 1,062,860 | 361,874 | 195,514 | 33,144 | 2,764,803 |

* Regarding the group's exposure to linkage and currency risks of financial derivatives – see Note 29D(1)(b) below.

# Note 29 - Financial Instruments (cont'd)

## D. Market risks (cont'd)

### (1) CPI/linkage and foreign currency risks (cont'd)

### (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, 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 | – | – | – | – | – | – | 1,219,191 | 1,219,191 |
| Investments, loans and other long-term debt balances | 19,129 | 2,588 | 21,068 | – | 32 | 2,326 | 99,541 | 144,684 |
| Deferred tax assets | – | – | – | – | – | – | 82,623 | 82,623 |
| Fixed assets | – | – | – | – | – | – | 766,456 | 766,456 |
| Intangible assets | – | – | – | – | – | – | 703,891 | 703,891 |
| | 781,602 | 272,289 | 246,629 | – | 73,719 | 469,184 | 2,893,726 | 4,737,149 |
| 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)**

**(B) The exposure to CPI/linkage and foreign currency risk in respect of derivatives is as follows:**

| | December 31, 2015 | | | | |
|---|---|---|---|---|---|
| | Currency/ linkage receivable | Currency/ linkage payable | Average expiration date | Par value | Fair value |
| | | | | $ thousands | $ thousands |
| Forward foreign currency contracts and call options | USD | EUR | 06/15/2016 | **544,866** | **(17,556)** |
| | USD | PLN | 02/15/2016 | **25,080** | **2,301** |
| | USD | BRL | 03/27/2016 | **241,500** | **101** |
| | USD | GBP | 03/26/2016 | **48,374** | **2,687** |
| | ILS | USD | 01/22/2016 | **1,488,245** | **(37,250)** |
| | USD | OTHERS | | **306,639** | **7,590** |
| CPI forward contracts | CPI | ILS | 4/16/2016 | **571,502** | **(1,970)** |

| | 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) |

Presented below are data on Consumer Price Index in Israel and significant exchange rates:

| | December 31 | | | Average 1-12 | | |
|---|---|---|---|---|---|---|
| | 2015 | 2014 | Change in 2015 | 2015 | 2014 | Change in 2015 |
| EUR/USD | **1.088** | 1.215 | 10.4% | **1.11** | 1.327 | 16.4% |
| USD/BRL | **3.905** | 2.656 | 47.0% | **3.331** | 2.354 | 41.5% |
| USD/PLN | **3.901** | 3.507 | 11.2% | **3.77** | 3.155 | 19.5% |
| USD/ZAR | **15.558** | 11.557 | 34.6% | **12.742** | 10.836 | 17.6% |
| AUD/USD | **0.731** | 0.819 | 10.8% | **0.752** | 0.901 | 16.6% |
| GBP/USD | **1.482** | 1.559 | 4.9% | **1.529** | 1.647 | 7.2% |
| USD/ILS | **3.902** | 3.889 | 0.3% | **3.878** | 3.571 | 8.6% |
| Known Index in Israel | **123.209** | 124.325 | | | | |
| In respect of Index in Israel | **123.085** | 124.325 | | | | |

# 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 2014 was done on the same basis.

| | **December 31, 2015** | | | |
|---|---|---|---|---|
| | **Decrease of 5%** | | **Increase of 5%** | |
| | **Equity** | **Profit (loss)** | **Equity** | **Profit (loss)** |
| | **$ thousand** | **$ thousand** | **$ thousand** | **$ thousand** |
| New Israeli shekel | **9,115** | **3,526** | **(13,935)** | **(8,351)** |
| British pound | **(1,552)** | **91** | **1,552** | **(91)** |
| Euro | **(20,531)** | **599** | **21,834** | **(479)** |
| Brazilian real | **2,642** | **2,642** | **(2,801)** | **(2,801)** |
| Polish zloty | **(1,262)** | **(286)** | **1,262** | **286** |
| Consumer Price Index in Israel | **25,702** | **25,702** | **(25,702)** | **(25,702)** |

| | **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) |

### (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 | |
|---|---|---|
| | 2015 | 2014 |
| | Carrying amount | Carrying amount |
| | $ thousands | $ thousands |
| **Fixed-rate instruments – unlinked to the CPI** | | |
| Financial assets | **54,917** | 55,485 |
| Financial liabilities | **(173,306)** | (290,854) |
| | **(118,389)** | (235,369) |
| **Fixed-rate instruments – linked to the CPI** | | |
| Financial liabilities | **(1,056,380)** | (800,615) |
| **Variable-rate instruments** | | |
| Financial assets | **75,569** | 60,653 |
| Financial liabilities | **(326,097)** | (548,427) |
| | **(250,528)** | (487,774) |

The financial assets include cash equivalents with relatively low interest due to the current market conditions.

**(B) Fair value sensitivity analysis for fixed rate instruments**

The Group's fixed-interest assets and liabilities are not measured at fair value through profit and loss. Therefore, a change in the interest rate as of the balance sheet date would not affect profit or loss, in respect of changes in the value of the assets and liabilities bearing fixed interest.

# Note 29 - Financial Instruments (cont'd)

## E. Cash flow hedge accounting

The table below presents the periods in which the cash flows associated with derivatives that are cash flow hedges are expected to occur:

| | 2015 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Carrying amount | Expected cash flows | 6 months or less | 6-12 months | Second year | Third year | Fourth year | Fifth year | Sixth year and above |
| | $ thousands | $ thousands | $ thousands | $ thousands | $ thousands | $ thousands | $ thousands | $ thousands | $ thousands |
| Forward contracts and options on exchange rates: | 23,286 | 23,286 | 22,060 | 272 | 954 | - | - | - | - |

The table below presents the periods in which cash flows that are related to the derivatives used to hedge cash flows are expected to impact income or loss.

| | 2015 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Carrying amount | Expected cash flows | 6 months or less | 6-12 months | Second year | Third year | Fourth year | Fifth year | Sixth year and above |
| | $ thousands | $ thousands | $ thousands | $ thousands | $ thousands | $ thousands | $ thousands | $ thousands | $ thousands |
| Interest rate swap: | (962) | (962) | (240) | (241) | (481) | - | - | - | - |
| Forward contracts and options on exchange rates: | 23,558 | 23,558 | 22,325 | 279 | 954 | - | - | - | - |
| | 22,596 | 22,596 | 22,085 | 38 | 473 | - | - | - | - |

# Note 29 - Financial Instruments (cont'd)

## 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:

| | 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)

## 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, 2015 | | December 31, 2014 | |
|---|---|---|---|---|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| | $ thousands | $ thousands | $ thousands | $ thousands |
| **Financial assets** | | | | |
| Long-term loans and other receivables (a) | **14,611** | **10,810** | 17,281 | 14,254 |
| **Financial liabilities** | | | | |
| Long-term loans (b) | **281,482** | **274,598** | 337,403 | 345,978 |
| Debentures (c) | **1,157,169** | **1,188,392** | 1,004,660 | 1,139,653 |

(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, 2015** |
|---|---|
| | **In %** |
| Brazilian real interest | **15.98-20.85** |
| U.S. dollar interest | **1.72-9.76** |
| Euro interest | **0.92-5.37** |

# 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, 2015 |
|---|---|
| | $ thousands |
| Derivatives used for hedging the cash flow: | |
| Forward contracts and options | **23,286** |
| Derivatives used for economic hedging: | |
| Forward contracts and options | **(67,383)** |
| | **(44,097)** |

| Financial Instrument | Fair value |
|---|---|
| **Forward contracts** | Fair value measured on the basis of discounting the difference between the forward price in the contract and the current forward price for the residual period until redemption using market interest rates appropriate for similar instruments |
| **Foreign currency options** | The fair value is measured based on the Black&Scholes model. |

# Note 30 - Operating Segments

## A. Products and services:

The Company presents its segment reporting based on a format that is based on a breakdown by business segments:

- Crop Protection (Agro)
  This is the main area of the Company's operations and includes the manufacture and marketing of conventional agrochemical products and operations in the seed sector.

- Other (Non Agro)
  This field of activity includes a large number of sub-fields, including: Lycopan (an oxidization retardant), aromatic products, and other chemicals. It combines all the Company's activities not included in the agro-products segment.

# Note 30 - Operating Segments (cont'd)

## A. Products and services: (cont'd)

Segment results reported to the chief operating decision maker include items directly attributable to a segment as well as items that can be allocated on a reasonable basis. Unallocated items comprise mainly financing expenses, net.

Information regarding the results of each reportable segment is included below:

| | For the year ended December 31, 2015 | | | |
|---|---|---|---|---|
| | Crop Protection | Other | Reconciliations | Consolidated |
| | $ thousands | $ thousands | $ thousands | $ thousands |
| **Revenues** | | | | |
| External revenues | **2,883,490** | **180,380** | **–** | **3,063,870** |
| Inter-segment revenues | **-** | **1,048** | **(1,048)** | **–** |
| Total revenues | **2,883,490** | **181,428** | **(1,048)** | **3,063,870** |
| **Results** | | | | |
| Segment's results | **300,835** | **(728)** | **–** | **300,107** |
| Financing expenses, net | | | | **(139,572)** |
| Share of losses of equity-accounted investee company | | | | **(1,498)** |
| Income taxes | | | | **(49,262)** |
| Non-controlling interests | | | | **333** |
| Net income for the year attributable to the owners of the Company | | | | **110,108** |

| | 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 |

# Note 30 - Segment Reporting (cont'd)

## A. Products and services: (cont'd)

| | 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 |

## B. Sales distribution by geographic regions

As a result of the organizational change that was completed at the end of 2014, the breakdown of the sales was conformed to geographical segments based on the location of the customer. The Asia Pacific and Africa segment was split into two segments: (1) Asia Pacific; and (2) Africa, the Middle East and India.

The information for prior periods was restated.

| | For the year ended December 31 | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| | $ thousands | $ thousands | $ thousands |
| Europe | **1,115,965** | 1,186,714 | 1,140,346 |
| North America | **573,046** | 544,825 | 516,153 |
| Latin America | **735,923** | 822,537 | 757,518 |
| Asia Pacific | **273,229** | 294,048 | 301,412 |
| Africa, the Middle East and India | **271,370** | 269,969 | 251,745 |
| Israel | **94,337** | 103,205 | 109,181 |
| | **3,063,870** | 3,221,298 | 3,076,355 |

# Note 31 - Investments in Investees

**Additional details in respect of subsidiaries directly held by the Company**

| | December 31, 2015 | | | |
|---|---|---|---|---|
| | Country of association | Company equity rights | Loans to investees | Investments in investees |
| | | % | $ thousands | $ thousands |
| Adama Makhteshim Ltd. | Israel | 100 | **455,074** | **796,106** |
| Adama Agan Ltd. | Israel | 100 | **390,745** | **664,564** |
| Lycored Ltd. | Israel | 100 | **-** | **99,078** |
| | | | **845,819** | **1,559,748** |

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 $313 million.

| | 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 |

# Note 32 - Subsequent Events

**A.** On February 4, 2016, the Company's audit committee, the board of directors and the shareholders of the Company approved the Company's entry into agreement for selling B shares of Sanonda that are held by the Company under the conditions specified in Note 19(a)(8) and subject to the completion of Sanonda transaction as described in Note 19(a)(8) above.

