

Koor Industries Ltd.

Part A: Description of Company Operations

Introduction

1. Key:

In this report, the following terms, abbreviations and acronyms shall have the meanings indicated next to them:

Koor	Koor Industries Ltd.
Makhteshim Agan	Makhteshim Agan Industries Ltd.
Credit Suisse	Credit Suisse Group AG
HSBC Building	The HSBC headquarters building on Fifth Ave., New York
452 Owners	452 Fifth Owners, LLC
Epsilon	Epsilon Investments Ltd.
DIC	Discount Investment Corporation Ltd.
IDB Development	IDB Development Corporation Ltd.
IDB Holdings	IDB Holdings Corporation Ltd.
TASE	Tel Aviv Stock Exchange Ltd.
Financial statements	Koor's consolidated financial statements as at December 31, 2010, included in Part C of this report
Directors' Report -	Koor's Directors' Report dated December 31, 2010, included in Part B of this report
USD	US dollar
The Authority	Israel Securities Authority
Securities Law	Securities Law, 1968
Reporting Date	The date of publication of the report or a date proximate to it, as the case may be

2. Koor is a holdings company. Classification of operating segments in Koor's financial statements is based on international financial reporting standards (IFRS Standard 8) (for further information pertaining to this issue also see Note 3 to the financial statements). In the financial statements, each of Makhteshim Agan, Credit Suisse, 452 Owners (HSBC Building holdings), Epsilon and Microwave Networks Inc. ("MNI") (communications equipment) is a reporting operating segment. Furthermore, Koor also has an "Others" operating segment, in which the main companies are described in brief in section 14 of this Part.

With respect to a holding of shares of the companies mentioned in this Part, and unless indicated otherwise, holding data of a company that holds an investee company includes also the entire

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holdings in the investee company, that are through wholly owned subsidiaries of the holding company.

In some cases, the description has been expanded to provide an in-depth account of the topic described, even though the description or its expansion are not necessarily material information from Koor's viewpoint.

The descriptions of Koor's investees included in this Part sometimes include information based on surveys, publications and studies. Koor is not responsible for the content of such surveys, publications and studies.

Part A of this report should be read together with the other parts of the report, including the Directors' Report and the notes to the financial statements.

Chapter A: General Developments in Koor's Business

3. Koor's Operations and Business Developments

- 3.1 Koor was incorporated in 1994 under the laws of the State of Israel. Koor is a public company whose securities have been traded on the TASE since 1956.

Koor is a holdings company. As at the report date, Koor invests directly, through subsidiaries and through its investees, in companies operating in the following sectors: agrochemicals (Makhteshim Agan), finance (Credit Suisse), investment property (HSBC Building holdings), a holding in an investment house (Epsilon) and communications equipment (MNI).¹ Koor examines and invests, inter alia, in companies in which it has a position of control following the investment, and in companies in which Koor does not have a position of control following its investment.

- 3.2 Until June 2007, Koor's ADRs (American Depositary Receipts) were traded on the New York Stock Exchange in the US (NYSE). In June 2007, trade in ADR on the NYSE was discontinued and the ADR program terminated. In May 2008, Koor's ordinary shares were delisted from the US Securities and Exchange Commission (SEC) and the obligation to report to it under the US Securities Exchange Act of 1934, was canceled.

- 3.3 As at the report date DIC holds about 63.08% of the issued ordinary share capital and the voting rights in Koor and IDB Development, the controlling shareholder in DIC, directly holds about 13.35%² of Koor's issued share capital.³

As at the reporting date, IDB Development holds 73.51% of the issued shares and voting rights in DIC. As at reporting date, IDB Development is a wholly owned company of IDB Holdings and is a reporting corporation as the term is defined in the Securities Law.⁴

DIC, IDB Development and IDB Holdings are holding companies incorporated in Israel whose securities are listed on the TASE.

¹ For further information pertaining to other companies and assets which are reported under the segment Others, see section 14 of this part.