**B.** For details regarding the rejection of the appeal that was submitted by two residents of Moshav Nir Galim and one resident of Ashdod, on the resolution of the district court regarding the request for approval of the claim as a class action against Adama Agan, see Note 19E.

**Appendix to the Financial Statements as of December 31, 2015**

| Holding company/companies | Investee company | Control rate and ownership of holding company/ companies % |
|---|---|---|
| **A. Domestic consolidated subsidiaries** | | |
| Adama Agricultural Solutions Ltd. | Adama Makhteshim Ltd. (hereinafter – Makhteshim) | 100 |
| | Adama Agan Ltd. (hereinafter – Agan) | 100 |
| | Lycored Ltd. | 100 |
| Makhteshim | Makhteshim Chemical Works Trade and Marketing Ltd. | 100 |
| | Targetgene Biotechnologies Ltd. | 50.1 |
| | Energin.R Technologies 2009 Ltd. | 18.85 |
| Agan | Agan Aroma and Fine Chemicals Ltd. | 100 |
| | Adama (Agan) Chemical Marketing Ltd. | 100 |
| Lycored Ltd. | Lycored Bio Ltd. | 100 |
| | Dalidar Pharma Israel (1995) Ltd. | 100 |
| Agan Aroma and Fine Chemicals Ltd. | Interconnect Aroma Ltd. | 100 |
| **B. Foreign consolidated subsidiaries** | | |
| Makhteshim (99.99%) and Agan (0.01%) | Adama Celsius B.V. (hereinafter – Celsius) | 100 |
| Agan (99.99%) and Makhteshim (0.01%) | Adama Fahrenheit B.V. (hereinafter – Fahrenheit) | 100 |
| Lycored Ltd. | Lycored Sarl | 100 |
| | ALB Holdings UK | 100 |
| | Lycored Corp. (USA) | 100 |
| | Lycored Asia Limited | 100 |
| | VN Biotech Limited | 100 |
| Lycored Asia Limited | Lycored Food Additives (Changzhou) Co. Ltd. | 100 |
| ALB Holdings UK | Lycored Ltd (UK) | 100 |
| | Protein Dynamix Limited | 100 |
| VN Biotech Limited | LLC Scientific and Production Enterprise “VITAN” | 100 |
| Lycored Corp (USA) | Nova Huelle LLC. | 100 |
| Makhteshim (50%) and Agan (50%) | Adama Agriculture B.V. | 100 |
| Celsius | Adama Irvita N.V. | 100 |
| | Adama Korea Inc. | 51 |
| | Adama Vietnam Limited Company | 100 |
| | Adama Agriculture Slovensko Spol s.r.o. | 100 |
| | Adama (Jiangsu) Agricultural Solutions Company Limited | 100 |
| | Adama (Nanjing) Agricultural Science and Technology Company Limited | 100 |

| Holding company | Investee company | Control rate and ownership of holding company % |
|---|---|---|
| **B. Foreign consolidated subsidiaries (cont'd)** | | |
| Fahrenheit | Adama Quena N.V. | 100 |
| Fahrenheit (50%) and Celsius (50%) | Magan HB B.V. | 100 |
| | Adama Argentina S.A. | 100 |
| | Kollant s.r.l. | 100 |
| | Makhteshim Agan Central and East Europe Service and Group Finance Limited Liability Company | 100 |
| | Adama Andina B.V. | 100 |
| | Adama (China) Investment Company Limited | 100 |
| Fahrenheit (30%), Celsius (30%), Adama Agriculture B.V. (39.99%), and Adama Registrations B.V. (0.01%) | Adama Agriculture Espana S.A. | 100 |
| Magan HB B.V. (99.99%) and Agricur Defensivos Agricolas Ltda. (0.01%) | Adama Brasil S.A. | 100 |
| Makhteshim Agan Central and East Europe Service and Group Finance Limited Liability Company | Adama Hungary z.r.t. | 100 |
| Adama Andina B.V. (99.80%) and Fahrenheit (0.10%) | Proficol Venezuela S.A. | 99.9 |
| Adama Andina B.V. (99.99%) and Celsius (0.01%) | Adama Agriculture Peru S.A. | 100 |
| Adama Andina B.V. (99.8%) and Celsius (0.2%) | Adama Ecuador Adamecudor S.A. | 100 |
| Adama Ecuador Adamecudor S.A. | Adama Colombia S.A.S | 100 |
| Fahrenheit (2.50%) and Adama Agriculture B.V. (97.50%) | Adama Mozambique Lda | 100 |
| Adama Agriculture B.V. (99.90%) and Fahrenheit (0.10%) | Adama Agriculture East Africa Limited | 100 |
| Adama Agriculture B.V. (99%) and Fahrenheit (1%) | Adama Madagascar SARL | 100 |
| | Adama Guatemala SA | |
| Adama Agriculture B.V. (99.98%), Celsius (0.01%), and Fahrenheit (0.01%) | Agricur Defensivos Agricolas Ltd. | 100 |
| Adama Agriculture B.V. (99.93%) and Celsius (0.07%), | Adama Paraguay S.R.L. | 100 |

| Holding company | Investee company | Control rate and ownership of holding company % |
|---|---|---|

**B. <u>Foreign consolidated subsidiaries</u> (cont'd)**

| Holding company | Investee company | % |
|---|---|---|
| Adama Agriculture B.V. (99.90%) and Celsius (0.10%), | Adama Dominican Republic, S.R.L. | 100 |
| Adama Agriculture B.V. (99.99%) and Celsius (0.01%), | Makhteshim Agan de Mexico S.A. de C.V. | 100 |
| Adama Agriculture B.V. (99.99%), and Adama Registrations B.V. (0.01%) | Adama India Private Ltd. | 100 |
| | Adama Polska SP Z.O.O | 100 |
| | Adama Agricultural Solutions UK Ltd. | 100 |
| Adama Agriculture B.V. (95%), and Adama Registrations B.V. (5%) | Adama Italia SRL | 100 |
| | Adama Portugal Lda | 100 |
| Adama Agriculture B.V. | Adama New Zealand Ltd. | 100 |
| | Adama CZ s.r.o. | 100 |
| | Adama Deutschland GmbH | 100 |
| | Magan Korea Co Ltd. | 100 |
| | Adama SRB DOO Beograd | 100 |
| | Adama RUS LLC | 100 |
| | Adama Australia Holdings Pty Ltd. | 100 |
| | Adama Manufacturing Poland S.A. | 100 |
| | Adama Northern Europe B.V. | 55 |
| | Adama Crop Solution ACC S.A. | 100 |
| | Adama France S.A.S. | 100 |
| | Adama Registrations B.V. | 100 |
| | Adama Japan K.K. | 100 |
| | Makhteshim Agan of North America Inc. | 100 |
| | Adama Agricultural Solutions S.R.L. | 100 |
| | Adama (Shanghai) Trading Co Ltd. | 100 |
| | Adama South Africa PTY Ltd. | 100 |
| | Adama Agriculture Swiss AG | 100 |
| | Adama Asia Pacific Pte Ltd. | 100 |
| | Adama (Thailand) Ltd. | 100 |
| | Adama Ukraine LLC | 100 |
| | Makhteshim Agan Venezuela S.A. | 100 |
| | Adama West Africa Ltd. | 100 |
| | Makhteshim Agan Chile SPA | 100 |
| | Adama Plant Protection Services Zambia Limited | 100 |
| | Adama Zimbabwe (Private) Ltd. | 100 |
| | ADAMA Turkey Tarım Sanayi ve Ticaret Limited Şirketi | 100 |
| Makhteshim Agan Chile SPA (99.90%) and Adama Agriculture B.V. (0.10%) | Chileagro Bioscience S.A. | 100 |

| Holding company | Investee company | Control rate and ownership of holding company % |
|---|---|---|
| **B. Foreign consolidated subsidiaries (cont'd)** | | |
| Chileagro Bioscience S.A. | Adama Chile SA | 60 |
| Adama India Private Ltd. | PT. Royal Agro Indonesia | 100 |
| Makhteshim Agan de Mexico S.A. de C.V. (98.6%) and Adama Agriculture B.V. (1.4%) | Adama Servicios S.A. de C.V. | 100 |
| Makhteshim Agan de Mexico S.A. de C.V. (99%) and Adama Agriculture B.V. (1%) | Plant Protection, S.A. de C.V. | 100 |
| Makhteshim Agan de Mexico S.A. de C.V. (99.93%) and Adama Agriculture B.V. (0.07%) | Servicios Ingold S.A. de C.V. | 100 |
| Makhteshim Agan de Mexico S.A. de C.V. (99.99%) and Adama Agriculture B.V. (0.01%) | Ingenieria Industrial S.A. de C.V. | 100 |
| Servicios Ingold S.A. de C.V. (99.99%) and Adama Servicios S.A. de C.V. (0.01%) | Nangaru S.A. de C.V. | 100 |
| Makhteshim Agan de Mexico S.A. de C.V. (96.64%), Servicios Ingold S.A. de C.V. (1.12%), Plant Protection, S.A. de C.V. (1.12%), and Ingenieria Industrial S.A. de C.V. (1.12%) | Adama AGS, S.A. de C.V. | 100 |
| Adama Northern Europe B.V. | UAB Adama Northern Europe | 100 |
| Makhteshim Agan of North America, Inc. | Farmsaver.com, LLC | 100 |
| | Control Solutions Inc. | 67.1 |
| | Alligare LLC | 80 |
| | Adama Agricultural Solutions CANADA Ltd. | 100 |
| | Adama Americas Inc. | 100 |
| Adama Australia Holdings Pty Ltd. (50%) and Farmoz Pty Ltd. (50%) | Adama Australia Pty Ltd. | 100 |
| Adama Australia Holdings Pty Ltd | Farmoz Pty Limited | 100 |
| Adama West Africa Ltd. | Makhteshim Agan West Africa Limited (Nigeria) | 100 |
| | Adama West Africa Cote D'lvoire Ltd. | 100 |
| | Makhteshim Agan West Africa Limited Burkina Faso | 100 |
| | Adama Cameroun SUARL | 100 |
| Adama (China) Investment Company Limited | Adama (Beijing) Agricultural Technology Company Limited | 100 |

**Appendix to the Financial Statements as of December 31, 2015**

| Holding company | Investee company | Control rate and ownership of holding company % |
|---|---|---|
| **C. Jointly-controlled associated companies** | | |
| Adama Agricultural Solutions Ltd. | Biotech Plant Genomic Fund L.L.P | 50 |
| Biotech M.A.H Limited Partnership | Biotech Agro Ltd. | 100 |
| Agan Aroma and Fine Chemicals Ltd. | Negev Aroma (Ramat Hovav) Ltd. | 50 |
| Adama Agriculture B.V. | Alfa Agricultural Supplies Commercial and Industrial S.A. | 49 |
| Alfa Agricultural Supplies Commercial and Industrial S.A. | Agribul Ltd. | 100 |
| Fahrenheit | InnovAroma S.A. | 50 |
| Adama Colombia S.A.S. | Servicidas de Colombia S.A.S | 50 |
| **D. Associated company** | | |
| Celsius | Hubei Sanonda Co. Ltd. | 10.6 |
| Makhteshim | Classeed Ltd. | 9.84 |

# Adama Agricultural Solutions Ltd.

## Separate Financial Data

## As of December 31, 2015

## In USD

**Separate Financial Data as of December 31, 2015**

**Contents**

**Somekh Chaikin**
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Tel Aviv 61006 Israel

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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, 2015 and 2014 and for each of the three years, the last of which ended on December 31, 2015. The separate financial data are the responsibility of the Company's Board of Directors and Management. Our responsibility is to express an opinion on the separate financial data based on our audits.

We did not audit the financial statements of equity accounted investees the investment in which amounted to approximately $116,615 thousand and $117,979 thousand as of December 31, 2015 and 2014 respectively, and the Company's share in their profits amounted to approximately $2,236 thousand, $10,108 thousand and $15,657 thousand for each of the three years, the last of which ended December 31, 2015, 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 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 14, 2016

## Separate Financial Data as of December 31, 2015

### Data on Financial Position

| | Note | December 31 2015 $ thousands | December 31 2014 $ thousands |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | (3) | **1,475** | 575 |
| Prepaid expenses | | **331** | 451 |
| Other receivables | | **41,569** | 97,287 |
| Receivables from investee companies | | **340,940** | 243,245 |
| Derivatives | | **193** | 22,476 |
| **Total current assets** | | **384,508** | 364,034 |
| **Long-term investments, loans and receivables** | | | |
| Investments in investee companies | | **1,559,748** | * 1,671,478 |
| Loans to investee companies | | **845,819** | 725,570 |
| | | **2,405,567** | 2,397,048 |
| **Fixed assets** | | **2,811** | 2,900 |
| **Intangible assets** | | **5,341** | 4,419 |
| **Deferred tax assets** | (6) | **-** | - |
| **Total non-current assets** | | **2,413,719** | 2,404,367 |
| **Total assets** | | **2,798,227** | 2,768,401 |

* Immaterial adjustments of the comparative figures

**Separate Financial Data as of December 31, 2015**

**Data on Financial Position**

| | Note | December 31<br>2015<br>$ thousands | 2014<br>$ thousands |
|---|---|---|---|
| **Current liabilities** | | | |
| Current maturities of debentures | (4) | **100,789** | 102,022 |
| Other payables | (4) | **19,059** | 16,800 |
| Derivatives | (4) | **30,587** | 131,470 |
| **Total current liabilities** | | **150,435** | 250,292 |
| **Long-term liabilities** | | | |
| Debentures | (4) | **1,077,139** | 923,656 |
| Employee benefits | | **4,020** | 3,791 |
| **Total non-current liabilities** | | **1,081,159** | 927,447 |
| **Total liabilities** | | **1,231,594** | 1,177,739 |
| **Equity** | | | |
| Share capital | | **125,595** | 125,595 |
| Share premium | | **623,829** | 623,829 |
| Capital reserves | | **(309,030)** | (265,354) |
| Retained earnings | | **1,126,239** | * 1,106,592 |
| **Total equity attributable to equity holders of the Company** | | **1,566,633** | 1,590,662 |
| **Total liabilities and equity** | | **2,798,227** | 2,768,401 |

* Immaterial adjustments of the comparative figures

| | | |
|---|---|---|
| Yang Xingqiang<br>Chairman of the Board of Directors | Chen Lichtenstein<br>President & Chief Executive Officer | Aviram Lahav<br>Chief Financial Officer |

Date of approval financial statements: March 14, 2016

The accompanying additional information is an integral part of the separate financial data.

**Separate Financial Data as of December 31, 2015**

**Data on Income**

| | | Year ended December 31 | | |
|---|---|---|---|---|
| | | 2015 | 2014 | 2013 |
| | Note | $ thousands | $ thousands | $ thousands |
| **Revenues** | | | | |
| Management fees from investees companies | | **51,364** | 47,003 | 34,223 |
| **Expenses** | | | | |
| General and administrative expenses | | **46,460** | 48,183 | 45,564 |
| **Operating (loss) profit** | | **4,904** | (1,180) | (11,341) |
| Financing expenses | | **250,689** | 232,016 | 171,466 |
| Financing income | | **(250,685)** | (229,460) | (171,578) |
| **Financing income (expenses), net** | | **(4)** | (2,556) | 112 |
| **Profit (loss) after financing expenses, net** | | **4,900** | (3,736) | (11,229) |
| Income from investee companies | | **105,643** | 150,536 | 139,184 |
| **Profit before tax on income** | | **110,543** | 146,800 | 127,955 |
| Tax on income | (5) | **435** | 395 | 707 |
| **Profit for the year attributable to the owners of the Company** | | **110,108** | 146,405 | 127,248 |

The accompanying additional information is an integral part of the separate financial data.

**Separate Financial Data as of December 31, 2015**

**Data on Comprehensive Income**

| | Year ended December 31 | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| | $ thousands | $ thousands | $ thousands |
| **Profit for the year attributable to the owners of the Company** | **110,108** | 146,405 | 127,248 |
| **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 |
| Net change in fair value of cash flow hedges transferred to profit or loss | **(480)** | (482) | (7,881) |
| Other comprehensive income (loss) in respect of investee companies, net from tax | **(43,157)** | 42,743 | (48,509) |
| Taxes on other components of comprehensive income that were transferred or will be transferred to the statement of income in succeeding periods | **44** | 44 | 76 |
| **Total other comprehensive income for the year that after initial recognition in comprehensive income was or will be transferred to the statement of income, net of tax** | **(43,593)** | 42,305 | (49,020) |
| **Other comprehensive income items that will not be transferred to the statement of income** | | | |
| Re-measurement of defined benefit plan | **211** | 331 | (11) |
| Other comprehensive income in respect of investee companies, net of tax | **2,757** | 551 | 134 |
| **Total other comprehensive income for the year that will not be transferred to the statement of income, net of tax** | **2,968** | 882 | 123 |
| **Total comprehensive income for the year attributable to the owners of the Company** | **69,483** | 189,592 | 78,351 |

The accompanying additional information is an integral part of the separate financial data.

## Separate Financial Data as of December 31, 2015

### Data on Cash Flows

| | Year ended December 31 | | |
|---|---|---|---|
| | **2015** | **2014** | **2013** |
| | **$ thousands** | **$ thousands** | **$ thousands** |
| **Cash flows from operating activities** | | | |
| Profit for the year attributable to the owners of the Company | **110,108** | 146,405 | 127,248 |
| **Adjustments** | | | |
| Income from investee companies | **(105,643)** | (150,536) | (139,184) |
| Depreciation and amortization | **2,223** | 1,564 | 1,572 |
| Amortization of discount/premium and issuance costs | **(2,334)** | (2,813) | 667 |
| Expenses in respect of share-based payment | **3,462** | 3,974 | - |
| Adjustment of long-term liabilities | **(10,105)** | (132,142) | 105,752 |
| SWAP transactions | **(480)** | (482) | (7,882) |
| Change in deferred taxes, net | **44** | 44 | 486 |
| **Changes in assets and liabilities** | | | |
| Decrease (Increase) in trade and other receivables | **73,600** | (46,639) | (16,830) |
| Increase (decrease) in trade and other payables | **(95,023)** | 115,636 | 12,836 |
| Change in provisions and employee benefits | **165** | (219) | 982 |
| Net cash used in operating activities in respect of transactions with investee companies | **(97,952)** | (104,603) | (119,740) |
| **Net cash used in operating activities** | **(121,935)** | (169,811) | (34,093) |
| **Cash flows from investing activities** | | | |
| Acquisition of fixed assets | **(465)** | (712) | (365) |
| Additions to intangible assets | **(2,591)** | (3,323) | (1,681) |
| Dividend received | **180,000** | - | - |
| Net cash provided by (used in) operating activities in respect of transactions with investee companies | **(115,564)** | 125,829 | 1,721 |
| **Net cash provided by (used in) investing activities** | **61,380** | 121,794 | (325) |
| **Cash flows from financing activities** | | | |
| Dividend paid to owners of the Company | **(100,000)** | - | - |
| Issuance of debentures net of issuance costs | **256,859** | 146,806 | 177,215 |
| Issuance of options for debentures | **4,505** | - | - |
| Repayment of debentures | **(99,909)** | (99,909) | (160,959) |
| Payment of SWAP transaction | **-** | - | 21,309 |
| Fundraising costs | **-** | (2,547) | - |
| **Net cash provided by financing activities** | **61,455** | 44,350 | 37,565 |
| **Increase (decrease) net in cash and cash equivalents** | **900** | (3,667) | 3,147 |
| **Cash and cash equivalents at beginning of the year** | **575** | 4,242 | 1,095 |
| **Cash and cash equivalents at end of the year** | **1,475** | 575 | 4,242 |
| **Supplementary information:** | | | |
| Interest paid in cash | **(69,470)** | (66,271) | (62,848) |
| Interest received in cash | **1,432** | 1,769 | 1,854 |
| Taxes paid in cash, net | **(314)** | (387) | (216) |

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, 2015 (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 | |
|---|---|---|
| | 2015 | 2014 |
| | $ thousands | $ thousands |
| Cash and cash equivalents denominated in shekels | **927** | 119 |
| Cash and cash equivalents linked to the dollar | **286** | 455 |
| Cash and cash equivalents linked to other currency | **262** | 1 |
| **Total cash and cash equivalents** | **1,475** | 575 |