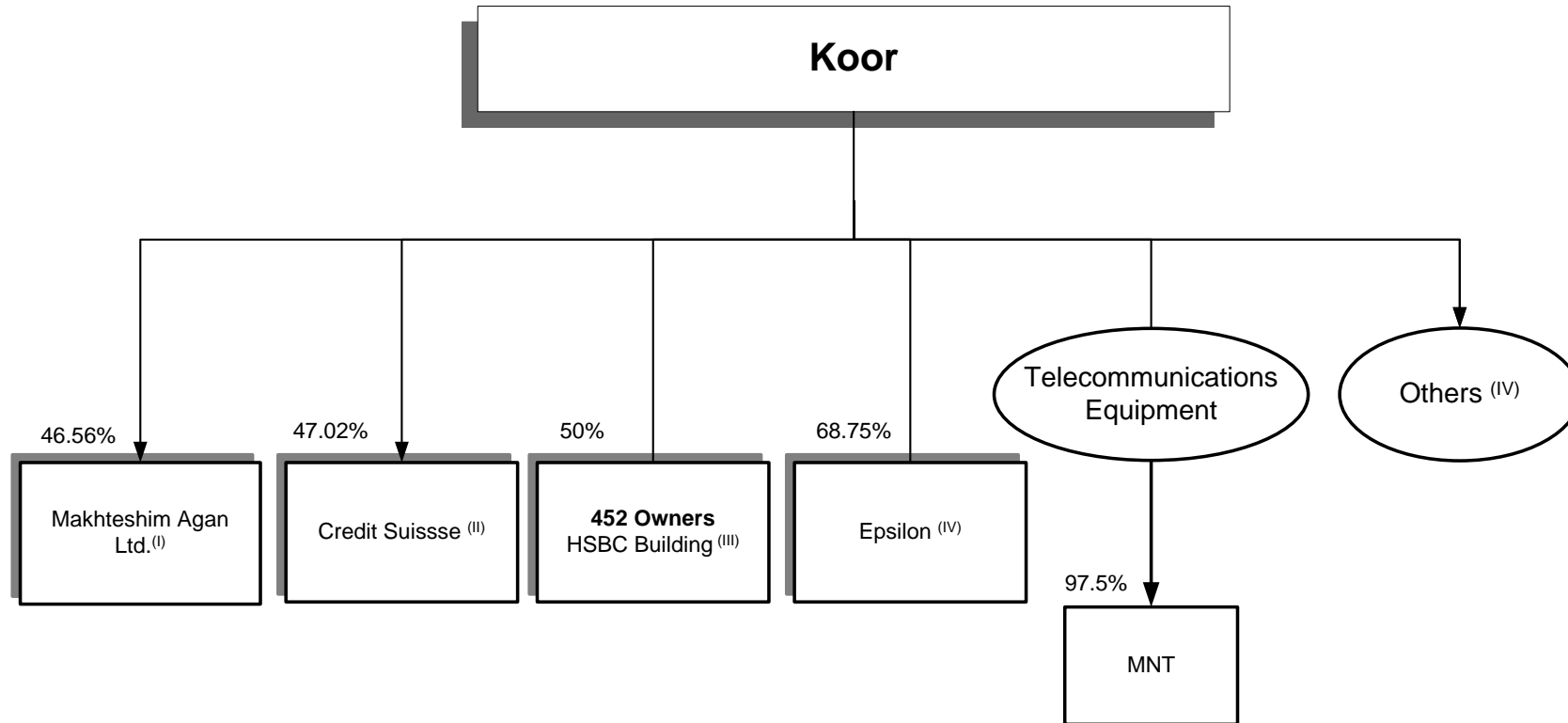
² Koor shares, which are directly held by IDB Development (5 million shares) are pledged in favor of a third party as surety for loans taken by IDB Development.

³ To the best of Koor's knowledge, other companies held or controlled, directly or indirectly, by IDB Holdings, the parent company of IDB Development, hold additional shares of DIC, of IDB Development and of IDB Holdings (primarily through institutional investors) a rate of approximately 4.2%, including profit sharing life insurance accounts, provident funds and jointly-owned investment fund trusts.

⁴ To the best of Koor's knowledge, other companies held or controlled, directly or indirectly, by IDB Holdings hold additional shares of DIC and of IDB Holdings, primarily through institutional investors, including profit sharing life insurance accounts, provident funds and jointly-owned investment fund trusts.

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3.4 The following chart describes the structure of Koor's holdings in key operating companies as at the report date:



- (I) According to IFRS8 tests, Makhteshim Agan is a separate operating segment of Koor. As at reporting date, Koor holds 46.55% of the issued share capital and 47.02% of the voting rights of Makhteshim Agan (for information pertaining to the method for calculating the rate of holdings of Makhteshim Agan shares see footnote to section 9.1 of this part). To the best of Koor's knowledge, other companies held or controlled, directly or indirectly, by IDB Holdings hold additional shares of Makhteshim Agan (see footnote to section 9.2.1 of this part).
- (II) According to IFRS8 tests, Credit Suisse is a separate operating segment of Koor. For further information pertaining to the method for calculating rates of holdings in Credit Suisse shares, see footnotes to section 10.1 of this part.
- (III) According to IFRS8 tests, 452 Owners (HSBC Building holdings) is a separate operating segment of Koor. 452 Owners is a US corporation held in equal shares (50%) by Koor and Property and Building Corporation Ltd. ("Property and Building"), which is a company controlled by DIC.
- (IV) As at December 31, 2010 Koor's holdings in Epsilon was 50%. For further details, see section 12. to this part.
- (V) For further information pertaining to the investment and holdings in the key companies attributed to Others segment, see section 14 of this part.

3.5 Purchase, sale or transfer of assets of significant volume

[A] Makhteshim Agan

In January 2011, Koor announced the signing of a merger agreement with a subsidiary of China National Chemical Group ("ChemChina"), which is the largest Chinese group controlled by the Chinese government, dealing in the chemical and agrochemical industry. Under this agreement and subject to contingent conditions, ChemChina will acquire the public holdings in Makhteshim Agan (53%) for a consideration of USD 1,272 million, and will acquire 7% of Koor's holdings in Makhteshim Agan for a consideration of USD 168 million and Makhteshim will become a private company owned jointly by ChemChina (60%) and Koor (40%). In addition, as part of the transaction, ChemChina is expected to cause the extension of a non-recourse loan to Koor in the amount of USD 960 million which will be secured by Koor's shares in Makhteshim Agan.⁵ If and when the transaction will be closed, Koor is expected to record net gains for the sale of 7% of its shares in Makhteshim Agan of NIS 185 million (this information takes into account debit capital reserves that will be realized in the amount of NIS 60 million).⁶ In addition, Koor will record upon completion of the transaction increased equity for the capital reserves that will be realized in the amount of NIS 60 million. As aforesaid, the closing of the transaction is subject to contingent conditions and there is no certainty that it will be completed. For further particulars pertaining to this transaction see sections 9.2.3 and 9.2.5 [B] of this part and Note 9.A.7 to the financial statements.