## 4. Financial Instruments

### A. Loans and credit

**This section provides information regarding the contractual terms of the Company's interest-bearing loans and credit, measured at amortized cost.**

| | Linkage terms | Interest rate as at balance sheet date | Par value | Total |
|---|---|---|---|---|
| | | % | NIS thousands | $ thousands |
| Debentures – Series B | CPI | 5.15 | 3,551,022 | 1,077,139 |
| Debentures – Series D | Unlinked | 6.5 | 388,546 | 100,789 |
| Total | | | 3,939,568 | 1,177,928 |

## Additional Information

### 4. Financial Instruments (cont'd)

#### A. Loans and credit (cont'd)

**Maturities**

| | $ thousands |
|---|---|
| First year (current maturities) | 100,789 |
| Second year | – |
| Third year | – |
| Fourth year | – |
| Fifth year and thereafter | 1,077,139 |
| | 1,177,928 |

#### B. Other payables

| | December 31, 2015 | | | | |
|---|---|---|---|---|---|
| | In unlinked Israeli currency | In CPI-linked Israeli currency | Denominated in or linked to dollar | Denominated in or linked to other currency | Total |
| | $ thousands | $ thousands | $ thousands | $ thousands | $ thousands |
| Other payables | **11,672** | **4,603** | **2,711** | **73** | **19,059** |

| | 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 |

## Additional Information

### 4. Financial Instruments (cont'd)

#### C. Liquidity risk

Presented below are the contractual maturity dates of the financial liabilities, including estimates of interest payments:

| | As of December 31 2015 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Carrying amount | Projected cash flows | First year | Second year | Third year | Fourth year | Fifth year and above |
| | $ thousands | $ thousands | $ thousands | $ thousands | $ thousands | $ thousands | $ thousands |
| **Non-derivative financial liabilities** | | | | | | | |
| Other payables | **19,059** | **19,059** | **19,059** | **-** | **-** | **-** | **-** |
| Debentures | **1,177,928** | **1,903,176** | **162,267** | **55,473** | **55,473** | **55,473** | **1,574,490** |
| **Financial liabilities – financial instruments** | | | | | | | |
| Derivatives in foreign currency | **28,617** | **28,617** | **28,617** | **-** | **-** | **-** | **-** |
| CPI/NIS forward transactions | **1,970** | **1,970** | **1,970** | **-** | **-** | **-** | **-** |
| Total | **1,227,574** | **1,952,822** | **211,913** | **55,473** | **55,473** | **55,473** | **1,574,490** |

## Additional Information

## 4. Financial Instruments (cont'd)

### C. Liquidity risk (cont'd)

| | As of 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 |

## 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:

| | 2015 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Carrying amount | Projected cash flows | 6 months or less | 6-12 months | Second year | Third year | Fourth year | Fifth year | Sixth year and above |
| | $ thousands | $ thousands | $ thousands | $ thousands | $ thousands | $ thousands | $ thousands | $ thousands | $ thousands |
| **Interest rate swap:** | **(962)** | **(962)** | **(240)** | **(241)** | **(481)** | **-** | **-** | **-** | **-** |

| | 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) | - | - | - |

**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 2015 | | | | |
|---|---|---|---|---|---|
| | Currency/ linkage receivable | Currency/ linkage payable | Average date of expiration | Par value (currency) | Fair value |
| | | | | $ thousands | $ thousands |
| Forward foreign currency contracts and purchase options | NIS | USD | 10/1/16 | **1,104,945** | **(28,424)** |
| CPI forward contract | CPI | NIS | 16/4/16 | **571,502** | **(1,970)** |

| | 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) |

## Additional Information

## 4. Financial Instruments (cont'd)

### E. Sensitivity analysis

A strengthening or weakening of the dollar against the shekel as of December 31 and an increase or decrease in the CPI would have increased (decreased) the shareholders' equity and the profit or loss in the amounts shown below. This analysis was made on the assumption that all the other variables, among others, the interest rates, remain constant. The analysis for 2015 was made on the same basis.

| | December 31, 2015 | | | |
|---|---|---|---|---|
| | Decrease of 5% | | Increase of 5% | |
| | Equity | Profit (loss) | Equity | Profit (loss) |
| | $ thousands | $ thousands | $ thousands | $ thousands |
| Shekel | **2,826** | **2,826** | **(6,356)** | **(6,356)** |
| CPI | **26,757** | **26,757** | **(26,757)** | **(26,757)** |

| | 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) |

## 5. Income tax expenses (income)

### A. Components of income tax expenses (income)

| | For the year ended December 31 | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| | $ thousands | $ thousands | $ thousands |
| **Current tax expenses (income)** | | | |
| For the current period | **391** | 381 | 221 |
| Adjustments for prior years, net | **-** | (30) | - |
| | **391** | 351 | 221 |
| **Deferred tax expenses** | | | |
| Creation and reversal of temporary differences | **44** | 44 | 421 |
| Changes in the tax rate | **-** | - | 65 |
| | **44** | 44 | 486 |
| **Total income tax expenses** | **435** | 395 | 707 |

**Additional Information**

**5. Income tax expenses (income) (cont'd)**

**B. Income taxes on components of other comprehensive income**

| | For the year ended December 31 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2015 | | | 2014 | | | 2013 | | |
| | Before tax | Tax benefit | Net of tax | Before tax | Tax benefit | Net of tax | Before tax | Tax benefit | Net of tax |
| | $ thousands | $ thousands | $ thousands | $ thousands | $ thousands | $ thousands | $ thousands | $ thousands | $ thousands |
| Hedge of cash flows | **(480)** | **44** | **(436)** | (482) | 44 | (438) | (587) | 76 | (511) |
| Actuarial gains (losses) from defined benefit plan | **211** | **-** | **211** | 331 | - | 331 | (11) | - | (11) |
| **Total** | **(269)** | **44** | **(225)** | (151) | 44 | (107) | (598) | 76 | (522) |

## Additional Information

## 6. Deferred tax assets and liabilities

### A. Deferred tax assets and liabilities recognized

Deferred tax assets and liabilities are attributed to the following items:

| | Financial instruments | Total |
|---|---|---|
| | $ thousands | $ thousands |
| **Deferred tax asset balance as of January 1, 2014** | - | - |
| Changes charged to statement of income | (44) | (44) |
| Changes charged to other comprehensive income | 44 | 44 |
| **Deferred tax asset balance as of December 31, 2014** | - | - |
| Changes charged to statement of income | **(44)** | **(44)** |
| Changes charged to other comprehensive income | **44** | **44** |
| **Deferred tax asset balance as of December 31, 2015** | **-** | **-** |

### B. Items for which deferred tax assets were not recognized

Pursuant to the Law for Encouragement of Industry (Taxes), 1969, the Company files a consolidated report for tax purposes with Adama Makhteshim Ltd. (hereinafter – "Adama Makhteshim").

As of December 31, 2015, deferred taxes were not recognized in respect of losses for tax purposes of the Company and of Adama Makhteshim, in the amount of $48 million (December 31, 2014, the amount of $72 million) since it is not expected that there will be taxable income in the future against which it will be possible to utilize these benefits.

According to existing tax laws, there is no time limit on the utilization of tax losses and the utilization of temporary differences that may be deducted.

### C. Final assessments

The Company and Adama Makhteshim have received final tax assessments up to and including the 2011 tax year.

## Additional Information

### 7. Ties, commitments and material transactions with investee companies

#### A. Financial guarantees

The Company has guaranteed the liabilities to banks of subsidiaries, unlimited in amount. The balance of liabilities to banks of subsidiaries at the reporting date, for which the Company is a guarantor, is $313 million.

#### B. Loans

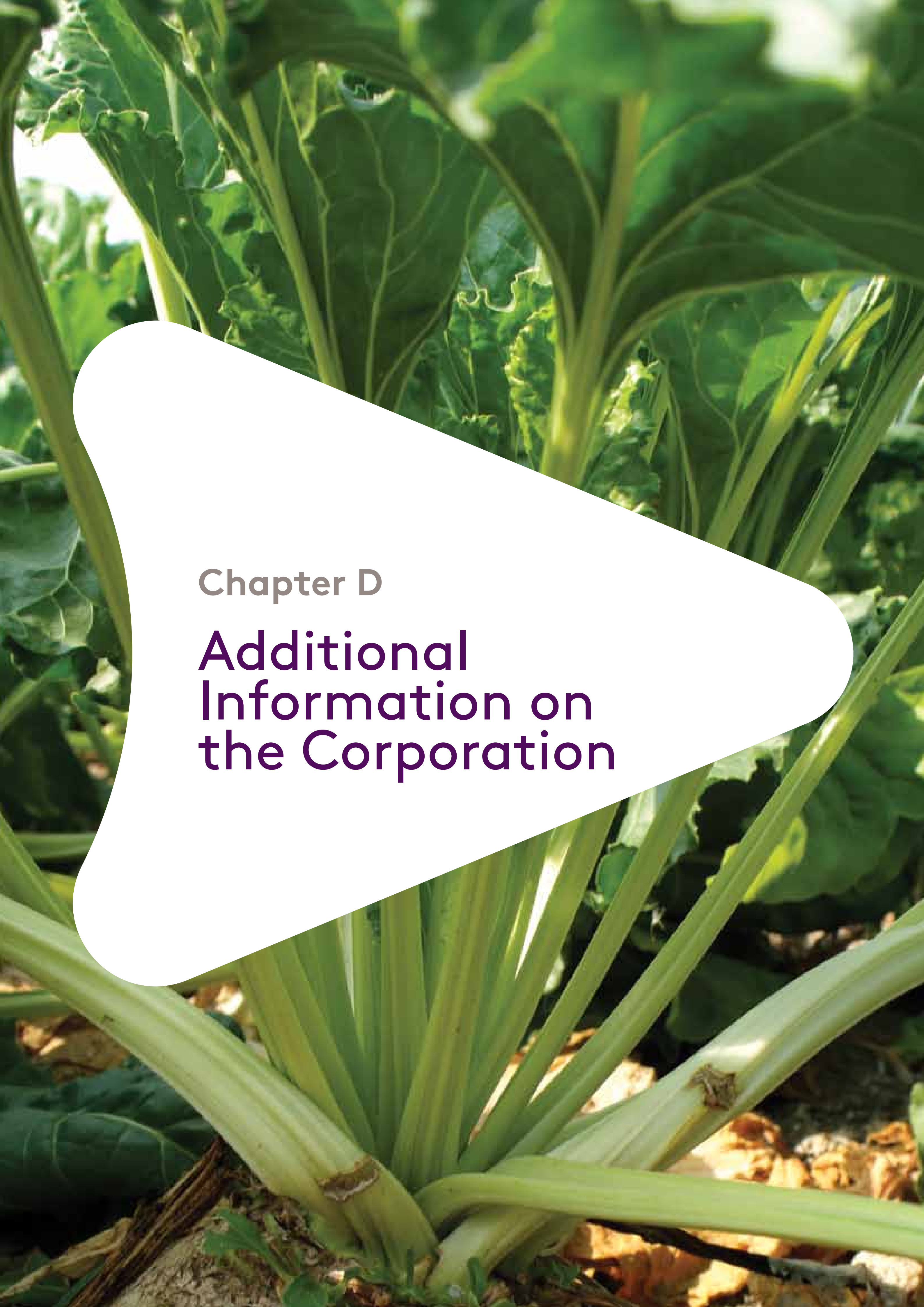
The loans between the Company and Israeli investee companies are given at the same terms as those obtained by the Company, provided that the loan terms will not be less than the minimum interest required by Israeli tax law.

#### C. Agreement to provide services

The Company provides services to subsidiaries in the Group, consulting services and various headquarter services. For these services, the subsidiaries pay annual consideration, which is calculated based on the cost of the services plus a designated margin.

### 8. Buy-back of shares

See Note 21E to consolidated financial statements.



Chapter D

# Additional Information on the Corporation

# Chapter D – Additional Information on the Corporation

**Company Name:** ADAMA Agricultural Solutions Ltd.

**Company ID No.:** 52-004360-5

**Address:** Golan St., POB 298, Airport City, 7015103

**Fax:** 073-2321937

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**Email:** main@adama.com

**Balance Sheet Date:** December 31, 2015

**Report date:** March 14, 2016

**Regulation 10A – Condensed consolidated statements of income of the Company for each quarter of 2015 (in USD thousands)**

| | Year 1-12/2015 | Quarter 10-12/2015 | Quarter 7-9/2015 | Quarter 4-6/2015 | Quarter 1-3/2015 |
|---|---|---|---|---|---|
| Sales Revenues | 3,063,870 | 649,855 | 696,060 | 851,295 | 866,660 |
| Cost of Sales | 2,094,281 | 454,590 | 489,830 | 578,032 | 571,829 |
| **Gross Profit** | 969,589 | 195,265 | 206,230 | 273,263 | 294,831 |
| Other Revenues | (14,385) | (2,333) | (780) | (801) | (10,471) |
| Selling and Marketing Expenses | 534,454 | 129,541 | 123,493 | 143,681 | 137,739 |
| General and Administrative Expenses | 102,535 | 26,729 | 26,524 | 25,613 | 23,669 |
| Research and Development expenses | 30,197 | 7,488 | 7,347 | 7,505 | 7,857 |
| Other Expenses | 16,681 | 5,728 | 290 | 185 | 10,478 |
| Total Expenses | 669,482 | 167,153 | 156,874 | 176,183 | 169,272 |
| **Operating Profit** | 300,107 | 28,112 | 49,356 | 97,080 | 125,559 |
| Finance Expenses, Net | 139,572 | 40,228 | 43,344 | 40,348 | 15,652 |
| **Profit (Loss) After Finance** | 160,535 | (12,116) | 6,012 | 56,731 | 109,907 |
| Share of income (losses) of equity-accounted investee companies | (1,498) | (2,770) | (1,173) | 1,213 | 1,232 |
| Profit (Loss) before Taxes on Income | 159,037 | (14,886) | 4,839 | 57,945 | 111,139 |
| Income Tax Expenses | 49,262 | 7,829 | 9,430 | 6,595 | 25,408 |
| **Profit (Loss) for the Period** | 109,775 | (22,715) | (4,591) | 51,350 | 85,731 |
| Attributed to: | | | | | |
| The owners of the Company | 110,108 | (22,637) | (4,505) | 51,434 | 85,816 |
| Holders of non-controlling interest | (333) | (78) | (86) | (84) | (85) |
| **Profit (loss) for the period** | 109,775 | (22,715) | (4,591) | 51,350 | 85,731 |

## Condensed statements of comprehensive Income of the Company for each quarter of 2015 (in USD thousands)

| | Year 1-12/ 2015 | Quarter 10-12/ 2015 | Quarter 7-9/2015 | Quarter 4-6/2015 | Quarter 1-3/2015 |
|---|---|---|---|---|---|
| **Profit (loss) for the period** | 109,775 | (22,715) | (4,591) | 51,350 | 85,731 |
| **Other comprehensive income items that after initial recognition in comprehensive income were or will be transferred to the statement of income** | | | | | |
| Foreign currency translation differences for foreign operations | (32,159) | (1,869) | (19,609) | 2,103 | (12,784) |
| Effective portion of changes in fair value of cash flow hedges | 58,521 | 20,649 | (4,736) | (28,694) | 71,302 |
| Net change in fair value of cash flow hedges transferred to the statement of income | (70,060) | (1,998) | (2,438) | (20,415) | (45,209) |
| Taxes in respect of other comprehensive income items that were or will be transferred to the statement of income in consecutive periods. | 106 | (2,161) | 876 | 5,508 | (4,117) |
| **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** | (43,592) | 14,621 | (25,907) | (41,498) | 9,192 |
| **other comprehensive Income that will not be transferred to the statement of income** | | | | | |
| Re-measurement of defined benefit plan | 3,404 | 526 | 60 | 5,379 | (2,561) |
| Taxes in respect of other comprehensive income items that will not be transferred to the statement of income | (436) | (118) | (283) | (311) | 276 |
| **Total other comprehensive income (loss) for the year, that will not be transferred to the statement of income, net of tax** | 2,968 | 408 | (223) | 5,068 | (2,285) |
| **Total comprehensive income for the period** | **69,151** | **(7,687)** | **(30,721)** | **14,920** | **92,638** |
| **Total comprehensive income attributed to:** | | | | | |
| **The owners of the Company** | 69,483 | (7,610) | (30,630) | 14,994 | 92,729 |
| **Holders of non-controlling interest** | (332) | (76) | (91) | (74) | (91) |
| **Total comprehensive income for the period** | 69,151 | (7,686) | (30,721) | 14,920 | 92,638 |

## Regulation 10C – Use of Proceeds from Securities

On May 9, 2010, the Company published a shelf prospectus ("**the Shelf Prospectus**"), 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 Growth strategy, see Section 31 of Chapter A of this report.

## Regulation 11 – List of investments in subsidiaries and associated companies at the date of statement of financial condition[1]

| Company Name | Stock exchange number | Class of share | Number of shares held by the Company | Total par value issued and outstanding held by the Company | Cost (in USD K's) | Value in Company separate financial statements (in USD K's) | % held by Company | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | In secu-rity | In equity | In voting | In authority to appoint directors |
| ADAMA Makhteshim Ltd. | Not traded | Ordinary | 132,939,834 | 132,939,834 | 219,216 | 796,106 | 100% | 100% | 100% | 100% |
| ADAMA Agan Ltd. | Not traded | Ordinary | 15,065,980 | 15,065,980 | 209,962 | 664,564 | 100% | 100% | 100% | 100% |
| Lycored Ltd[2]. | Not traded | Ordinary | 11,858,558 | 11,858,558 | 12,654 | 99,078 | 100% | 100% | 100% | 100% |
| Total investments in subsidiaries | | | | | 438,832 | 1,559,748 | | | | |

1 The table refers to material companies only.

2 Lycored Ltd. Holds 2,535,870 from its shares, which according to Article 308(a) of the Companies law do not confer any rights.

**Balance of loans to subsidiaries and associated companies – as of the date of statement of financial condition (in USD thousands)**[1]

| Company name | Loan amount | Linkage terms | Interest rate | Maturity date |
|---|---|---|---|---|
| ADAMA Agan Ltd. | 390,745 | Dollar-linked | 6.65% | Not yet fixed |
| ADAMA Makhteshim Ltd. | 455,074 | Dollar-linked | 6.65% | Not yet fixed |
| **Total** | **845,819** | | | |

**Regulation 13 – Revenues of subsidiaries and associated companies and the Company's revenues from them to the date of the report (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. | 9,983 | 62,724 | 180,000 | 9,733 | 29,063 |
| ADAMA Agan Ltd. | (4,122) | 45,008 | - | 17,545 | 44,855 |
| Lycored Ltd. | (1,793) | (2,089) | - | 703 | - |

**Regulation 20 – Stock Exchange Trading – Securities listed for trading/suspension of trading – Dates and Reasons**

On February 1, 2015, NIS 533,330,000 par value Debentures (Series B) were issued and listed for trading, by way of series expansion 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 unlisted options which were exercised in full for NIS 266,665,000 par value Debentures (Series B) by May 10, 2015 (the deadline for exercising them). For more information, see the immediate report of January 22, 2015 (Ref. 2015-01-017053).

## 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.

### 1. Senior officers in the Company and its controlled corporations

| Compensation Recipient | | | | Compensation for services (in NIS thousands) (*) (**) | | |
|---|---|---|---|---|---|---|
| **Name** | **Title** | **Scope of position** | **Holding in Company equity** | **Salary(1)** | **Bonus for 2015(4)** | **Total** |
| Chen Lichtenstein (2)(3) | President and CEO | 100% | 0% | 2,763 | 5,074 | 7,837 |
| Ignacio Dominguez (2) | CCO | 100% | 0% | 3,333 | 1,581 | 4,914 |
| Shaul Friedland (2) | CCO | 100% | 0% | 2,375 | 1,327 | 3,702 |
| Elhanan Abramov (2) | EVP Global Operation | 100% | 0% | 2,192 | 839 | 3,031 |
| Aviram Lahav (2) | CFO | 100% | 0% | 1,913 | 917 | 2,830 |

(*) 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, 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 date of the report, an Initial Public Offering of the Company's shares was not executed. The Company also presents below the amounts of the non-traded share based compensation, as recorded in the financial statements.

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, grossing up of rent for an EVP and monthly CPI-linked salary (other than the salary of Mr. 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, in accordance with to the long term incentive plan adopted by the Company ("**Long Term Incentive**"). 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 Long Term Incentive for the office holders in 2015 is as follows: Mr. Chen Lichtenstein – NIS 4,877 thousands, Mr. Ignacio Dominguez, Mr. Shaul Friedland, Mr. Aviram Lahav and Mr. Elhanan Abramov – NIS 1,383 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, and the allocation of option awards convertible to the Company's shares. The allocation was in addition to option awards and cash long term incentive 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 (See note 2 above). For further details, see the Company's reports dated December 25, 2013 (ref. 2013-01-107488 and ref. 2013-01-107494) and dated May 12, 2014 (ref. 2014-01-061290). During 2015, payment of redemption of vacation days was done.