[B] Credit Suisse

During the course of 2010, Koor carried out buy and sell transactions of Credit Suisse tradable shares. As of the report date, Koor holds approximately 3.25% of Credit Suisse share capital⁷, at a cumulative investment of NIS 6.97 billion. In 2010, Koor recorded a profit after tax for these transactions in the amount of NIS 14 million. As at the reporting date, in January 2010 Koor's Board of Directors approved a total investment limit for Credit Suisse shares in an amount of up to NIS 7 billion. For further details, see sections 10.2 and -10.3 of this Part.. With respect to the financing arrangements with a Morgan Stanley Group company ("Stanley Morgan") and with a Citigroup company ("Citi") against a lien on Credit Suisse shares, see sections 10.2[A] and [B] of this part, respectively.

[C] 452 Owners

In April 2010 Koor completed a transaction for the joint acquisition with Property and Building, through 452 Owners, which is a US company held in equal shares by them (indirectly), the HSBC building for a total of USD 330 million. Partial financing for the acquisition was extended to 452 Owners by Bank Leumi Le Israel Ltd. ("Bank Leumi") and Bank Leumi USA ("Leumi USA"). For further information, see section 11 of this part and in Note 9 [A] to the financial statements.

With respect to the agreement signed between Koor and Rock Real Estate Partners Limited, including its contents regarding the HSBC building acquisition transaction see Note 29.C.2(4) to the financial statements.

[D] Epsilon

In January 2011, Koor completed a transaction under which it signed an agreement in March 2010 to acquire all holdings of Mr. Ron Levkowitz (and of a company owned by him) in Epsilon (18.75%) for an amount of NIS 28 million, so that subsequent to the foregoing

⁵ For further information concerning a lawsuit and motion to approve it as a class action that was filed against Koor and Makhteshim Agan with respect to the merger transaction with ChemChina, see Note 28.1C to the financial statements.

⁶ These estimates of Koor are based, *inter alia*, on the amount of Koor's investment in Makhteshim Agan as recorded in Makhteshim Agan's financial statements and equity as at December 31, 2010 and on the USD exchange rate on December 31, 2010.

⁷ For further information pertaining to the method for calculating rates of holdings in Credit Suisse shares, see footnotes to section 10.1 of this part.

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transaction, Koor holds 68.75% of the issued and paid-up share capital of Epsilon. For further details, see section 12 to this part.

[E] Others

In November 2010, Koor, Clal Insurance Co. Ltd and Clal Pension and Provident Ltd. (together - "Clal Insurance Group")⁸ signed an agreement according to which they undertook to invest a total amount of USD 250 million (of which USD 125 million is by Koor and USD 125 million is by Clal Insurance Group) in Credit Suisse Emerging Market Credit Opportunity Fund L.P. ("EMCO Fund") which is a private investment fund managed by companies of the Credit Suisse Group for the purpose of investing in emerging markets. For further details, see section 14 to this part.

4. **Operating Segments**

Below is a general description of Koor's areas of operation, according to the classification of the operating segments in the financial statements:

4.1 **Makhteshim Agan**

Under this area of operation, Koor holds shares in Makhteshim Agan. Makhteshim Agan a public company incorporated in Israel whose securities are listed for trading on the TASE and is engaged, by itself and through its subsidiaries and investees, mainly in agrochemicals, in the development, manufacture and marketing of crop protection products (agrochemicals).

For further information pertaining to Makhteshim Agan, including about Koor's agreement with ChemChina for the acquisition of the public holdings in Makhteshim Agan by ChemChina and the sale of part of Koor's holdings in Makhteshim Agan, see sections 9.2.3 and 9.2.5 [B] of this part.

4.2 **Credit Suisse**

Under this area of operation, Koor holds shares in Credit Suisse. To the best of Koor's knowledge, Credit Suisse is one of the leading providers of financial services worldwide, providing financial services through the private banking division, the investment banking division and the property management division. Credit Suisse shares are listed for trade on the SIX Swiss Exchange in Switzerland (SIX Exchange), and Credit Suisse American Depository Shares (ADS) are listed on the NYSE.

For further information relating to Credit Suisse, see section 10 to this part.

4.3 **452 Owners**

Under this segment, Koor holds (indirectly) with Property and Building, in equal share (50% each), hold the shares in 452 Owners which is the owners of HSBC Building, situated on Fifth Avenue, New York City, which includes two buildings of total built up area of 80,000 sq.m.

For further information relating to t452 Owners, see section 11 to this part.

4.4 **Epsilon**

In this segment Koor holds shares in Epsilon (as at reporting date, 68.7%), which deals in providing financial services including management of investment portfolios, mutual funds, provident funds, and underwriting and distribution of securities and investment banking services As at the reporting date, Epsilon manages assets in the overall scope of NIS 8.64 billion.