4. The bonus is presented according to the exchange rate of the NIS vs. USD in proximity to the date of the approval of the Remuneration Committee. It is noted that during 2015, the Remuneration Committee and the Board of Directors of the Company on March 21, 2015 and March 22, 2015, respectively, approved bonuses to officers for 2014, as described in Chapter D of the Periodic report for 2014.

2. **<u>Compensation paid to Senior Officers after the balance sheet date, related to their tenure or their employment in the reporting year</u>**

   See the above table.

3. **<u>Compensation paid to each of the Interested Parties in the Company who is not included in the section above</u>**

   During 2015, 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 1,008 thousand. In accordance with the Company's Articles of Association, as long as not determined otherwise by the Company's General Meeting, 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.

   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.

**<u>Regulation 21A – Control in the Company</u>**

As of the date of the report, the controlling shareholder in the Company is CNAC International Pte Ltd. ("**CNAC**"). It is noted that due to the shareholders' agreement signed 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 2.2 of Chapter A of this Periodic Report.

**Regulation 22 – Transactions with a controlling shareholder**

For details regarding transactions with the controlling shareholder or in which the controlling shareholder has a personal interest in their approval[3] (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 of the Company as of December 31, 2015.

Negligible transactions procedure

At its meeting on February 9, 2016, the Company's Audit Committee reviewed the manner of application of the negligible transactions procedure in 2015 and examined a sampling of transactions that were classified in 2015 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, 2015.

**Regulation 24 – Holdings of Interested Parties and Senior Officers**

For details regarding the holdings of interested parties in shares and securities of the Company as of December 31, 2015, see the Company's immediate report published on January 7, 2016 (Ref. 2016-01-005020) which is included here by way of reference.

**Regulation 24A – Registered Capital, Issued Capital and Convertible Securities**

See Note 21A to the financial statements of the Company as of December 31, 2015.

**Regulation 24B – Shareholders Register**

As of the publication date of the 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 | Raffles PL, #32-01, 80, 048624 | Singapore | Singapore | 82,794,528 |
| Koor Industries Ltd. | 520014143 | Azrieli Center 3 | Tel Aviv | Israel | 55,196,353 |

3 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 26 – the Company's Directors (as of March 14, 2016)

Below are the personal and professional details of the Company's directors:

| | | |
|---|---|---|
| **(1)** | **Name of director** | **Yang Xingqiang** |
| | **Passport No. :** | SE0130853 |
| | **Date of birth:** | 1967 |
| | **Address for serving court documents:** | c/o Gross, Kleinhendler, Hodak, Halevy, Greenberg & Co., 1, Azrieli Center (Round Tower),Tel Aviv 60721, Israel |
| | **Citizenship:** | Chinese |
| | **Member of board committees:** | No |
| | **Is he an independent director or an external director:** | No |
| | **Does he have Accounting and Financial Expertise or Professional Qualifications:** | Professional Qualifications |
| | **Is he an employee of the Company, of a Subsidiary, of an Associated Company of the Company or of an Interested Party:** | CEO of China National Chemical Corporation, an indirect shareholder of the Company. |
| | **Date of appointment as Director:** | October 17, 2011 |
| | **Education:** | B.Sc. Chemistry, Sichuan University |
| | **His occupations in the last five years and other corporations in which he serve as a Director:** | December 2014-Now: General Manager, China National Chemical Corporation<br>2009-2014: Deputy General Manager, China National Chemical Corporation |
| | **Is he, to the best of the knowledge of the Company and its directors, a family member of another interested party in the Company:** | 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 |

| (2) | Name of director | Ami Erel |
|---|---|---|
| | **Identification No. :** | 04871265 |
| | **Date of birth:** | 1947 |
| | **Address for serving court documents:** | IDB Holdings Ltd., Azrieli Center 3, Triangular Building, 44th floor, Tel-Aviv |
| | **Citizenship:** | Israeli |
| | **Member of board committees:** | No |
| | **Is he an independent director or an external director:** | No |
| | **Does he have Accounting and Financial Expertise or Professional Qualifications:** | Professional Qualifications |
| | **Is he an employee of the Company, of a Subsidiary, of an Associated Company of the Company or of an Interested Party:** | Consultant to Discount Investments Ltd., an interested party in the Company. |
| | **Date of appointment as Director:** | 2006 |
| | **Education:** | BA Electrical Engineering, The Technion, Haifa |
| | **His occupations in the last five years and other corporations in which he serve as a Director:** | Consultant to Discount Investments Ltd., President and Chief Business Officer of Discount Investments Ltd (from June 2001 to March 2013); Chairman of Netvision Ltd. (2008-2011); Chairman of Cellcom Israel Ltd.; Chairman of Koor Industries Ltd. (2007-2011); Director in Elron Electronic Industries Ltd.; Director in Shufersal Ltd.; Director of Dan Hotels Ltd.; Director of Knafaim Holdings Ltd. and Chairman of the Board and/or Director of other IDB Group companies. |
| | **Is he, to the best of the knowledge of the Company and its directors, a family member of another interested party in the Company:** | 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 |

| | | |
|---|---|---|
| **(3)** | **Name of director:** | **Ren Jianxin** |
| | **Passport No. :** | SE0131803 |
| | **Date of birth:** | 1958 |
| | **Address for serving court documents:** | c/o Gross, Kleinhendler, Hodak, Halevy, Greenberg & Co., 1, Azrieli Center (Round Tower), Tel Aviv 60721, Israel |
| | **Citizenship:** | Chinese |
| | **Member of board committees:** | No |
| | **Is he an independent director or an external director:** | No |
| | **Does he have Accounting and Financial Expertise or Professional Qualifications:** | Professional Qualifications |
| | **Is he an employee of the Company, of a Subsidiary, of an Associated Company of the Company or of an Interested Party:** | Chairman of China National Chemical Corporation, an indirect shareholder of the Company. |
| | **Date of appointment as Director:** | October 17, 2011 |
| | **Education:** | Master of Economics and Management, Lanzhou University |
| | **His occupations in the last five years and other corporations in which he serve as a Director:** | Since 2014: Chairman of China National Chemical Corporation; 2004-2014: President, China National Chemical Corporation. |
| | **Is he, to the best of the knowledge of the Company and its directors, a family member of another interested party in the Company:** | 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 |

| (4) | Name of director: | Lu Xiaobao |
|---|---|---|
| | **Passport No. :** | SE0008896 |
| | **Date of birth:** | 1965 |
| | **Address for serving court documents:** | Gross, Kleinhendler, Hodak, Halevy, Greenberg & Co., 1, Azrieli Center (Round Tower), Tel Aviv 60721, Israel |
| | **Citizenship:** | Chinese |
| | **Member of board committees:** | No |
| | **Is he an independent director or an external director:** | No |
| | **Does he have Accounting and Financial Expertise or Professional Qualifications:** | Accounting and Financial Expertise |
| | **Is he an employee of the Company, of a Subsidiary, of an Associated Company of the Company or of an Interested Party:** | VP of China National Chemical Corporation, an indirect shareholder of the Company |
| | **Date of appointment as Director:** | September 20, 2012 |
| | **Education:** | Bachelor of Applied Chemistry, Beijing University of Chemical Technology |
| | **His occupations in the last five years and other corporations in which he serve as a Director:** | Since 2014: VP of China National Chemical Corporation.<br>2012-2014: – Assistant President of China National Chemical Corporation.<br>Since 2010 – President of China National Bluestar (Group) Co. Ltd. |
| | **Is he, to the best of the knowledge of the Company and its directors, a family member of another interested party in the Company:** | 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 |

| (5) | Name of director: | An Liru |
|---|---|---|
| | **Passport No. :** | PE0610845 |
| | **Date of birth:** | 1969 |
| | **Address for serving court documents:** | c/o Gross, Kleinhendler, Hodak, Halevy, Greenberg & Co., 1, Azrieli Center (Round Tower), Tel Aviv 60721, Israel |
| | **Citizenship:** | Chinese |
| | **Member of board committees:** | No |
| | **Is he an independent director or an external director:** | No |
| | **Does he have Accounting and Financial Expertise or Professional Qualifications:** | Professional Qualifications |
| | **Is he an employee of the Company, of a Subsidiary, of an Associated Company of the Company or of an Interested Party:** | Acting CEO and Secretary of the Communist Party Committee, China National Agrochemical Corporation, an indirect shareholder of the Company |
| | **Date of appointment as Director:** | February 27, 2014 |
| | **Education:** | B.A. in Applied Chemistry, Nanjing University.<br>M.A in Chemical Engineering and MBA, Nanjing University |
| | **His occupations in the last five years and other corporations in which he serve as a Director:** | Since 2014 - Acting CEO of China National Agrochemical Corporation.<br>Since 2013 - Secretary of the Communist Party Committee, of China National Agrochemical Corporation.<br>2009 - 2013 - Chairman of Jiangsu Huaihe Chemical Co. |
| | **Is he, to the best of the knowledge of the Company and its directors, a family member of another interested party in the Company:** | 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 |

| (6) | Name of director: | Saul Lapidus |
|---|---|---|
| | Identification No.: | 336208921 |
| | Date of birth: | 1979 |
| | Address for serving court documents: | 3 Azrieli Center, 44th Floor, Tel Aviv |
| | Citizenship: | Argentinian and Israeli |
| | Member of board committees: | No |
| | Is he an independent director or an external director: | No |
| | Does he have Accounting and Financial Expertise or Professional Qualifications: | No |
| | Is he an employee of the Company, of a Subsidiary, of an Associated Company of the Company or of an Interested Party: | Advisor at Consultores Asset Management which is controlled by Eduardo Elztain who is a Director and an indirect controlling shareholder of Discount Investments Ltd., which is an interested party in the Company. |
| | Date of appointment as Director: | July 7, 2015 |
| | Education: | Yeshiva graduate |
| | His occupations in the last five years and other corporations in which he serve as a Director: | Since January 2016 - CEO of IDB Development Co. Ltd. And Actin CEO of Discount Investments Ltd; serves as a Director in the following companies: IDB Development Co. Ltd (from January 2014 to December 2015 served as an Alternate Director); Discount Investments Ltd (from February 2014 to November 2014 served as an Alternate Director); Chairman of the Board of Modiin Energy Management (1992) Ltd.; Alternate Director of Elron Electronic Industries Ltd.<br>2009-2013 - Director and CEO of CLADD S.A<br>2008 - 2012 - Chairman of the Board of Australtex SZ |
| | Is he, to the best of the knowledge of the Company and its directors, a family member of another interested party in the Company: | 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 |