For further information relating to Epsilon, see section 12 to this part.

4.5 **Telecommunications equipment**

⁸ To the best of Koor's knowledge, Clal Insurance Co. Ltd. and Clal Pension and Provident Ltd. are companies controlled by IDB Holdings.

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Under this segment Koor holds shares in MNI (as at reporting date 97.5%), which operates in the development, manufacture and marketing of point-to-point broadband wireless telecommunications infrastructure equipment.

For further information relating to the telecommunication equipment segment, see section 13 of this part.

4.6 Others

In addition to the foregoing operating segments, Koor has other holdings and investments, including an investment in EMCO Fund⁹; holdings by way of Koor Capital Risk partnership which is wholly owned by Koor; holdings in several companies dealing mainly in software and life sciences; investments in private investment funds; Indivision India Partners and Mustang Mazzanine; financial holdings in certain shares, and holdings in land and real estate the total value of which is not material to Koor. In addition, during the reporting period, Koor held shares in Carrefour, a French company which, to the best of Koor's knowledge, is the largest retailer in Europe and the second largest worldwide, whose shares are traded on the Euronext Paris stock exchange ("Paris Stock Exchange"), financial holdings in certain shares which vary from time to time, and holdings in land and real estate properties the total value of which is not material to Koor.

For further information pertaining to Koor's other operations which are reported under the segment Others, see section 14 of this part.

5. Investments in Koor's Capital and Shares

In 2009, 2010 and 2011 (until reporting date), Koor conducted material transactions with interested parties (off-floor). It should be noted that during that period, additional transactions were carried out on the TASE on Koor shares by interested parties.

5.1 On April 30, 2010 Warrants (Series 2) (non-negotiable) which Koor allotted as part of a private placing in 2005 expired.

On December 31, 2010 the balance of the employee options that Koor allotted under its employee options plan in 2003 expired.

5.2 On May 31, 2010 Koor published a shelf prospectus.

6. Distribution of Dividend

6.1 Breakdown of dividends Koor distributed during the course of 2009-2010 and in 2011 (through to reporting date):

Declaration Date	Distribution Date	Dividend Per Share (in NIS)	Total Dividend (in NIS millions)
May 2009	June 2009	9.11	432
November 2009	December 2009.	7.59	360
March 2010	April 2010	5.69	270

The aforesaid distributions were made in cash and did not require authorization from the courts.

As at December 31, 2010 Koor's profit balance as defined in section 302 of the Companies Law, 1999 (the "Companies Law") amounted to NIS 567 million.

6.2 Koor has an agreement with the banks that it obtained credit from, which includes Koor's undertaking to comply with certain financial ratios regarding, inter alia, minimum equity and market value of certain Koor assets and its debt. As at December 31, 2010, Koor is in compliance with all

⁹ The actual investment was made subsequent to the date of the financial statements.

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these ratios. These conditions are liable to affect Koor's ability to distribute dividends under certain circumstances. See details in Note 17B. to the financial statements and section 17.2 of this part.

- 6.3 With respect to the effect of Koor's distribution of dividends on the rating by Standard & Poor's Maalot Ltd. ("Maalot") and by Midroog Ltd. ("Midroog") for Koor's return on investment capacity of its long-term debt, see section 17.8 to this part.
- 6.4 To the best of Koor's knowledge, under the shareholders agreement in IDB Holdings, the parties agreed, inter alia, to act to the best of their ability and subject to the law, to ensure that IDB Holdings can distribute at least half of its annual profits available for distribution every year to its shareholders. Furthermore, the parties agreed to act to the best of their ability and subject to the law, in such a way that each of IDB Holding's investees ¹⁰ should adopt similar dividend distribution policies. This is provided that no material harm will be caused to the cash flows of these companies or to programs that may be approved or adopted from time to time by the boards of directors of the companies. As at the report date, Koor has not resolved to adopt any policy for distribution of a dividend.

¹⁰ The definition of an investee in the aforesaid shareholders agreement includes, inter alia, the definition of this term as set forth in the Securities (Preparation of Annual Financial Statements) Regulations, 1993.

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Chapter B: Other Information

7. Financial Information Concerning Koor's Operations

For financial information concerning Koor's operating segments see Note 24 to the financial statements.

Below are additional particulars regarding income and expenses from regular operations concerning Koor's reported operating segments (in NIS thousands):

	Costs of segment of operation			Profit (loss) from operating activities attributed to Koor's owners			Profit (loss) from operating activities attributed non-controlling interests		
	2010	2009	2008	2010	2009	2008	2010	2009	2008
Makhteshim Agan ¹¹	8,794,013	8,272,328	7,778,117	(43,685)	141,708	477,081	22,212	291,824	783,231
Credit Suisse ¹²	--	--	--	216,441	2,650,592	574,523	--	--	--
452 Owners ¹³	62,102	340	--	103,398	(170)	--	103,398	(170)	--
Epsilon	47,270 ¹⁴	35,857 ¹⁵	40,857 ¹⁶	8,860	11,082	(29,221)	7,067	12,382	(4,981)
Telecommunications equipment	96,618 ¹⁷	122,093 ¹⁸	255,028 ¹⁹	(3,332)	(8,629)	(46,448)	--	--	--

* This data includes Koor's shareholders share in the profits from operating activities of the subsidiary, less amortization of excess costs that Koor amortizes for its investment in the subsidiary

For a description of developments in the aforesaid financial information see section 1.2 of the Directors' Report.

8. General Environment and the Impact of External Factors on Koor's Operations

Koor is a holding company that holds several investees operating in various business segments.

- **Impact of Investees** Koor's business results primarily consist of and are affected by Koor's share in the business results of its investees, from the sale, acquisition or revaluation of Koor's holdings in these companies and sometimes even from dividends on holdings in available-for-sale assets recorded as revenue, and from Koor's core operations which includes financing income and expenses, administrative and general expenses and income from management fees. Koor's cash flows are affected, inter alia, by dividends distributed by its investees, dividends that Koor distributes to its shareholders, proceeds from the sale of its holdings, additional investments in existing holdings, acquisitions of additional holdings, financing expenses and from repayment of Koor's liabilities, financing income and raising new debt.

¹¹ As at the reporting date, Makhteshim Agan's management is of the opinion that the breakdown of costs for this segment into fixed and variable costs (as required under the Securities Regulations (Particulars of Prospectus and Draft Prospectus – Structure and Form)1969, is irrelevant to Makhteshim Agan's operations and therefore its management does not examine these data and they are not available.

¹² The investment in Credit Suisse is stated in the financial statements as an available for sale asset and therefore the statement of cost figures is not relevant. The profit from operating activities attributed to the owners of Koor from the Credit Suisse segment does not include financing costs (see Note 24 to the financial statements).

¹³ The purchase of the HSBC building was completed in April 2010. The figures presented refer to the period commencing from the date on which the purchase was completed as aforesaid

¹⁴ Of this amount, NIS 28,262,000 are fixed costs.

¹⁵ Of this amount, NIS 23,715,000 are fixed costs.

¹⁶ Of this amount, NIS 23,300,000 are fixed costs.

¹⁷ Of this amount, NIS 26,452,000 are fixed costs.

¹⁸ Of this amount, NIS 29,667,000 are fixed costs.

¹⁹ Of this amount, NIS 95,372,000 are fixed costs.

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For further information concerning the impact of the decreases and fluctuations in the prices of the securities of Koor's investees, see section 2.1.1 of the Directors' Report and section 17.8 of this Part.

- **Timing of sales and changes in financing income and expenses** There are liable to be significant fluctuations in Koor's financial statements for the different reporting periods, mainly due to the timing of disposals made by Koor and its investees, due to volatility and seasonality of Makhteshim Agan's expenses, and due to the changes in the financing income and expenses of Koor and its investees, the scope of which is affected by the scope of their net debt, the linkage of the debt and net financial assets and the rate of the change in the Israeli CPI and the exchange rate of the relevant currency in each reporting period (particularly in CHF).
- **Changes in the capital market trends** Changes of trends in capital markets in Israel and globally may affect the value of assets and the prices of the marketable securities held by Koor (especially of Credit Suisse and Makhteshim Agan) and by its investees, to cause, in certain cases, recorded reduction or losses due to the decline in the value of these holdings, and could also impact their ability to generate capital gains from the sale of those holdings. Moreover, such changes in trends may impair the ability of Koor and its investees to raise capital by private placements or public offerings, or could make it difficult to find the financing sources or financing terms that Koor and its investees may require to finance their ordinary course of business/
- **Economic, security and geo-political situation** The operations of Koor and its investees are affected, inter alia, by capital market conditions, the economic situation in Israel and around the world and the security and geo-political situation in Israel and the Middle East. Israel's security and economic situation may also impact the willingness of foreign entities to contract business with Israeli companies, including Koor investees.
- **Volatility in raw material prices and demand for products** Some of Koor's investees are exposed to fluctuations in raw material prices and demand for their products, which affect the business outcomes of said companies, their performances and the value of their assets and liabilities.
- **Situation in the financial markets** For further information concerning the impact of the situation in the financial markets on Koor's operations see section 2.1.1 of the Directors' Report.
- **Volatility of exchange rates and changes in inflation rates** Koor and its investees are directly and indirectly exposed to market risks due to changes in interest rates, inflation and foreign currency exchange rates.
- For information pertaining to the effect of exchange rate fluctuations and the effect of inflation and interest rate changes in the market on Koor in 2010, see section 2.1.3 of the Directors' Report and Note 26 to the financial statements.
- **Circular pertaining to an investment by institutional organizations in non-government bonds** For further information relating to this circular, see section 2.1.1 of the report.
- **Proper Conduct of Banking Business Regulations** Koor and some of its investees are impacted by the Proper Conduct of Banking Business Directives issued by the Supervisor of Banks in Israel, which includes, inter alia, restrictions on the scope of loans that Israeli banks may extend to single borrowers, to a single borrower group, to the six largest borrowers and borrower groups of the bank (as these terms are defined in the aforementioned directives). Koor, its controlling shareholder and some of its investees are considered to be a single borrower group for this purpose. These restrictions may impair the ability these companies to borrow additional amounts from banks in Israel, their ability to make investments that require bank credit, their ability to invest in companies that took large amounts of credit from certain banks in Israel, and their ability to execute certain business transactions in partnership with organizations that took such credit. To the best of Koor's knowledge, in November 2010 the Supervisor of Banks sent to the commercial banks a draft amendment of the existing guidelines concerning the restrictions applicable to a borrower and a borrower group. The draft includes, certain decrease in the maximum of total debt permitted for a single borrower group at the bank,

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while prescribing the maximum period permitted for reducing existing debts, if required, in the event that the foregoing restriction changes will cause the bank to exceed this restriction.