| (7) | Name of director: | Gustavo Traiber |
|---|---|---|
| | **Identification No. :** | 01114826 |
| | **Date of birth:** | 1961 |
| | **Address for serving court documents:** | 39 Rupin St. Tel Aviv, 63457 |
| | **Citizenship:** | Israeli |
| | **Member of board committees:** | Audit Committee, Financial Statements Review Committee, Remuneration Committee. |
| | **Is he an independent director or an external director:** | External Director |
| | **Does he have Accounting and Financial Expertise or Professional Qualifications:** | Accounting and Financial Expertise |
| | **Is he an employee of the Company, of a Subsidiary, of an Associated Company of the Company or of an Interested Party:** | No |
| | **Date of appointment as Director:** | March 12, 2015 |
| | **Education:** | B.A in Political studies, The Hebrew University of Jerusalem. MBA-Business administration specializing in finance, Interdisciplinary Center (IDC) Herzliya. |
| | **His occupations in the last five years and other corporations in which he serve as a Director:** | 2010-December 2014: CEO and Partner of Sun Team Group Ltd. |
| | **Is he, to the best of the knowledge of the Company and its directors, a family member of another interested party in the Company:** | 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 |

| (8) | **Name of director:** | **Dalit Braun** |
|---|---|---|
| | **Identification No. :** | 022416929 |
| | **Date of birth:** | 1966 |
| | **Address for serving court documents:** | 8/76 Balfour St. Tel Aviv Israel |
| | **Citizenship:** | Israeli |
| | **Member of board committees:** | Audit Committee, Financial Statements Review Committee, Remuneration Committee. |
| | **Is she an independent director or an external director:** | External Director |
| | **Does she have Accounting and Financial Expertise or Professional Qualifications:** | Accounting and Financial Expertise |
| | **Is she an employee of the Company, of a Subsidiary, of an Associated Company of the Company or of an Interested Party:** | No |
| | **Date of appointment as Director:** | March 12, 2015 |
| | **Education:** | B.Sc- Industrial Engineering and Management - Technion<br>MBA-Business administration – Tel Aviv University<br>Masters degree in European Business Law, Anglia Ruskin University, UK |
| | **Her occupations in the last five years and other corporations in which she serve as a Director:** | 2011—present: Founder and CEO of Pick'nTell<br>2014-present: External Director in "Dira LeHaskir (Government company)<br>2011-2014: Chairperson of the Board of Kela Foundation<br>2010-2013: External Director at Mekorot |
| | **Is she, to the best of the knowledge of the Company and its directors, a family member of another interested party in the Company:** | No |
| | **Is she 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 |

| (9) | Name of director: | Jiashu Cheng |
|---|---|---|
| | Passport No.: | G39600654 |
| | Date of birth: | 1953 |
| | Address for serving court documents: | ADAMA Agricultural Solutions Ltd., Golan Street, Airport City 70151, Israel |
| | Citizenship: | Chinese |
| | Member of board committees: | Audit Committee, Financial Statements Review Committee, Remuneration Committee. |
| | Is he an Independent Director or an external director: | Independent Director |
| | Does he have Accounting and Financial Expertise or Professional Qualifications: | Accounting and Financial Expertise |
| | Is he an employee of the Company, of a Subsidiary, of an Associated Company of the Company or of an Interested Party: | No |
| | Date of appointment as Director: | March 10, 2015 |
| | Education: | Master of Art in Economic Development, Stanford University;<br>Master of Art in Economics, Stanford University;<br>Major in Planning and Statistics, Department of Economics, Hebei University |
| | His occupations in the last five years and other corporations in which he serve as a Director: | 2005-2013: President of China Operation of Celanese Corporation |
| | Is he, to the best of the knowledge of the Company and its directors, a family member of another interested party in the Company: | 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 |

## Regulation 26A – Senior Officers (as of March 14, 2016)

| | | |
|---|---|---|
| **(1)** | **Name of officer:** | **Chen Lichtenstein** |
| | **Identification No. :** | 022977631 |
| | **Date of birth:** | 1967 |
| | **Commencement of office:** | January 26, 2006 |
| | **Is he an Interested Party in the Company / a Family Member of another Senior Officer or of an Interested Party:** | No |
| | **Education:** | Doctorate in Business Administration and Law, Stanford University |
| | **Position in the Company, Subsidiary, Associated Company of the Company or of an Interested Party:** | President and CEO |
| | **Occupation in the past five years:** | 2006-2012: VP Global Resources, VP Business Development<br>2012-2014: Deputy CEO ADAMA Agricultural Solutions Ltd.<br>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 |
| | **Is he an Interested Party in the Company / a Family Member of another Senior Officer or of an Interested Party:** | No |
| | **Education:** | BA Accounting, Hebrew University in Jerusalem<br>Graduate of AMP, Harvard School of Business Management |
| | **Position in the Company, Subsidiary, Associated Company of the Company or of an Interested Party:** | CFO and Director of several Group companies |
| | **Occupation in the past five years:** | CFO of the Company |

| (3) | Name of officer: | Shaul Friedland |
|---|---|---|
| | **Identification No. :** | 060847746 |
| | **Date of birth:** | 1952 |
| | **Commencement of office:** | November 1, 2003 |
| | **Is he an Interested Party in the Company / a Family Member of another Senior Officer or of an Interested Party:** | No |
| | **Education:** | B.Sc. and M.Sc. in Agronomy, Hebrew University of Jerusalem. |
| | **Position in the Company, Subsidiary, Associated Company of the Company or of an Interested Party:** | CCO |
| | **Occupation in the past five years:** | CCO; SVP Sales and Marketing in the Company; CEO of subsidiary – Manager of Americas Region |

| (4) | Name: | Ignacio Dominguez |
|---|---|---|
| | **Identification No. :** | 5240022 |
| | **Date of birth:** | July 14, 1960 |
| | **Commencement of office:** | September 5, 2007 |
| | **Is he an Interested Party in the Company / a Family Member of another Senior Officer or of an Interested Party:** | No |
| | **Education:** | Master in Automatic Calculus, Complutense University of Madrid |
| | **Position in the Company, Subsidiary, Associated Company of the Company or of an Interested Party:** | CCO |
| | **Occupation in the past five years:** | CCO; CEO of subsidiary – Head of Europe Region |

| (5) | Name: | Michal Arlosoroff |
|---|---|---|
| | **Identification No. :** | 055458921 |
| | **Date of birth:** | 1958 |
| | **Commencement of office:** | August 1, 2007 |
| | **Is he an Interested Party in the Company / a Family Member of another Senior Officer or of an Interested Party:** | No |
| | **Education:** | LLB, B.A. Political Science, Tel Aviv University<br>Graduate of AMP, Harvard School of Business Management |
| | **Position in the Company, Subsidiary, Associated Company of the Company or of an Interested Party:** | SVP, General Counsel and Company Secretary, Corporate Social Responsibility Director (CSR) |
| | **Occupation in the past five years:** | SVP, General Counsel and Company Secretary, Corporate Social Responsibility Director (CSR) |

| (6) | Name of officer: | Daniel Harari |
|---|---|---|
| | Identification No. : | 55732408 |
| | Date of birth: | 1959 |
| | Commencement of office: | January 1, 2010 |
| | Is he an Interested Party in the Company / a Family Member of another Senior Officer or of an Interested Party: | No |
| | Education: | B.A. Arabic and Middle East Studies, Tel Aviv University<br>M.A. Middle East Studies, Tel Aviv University<br>M.A. Political Science, Haifa University |
| | Position in the Company, Subsidiary, Associated Company of the Company or of an Interested Party: | SVP Strategy and Resources |
| | Occupation in the past five years: | SVP Strategy and Resources; SVP Strategy and Resources, Innovations and Knowledge Management in the Company |

| (7) | Name of officer: | Elhanan Abramov |
|---|---|---|
| | Identification No. : | 052746302 |
| | Date of birth: | 1954 |
| | Commencement of office: | April 1, 2012 |
| | Is he an Interested Party in the Company / a Family Member of another Senior Officer or of an Interested Party: | No |
| | Education: | B.Sc. Mechanical and Nuclear Engineering, Ben Gurion University<br>M.Sc. Materials Engineering, Ben Gurion University<br>Ph.D. Materials Engineering, Be Gurion University |
| | Position in the Company, Subsidiary, Associated Company of the Company or of an Interested Party: | EVP Global Operations |
| | Occupation in the past five years: | EVP Global Operations; CEO Baran Group (2009-2012); Chairman of the Board of College of Engineering in the Negev (2002 to present); Chairman of Mata Association (2000-2015) |

| | | |
|---|---|---|
| **(8)** | **Name of officer:** | **Shiri Ailon** |
| | **Identification No. :** | 031999816 |
| | **Date of birth:** | 1975 |
| | **Commencement of office:** | July 1, 2014 |
| | **Is he an Interested Party in the Company / a Family Member of another Senior Officer or of an Interested Party:** | No |
| | **Education:** | L.L.B, Tel Aviv University; MBA, Oxford Business School. |
| | **Position in the Company, Subsidiary, Associated Company of the Company or of an Interested Party:** | VP China Integration and Corporate Development. |
| | **Occupation in the past five years:** | Head of Corporate business development and integration with China; Head of Mergers and Acquisitions 2009-2013. |

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| **(9)** | **Name:** | **Keren Yonayov** |
| | **Identification No. :** | 025699950 |
| | **Date of birth:** | 1974 |
| | **Commencement of office:** | June 1, 2010 |
| | **Is he an Interested Party in the Company / a Family Member of another Senior Officer or of an Interested Party:** | No |
| | **Education:** | Business Management and Accounting – Rishon Lezion Business College; CPA, LL.M for auditors – Bar Ilan University. |
| | **Position in the Company, Subsidiary, Associated Company of the Company or of an Interested Party:** | Comptroller of the Group |
| | **Occupation in the past five years:** | Comptroller in the Group |

| | | |
|---|---|---|
| **(10)** | **Name:** | **Yehoshua Hazenfratz** |
| | **Identification No. :** | 52187966 |
| | **Date of birth:** | 1953 |
| | **Commencement of office:** | November 6, 2007 |
| | **Is he an Interested Party in the Company / a Family Member of another Senior Officer or of an Interested Party:** | No |
| | **Education:** | B.A. Economics and Accounting, Tel Aviv University |
| | **Position in the Company, Subsidiary, Associated Company of the Company or of an Interested Party:** | Internal Auditor |
| | **Occupation in the past five years:** | Partner at RSM Shiff Hazenfratz & Co, Internal Auditor at: Oil and Energy Infrastructures Ltd., Cross Israel Highway Ltd., Castro Ltd., Clal Biotechnology Ltd., Nesher and Dan. |

**Regulation 26B – Independent Authorized Signatories**

As of the date of the report, the Company has no authorized signatories with the power to bind the Company, without requiring the signature of another factor in the corporation, for the matter of a particular action.