- **Regulatory Restrictions** Koor and some of its investees are subject to legal restrictions in respect of new investments or increase in investments in investees in certain cases, including the need to receive approvals and permits from various regulatory entities with respect to exceeding the rates prescribed by law. Koor and some of its investees are also subject to legal limitations, or to limitations imposed by different regulatory entities, both in Israel and abroad, in their business operations, such as regulations relating to antitrust, or approvals granted by the tax authorities. Various legal restrictions, or based on guidelines of various regulatory entities as aforesaid, and other contractual limitations may limit Koor's ability, and that of its investees, to take advantage of business opportunities for new investments or for increasing or selling existing investments.

In July 2010 a private bill, prior to preliminary reading, was submitted to the Knesset. Increasing competitiveness and reducing risks in business Groups' operations, 2010. The bill includes, inter alia, certain restrictions on holding means of control in financial institutions and holdings of financial institutions by means of control of other organizations, as well as guidelines concerning the appointment of directors in companies belonging to a business group and applicable tax rates on the distribution of dividends from the company's profits, as aforesaid.

In October 2010 the Prime Minister announced the establishment of a committee to increase competitiveness in the Israeli economy. The committee's task is to propose legislation options for dealing with the economic holdings structure, including, inter alia, examining the issue of the control of non-financial and financial companies and restrictions on the control of public companies through pyramid-type holdings (including through taxation of actions inside the business group). The aim is to attain certain goals that were defined for the committee, including maintaining the stability of the financial system and increasing competitiveness and effectiveness of economic operations.

Such proposed regulatory steps if they will be taken, are liable to essentially impact Koor as well, taking into account restrictions on its holdings structure, the feasibility of distributing dividends from its investees, also due to the taxation aspect, and the nature of the market in which it operates and so forth.

- **Amendment 169 to the Income Tax Ordinance** On December 31, 2008 Amendment 169 was published to the Income Tax Ordinance (New Version), 5721-1961 (Amendment 169) which came into force on January 1, 2009, setting out, among other things, a temporary provision according to which a tax rate reduced by 5% only will be applicable on the income of an Israeli company from dividend received from a foreign resident company, and which was used in Israel during the 2009 tax year or within one year from the date on which the dividend was actually received, whichever is the later, upon application by the company receiving the dividend. For further information see section 9.15 of this chapter.
- **Rating of domestic/global debt** Based on the circular of the Finance Ministry's Supervisor of the Capital Market, Insurance and Savings ("the Supervisor of the Capital Market"), as of July 2009, the ratings companies²⁰ publish a conversion scale between the local and international rating ratings. This, as an initial stage in the process following which the options will be examined to requiring rating companies to rank local companies on the international ratings scale. Maalot published a mapping table comparing the local Maalot rating scale with Standard & Poor's global rating scale and Midroog published a comparative table comparing Midroog's rating scale with Moody's global rating scale. As seen in these published tables, the Company's average rating on the global scale is lower than its rating on the local scale. Nonetheless, the rating companies noted in their publications that the tables should not be interpreted as alternating between the local rating scale and the global rating scale or as enabling the mapping of a specific local rating on the global rating scale.

²⁰ Rating companies that received the approval of the Commissioner of Capital Markets to act as a rating company.

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- **OECD.** In September 2010 Israel joined the Organization for Economic Co-operation and Development ("OECD") as a full member. The OECD is a forum of countries committed to democracy and a market economy which serves as a platform for formulating economic, social and environmental policy and practices. Membership to the OECD indicates the fact that the State of Israel is considered as a "developed country" and complies with the economic and regulatory standards set by the organization. Furthermore, Israel's membership in the OECD is liable to have a positive effect on foreign investors who invest in Israel and on Israel's credit rating.
- **Operations of subsidiaries abroad** Some of Koor's investees have operations outside Israel; market products or services outside Israel; or have their securities traded on non-Israeli stock exchanges. Legislative and regulatory initiatives by foreign powers and exposure to currency exchange rate fluctuations can also impact the results of these companies.
- **Corporate governance legislation** In recent years, and particularly since the publication in December 2006 of the various recommendations of the committee to examine a corporate governance code in Israel (the Goshen Committee), extensive legislative developments in corporate governance are evident. The majority of this Committee's recommendations have been implemented in legislation, standardization, or circulars and guidelines of regulatory bodies or are in various stages of implementation of such procedures including, inter alia:

[A] In December 2009, the Securities Authority issued an amendment to the Securities Regulations (Periodic and Immediate Reports), 5770-1970 pertaining to the effectiveness of internal audit on the financial statements and on proper disclosure in companies required to report under the Securities Law ("**Reporting Companies**"). Internal control consists of two tiers: First, controls and procedures designed to provide reasonable assurance for the Company's management regarding the reliability of financial reporting and the drafting of financial statements pursuant to the provisions of the law – internal control of financial reporting; Second, controls and procedures designed to assure that the information that the Company is required to disclose in its quarterly and periodic reports is collected, processed, summarized and reported in time and in the format prescribed by law and that such information is sent to the management to enable decision making taking into account the disclosure requirements – internal control of disclosure

The full application of the standard concerning the effectiveness of internal audit are applied from the periodic reports for 2010. For further information pertaining to the effectiveness of internal audit at Koor, see the report concerning the effectiveness of internal audit on financial reporting and disclosure in part E of the report.

- [B] In February 2010, the Companies Regulations (guidelines and conditions for the financial statement approval process) 2010 according to which a public company's financial statements, as of the financial statements from 2010 will be discussed and approved by the company's board of directions only after they have been examined by a committee for examining the financial statements and after this committee has formulated its recommendations of the issues involved in the financial statements and sent them to the board of directors. For further details relating to Koor's financial statement approval process, see section 3.5 of Directors' Report.
- [C] A proposed bill, Companies Law (Amendment 16), 2010 was published in March 2011 which includes amendments to the Companies Law regarding corporate governance of companies in Israel and, inter alia, provisions pertaining to the composition of the board of directors, composition of the audit committee and its duties, and increase of the required majority for approving transactions by the general meeting when the controlling shareholder of the company has a personal interest in the transaction.
- [D] In January 2011 the Securities Authority Streamlining of Administrative Enforcement Law (Legislative Amendments), 2011 was published ("the Administrative Enforcement Law"). The law prescribes administrative enforcement procedures for specific types of violations of the laws that the Authority administers, including the Securities Law, the Regulation of

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Investment Counseling Law, the Investment marketing and Investment Portfolio Management Law, 1995 and Joint Investment Trust Law, 1994.

Under these arrangements, various enforcement procedures and means can be applied to the perpetrator, including: Financial sanctions, payment to victims of the infringement, prohibition to serve as a senior officer of regulated organization for a preset period, and cancellation or suspension of license, certificate or permit. In certain cases where the perpetrator is an organization, the law states that the responsibility for the infringement also lies with the CEO, unless certain conditions existed such as measures for preventing the infringement. The law also includes an agreed arrangement mechanism as an alternative for criminal or administrative procedures enabling the enforcement of the said means.

As part of Koor's preparations for these legislative innovations relating to corporate governance, particularly the application of the Administrative Enforcement Law and the amendments to the Securities Regulations (Periodic and Immediate Reports), 1970 with respect to the effectiveness of the internal control of financial reporting and disclosure, Koor acts, inter alia, to adopt the procedures and strict tightening up of its compliance with the provisions of the Securities Law and the other relevant laws and the reliability of its financial reporting and disclosure.

- **Legislature concerning Debentures.** In February 2011, the government published the Companies Law bill (Amendment 15) (Corporate Governance in Debentured Companies), 2011. The bill proposes applying certain corporate governance mechanisms on non-public companies whose debentures (or other securities for exercising to shares) are listed for trading on the TASE, or are offered to the public and are held by the public ("Debentured Companies"), similar to those applicable to public companies, including inter alia, requirements for the appointment of external directors and the establishment of an audit committee and internal auditor. Furthermore, the bill includes proposed provisions (which will also apply to public companies which are debentured companies) with regard to convening of general meetings of debenture holders, the manner of conducting such meetings and voting procedures, proposed provisions about approval processes for a transaction with a controlling shareholder and examining whether such transaction also includes allocation.

In March 2010 the Ministry of Finance distributed a memorandum for amending the Securities Law, in which it proposed, inter alia, provisions with regard to the powers of a trustee for liability notes (debentures) and its obligations towards the holders, including the duty to examine the issuer's compliance with its liabilities to the debenture holders and the duty to give the public reports concerning trusteeship issues, the contents of which will be fixed in regulations. Furthermore, the said bill proposes scenarios where the holders will have the right to call the debentures for immediate repayment and to exercise liens insofar as they may exist. In this regard, it is noted, that debentures that are issued by Koor include generally accepted provisions, inter alia, with regard to the right to call for their immediate repayment, as set forth in Koor's prospectuses, under which debentures are issued, the last of which was a shelf prospectus which was published by Koor in May 2010.

- **Government Ministries and Agencies Budgets** Koor's investees are also affected by, inter alia, budget changes of government ministries and agencies (such as the Chief Scientist Bureau at the Ministry of Trade and Commerce), by government policy decisions in many areas (such as monetary policy) and by requirements such as a significant increase in the minimum wage in Israel, other material changes in labor laws applicable in Israel; and strikes and labor unrest may also impact the financial outcome of Koor's investees.
- **Encouragement of Capital Investments Law** Under the Law for the Encouragement of Capital Investment, 5719 – 1959 (Encouragement of Capital Investment Law), certain Koor investees are entitled to various grants and/or tax benefits, including, in particular, exemption from tax or reduction in tax rates for certain periods, upon their production facilities being granted the status of "approved enterprise" by the Ministry of Industry, Trade and Labor's Investments Center or by the income tax authorities in Israel. The aforementioned benefits are conditional upon the fulfillment of terms set out in the Law for the Encouragement of Capital Investment, in the corresponding regulations, and in deeds of approval granted to these companies by the Investments Center or the income tax authorities in Israel, respectively,

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pursuant to which investments were made in approved enterprises. Non-compliance with such terms could lead to the benefits being revoked, wholly or partially, and to the obligation to repay of the amount of the benefits with the addition of Israeli CPI differentials and interest. Some of Koor's investees received benefits pursuant to the Law for the Encouragement of Capital Investment.