**Regulation 27 – The Company's Auditor**

Somekh Chaikin & Co., 17 Ha'arba'a Street, Tel Aviv.

**Regulation 29 – Recommendations and Resolutions of the Board of Directors**

A. Regulation 29(a)

1. On December 3, 2015 the Company's Board of Directors approved distribution of a dividend in the amount of USD 100 million, as set out in the immediate report issued by the Company on December 6, 2015 (Ref. No. 2015-01-173106), noted here as reference.

2. For details regarding transactions with the Company's controlling shareholder, see Regulation 22 above.

C. Regulation 29(c) – Resolutions of Special General Meetings

1. On August 10, 2015 the Company's General Meeting approved the granting of exemption letters to the Company's current office holders and directors and to the Company's office holders and directors as they shall be from time to time, as set out in the immediate report issued by the Company on August 11, 2015 (Ref. No. 2015-01-093924), noted here as reference.
2. On December 3, 2015 the Company's General Meeting adopted the following resolutions:
   2.1. To approve the engagement of the Company's (indirect) subsidiary in china ("**Adama**") in a commercial collaboration agreement with five agrochemical corporations controlled by CNAC, including Sanonda Ltd., as defined in section 1.1 of Chapter A of this Periodic Report ("**the CNAC Entities**"), according to which Adama shall gradually become the exclusive distributor of the CNAC Entities' formulated agrochemical products in China, as set out in the immediate report issued by the Company on December 6, 2015 (Ref. No. 2015-01-173175), noted here as reference.

   2.2. To approve the distribution of a dividend in a total amount of USD 100 million to the Company's shareholders, as set out in Regulation 29(a)(1) above.

3. On December 30, 2015 the Company's General Meeting adopted the following resolutions :
   3.1. To approve a framework decision of the Company regarding the Company's engagement in annual Directors and Officers liability insurance policies, as set out in the immediate report issued by the Company on December 31, 2015 (Ref. No. 2015-01-191643), noted here as reference.
   3.2. To approve the joining of the Company as a party to a Cash Pooling Agreement, the parties of which are: (1) ChemChina, the controlling shareholder of the Company; (2) Companies directly and indirectly held by ChemChina; (3) A foreign bank. The Company's General Meeting also approved the engagement of the Company in another agreement with ChemChina regulating additional aspects relating to the Cash Pooling agreement, as set out in the immediate report issued by the Company on December 31, 2015 (Ref. No. 2015-01-191652), noted here as reference.
4. After the date of the Report, on February 4, 2016 the Company's General Meeting approved the Company's engagement in a transaction for the sale of the Sanonda Ltd. B Shares currently held by the Company, subject to the completion of the Sanonda Transaction, as defined in section 1.4.2 of Chapter A of this Periodic Report, and according to the terms set out in the Company's immediate report dated February 7, 2016 (Ref. No. 2016-01-023893).

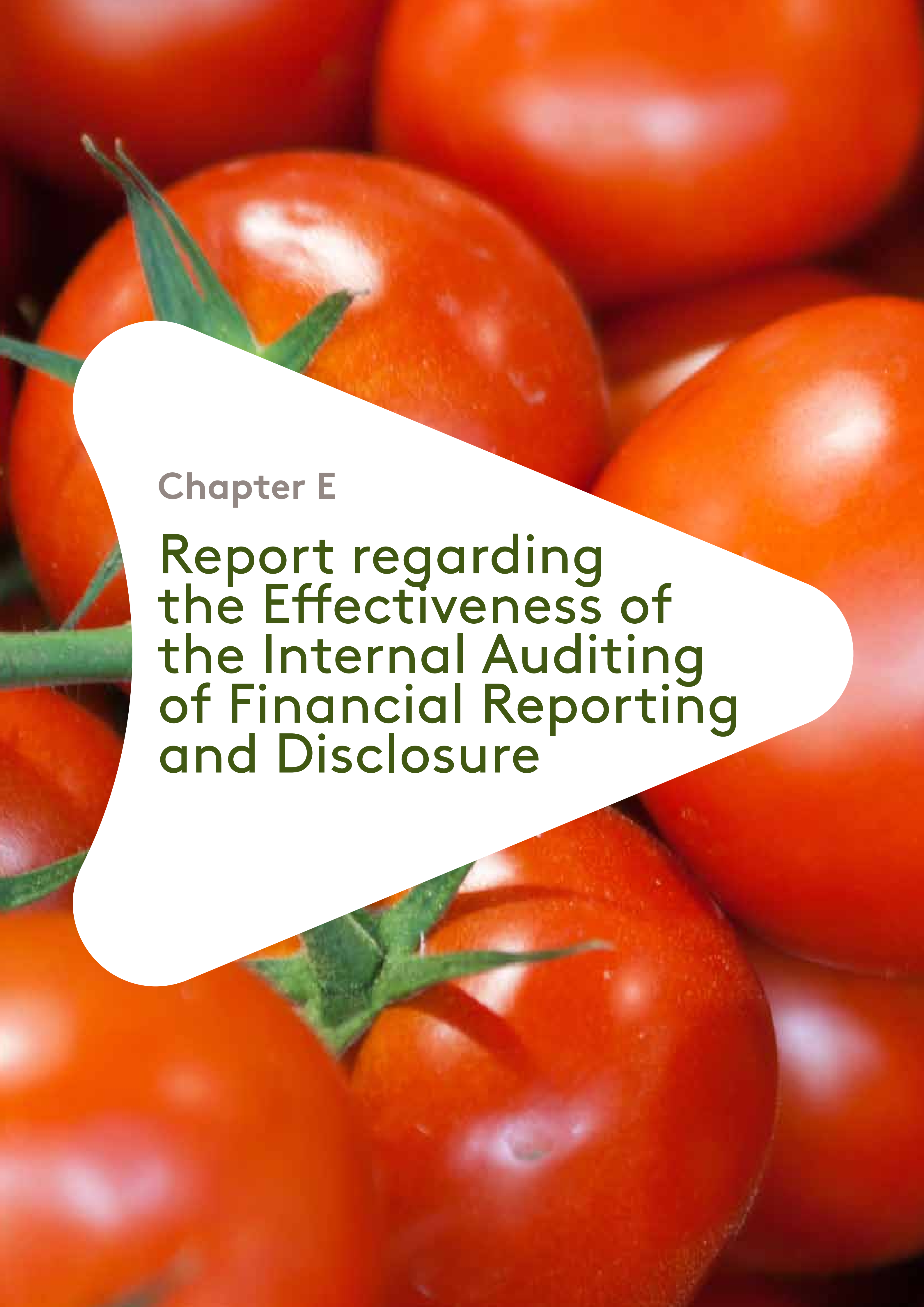
**Regulation 29A – Company Decisions**

Listed below are resolutions of the Company's Board of Directors which are not specified in the above section "Regulation 29 – Recommendations and resolutions of the Board of Directors":

1. **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 the Board of Directors" or in "Regulation 22 – Transactions with a Controlling Shareholder".
2. **Officers Exemption, Indemnification and Insurance:** See Note 19(a)(1) and 19(a)(2) to the financial statements.

Date: March 14, 2016

| | |
|---|---|
| Yang Xingqiang, Chairman | Chen Lichtenstein, CEO |



Chapter E

# Report regarding the Effectiveness of the Internal Auditing of Financial Reporting and Disclosure

**Annual report regarding the effectiveness of the internal auditing of financial reporting and disclosure according to Regulation 9B(a):**

The Management, under the supervisions of the Board of Directors of ADAMA Agricultural Solutions Ltd. (hereafter: the Corporation) is responsible for determining and maintaining appropriate internal auditing of financial reporting and of disclosure in the Corporation.

In this matter, the members of the Management are as follows:
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.

The assessment of the effectiveness of internal auditing of financial reporting and disclosure carried out by the Management under the supervision of the Board of Directors consisted four main components:

- Entity Level Controls.
- Financial Reporting Process and Disclosure.
- Information Technology General Controls (ITGC's).
- Control's regarding very significant processes connected with financial reporting: Sales, Inventories, Purchasing and Hedging transactions / derivatives.

Based on the assessment of the effectiveness, carried out by the Management under the supervision of the Board of Directors as stated above, the Board of Directors and the Management of the corporation have reached the conclusion that the internal auditing of the financial reports and disclosure in the Corporation as of December 31, 2015 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 2015 (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: 14.03.2016

Chen Lichtenstein
President and CEO

**Officers' Certification**
**Certification of Chief Financial Officer**

I, Aviram Lahav, certify that:

(1) I have examined the financial statements and other financial information included in the reports of ADAMA Agricultural Solutions Ltd. (hereinafter – "the Company") for the year 2015 (hereinafter – “the Reports").

(2) Based on my knowledge, the financial statements and other financial information included in the Reports do not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the reports.

(3) Based on my knowledge, the financial statements and other financial information included in the reports, fairly present in all material respects, the financial condition, results of operations and cash flows of the Company as of the dates and for the periods presented in the reports.

(4) I have disclosed, based on my most recent evaluation regarding internal control over financial reporting and disclosure, to the Company's auditors, Board of Directors and audit and financial statements committees of the Board of Directors:

  (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting and disclosure to the extent it relates to the financial statements and other financial information included in the reports, which could reasonably adversely affect the Company's ability to record, process, summarize and report financial data so as to cast doubt on the reliability of financial reporting and the preparation of financial statements in accordance with law; and –

  (b) Any fraud, whether or not material, that involves the CEO or anyone directly subordinated to the CEO or that involves other employees who have a significant role in internal control over financial reporting and disclosure.

(5) I, alone or together with others in the Company, state that:

  (a) I have designed such controls and procedures, or caused such controls and procedures to be designed under my supervision, to ensure that material information relating to the Company, including its consolidated corporations within their meaning in the Securities Law (Annual Financial Statements) – 2010, to the extent it relates to the financial statements and other financial information included in the reports, is made known to me by others in the Company and within those corporations, particularly during the period in which the reports are being prepared; and –

  (b) I have designed such controls and procedures, or caused such controls and procedures to be designed under my supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with law, including in accordance with generally accepted accounting principles;

  (c) I have evaluated the effectiveness of internal control over financial reporting and disclosure, to the extent it relates to the financial statements and other financial information included in the reports. My conclusions regarding my aforesaid evaluation have been presented to the Board of Directors and Management and are combined in this report.

Nothing in the aforesaid derogates from my responsibility or from the responsibility of any other person under the law.

Date: 14.03.2016

Aviram Lahav
CFO