As a rule, certain companies which comply with the provisions of the Capital Investment Encouragement Law are entitled to reduced tax rates or tax exemptions as part of the tax benefits track of the beneficiary enterprise (compared with the "Approved Enterprise" grant track). The income tax authority, and not the Investment Center, is responsible for matters relating to a beneficiary enterprise. Tax benefits that are granted to a beneficiary enterprise (reduced tax rates or full tax exemption for the beneficiary's share of the turnover) is determined according to the development area in which the enterprise is located and in accordance with one of the new tax benefit tracks as set forth in the Capital Investment Encouragement Law. Furthermore, there are rules for splitting the income between the parts of the enterprise that are beneficiaries and the parts of the enterprise that are not beneficiaries and between various beneficiary programs in order to give the tax benefits. In the event of distribution of dividend out of income attributable to tax exempt revenues from an approved enterprise of a company to which the benefits track applies, the relevant company will be required to pay the tax on this income (despite the exemption), at the tax rates stipulated in the Encouragement of Capital Investment Law. In any event, when an approved enterprise distributes dividends, withholding tax of 15% is applied. In respect of taxation on distribution of dividends on income generated from a beneficiary enterprise, a tax rate of 15% usually applies (similar to an approved enterprise) and a full tax exemption will apply to certain tax tracks. The provisions relating to a beneficiary enterprise, as described above, apply to investment programs for which the fiscal year that will determine the application of the benefits, as selected by the requesting company, is from fiscal year 2004 onwards, provided written approval was received before April 1, 2005.

In January 2011 the Economic Policy Law for 2011 and 2012 (Legislative Amendments), 2010 was published, under which the Capital Investment Encouragement Law was amended. This amendment prescribes, inter alia, new conditions for receiving industrial plant status and for canceling certain existing taxation tracks relating to new investment programs by fixing new tax rates which in certain cases are lower and in certain cases are higher than the existing applicable tax rates set in the Capital Investment Encouragement Law. The amendment will apply with regard to enterprises that will be recognized for tax purposes as aforesaid, from 2011 onwards. A company with existing plants that were recognized previously for the purpose of the Capital Investment Encouragement Law will be entitled, under certain conditions, to choose application of the new legislative arrangement in this amendment for all its said plants instead of the current applicable legislative arrangement. Subject to certain conditions, dividends distributed from income deriving from a plant that will be under the new legislative arrangement (whether a new plant or an existing plant for which the company applied the new legislative arrangement) will not be included in the taxable income of the recipient of the dividend.

- **R&D Law** Some of Koor's investees are subject to restrictions to their operations by virtue of grants they received in the framework of a research and development programs approved by the Ministry of Industry, Trade and Labor's Office of the Chief Scientist (Chief Scientist Office). These grants are assigned pursuant to the provisions of the Law for the Encouragement of Research and Development in Industry 5744-1984, and corresponding regulations (R&D Law). Under to the R&D Law, receipt of grants from the Chief Scientist Office imposes restrictions, on the recipients which have to undertake to pay royalties from the sale of products (and related services) based (in whole or in part) on the technology and know-how developed within the framework of the relevant research and development program, up to an amount equivalent to the full amount of the grants received (linked to the rate of the US Dollar and inclusive of interest). Restrictions imposed as part of the receipt of such grants include, inter alia, limitations on the transfer of manufacturing outside of Israel, and transfer of know-how developed with said grants (or based on such know-how) to a third party in Israel or outside of Israel Transfer of manufacturing outside of Israel (beyond the preapproved rate for manufacturing outside of Israel, except when the (cumulative) rate of manufacturing outside of Israel does not exceed

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10% of domestic manufacturing in Israel), is subject to the approval of the Chief Scientist Office and to the payment of increased royalties (except when manufacturing outside of Israel was approved in exchange for import of alternative manufacturing activities into Israel, in which case payment of increased royalties is not applicable). Transfer of knowhow developed with Chief Scientist Office grants (or based on such know-how) to a third party in Israel or outside of Israel, is subject to the approval of the Chief Scientist Office. In general, the transfer of know-how outside of Israel, approved by the Office of the Chief Scientist, is subject to payment of a specific amount (per preset formulas) to the Office of the Chief Scientist or, under certain circumstances, against receipt of alternative or joint know-how within the framework of shared and new research and development. In addition, when the relevant companies receive grants from the Office of the Chief Scientist, they are required to submit ongoing and periodic reports, including reports relating to changes in the identity of the controlling shareholders and foreign interested parties. These restrictions will continue to apply to the relevant companies, also following full payment of royalties for grants received.

- **Environmental Protection** Certain investees of Koor are subject to laws and regulations concerning environmental conditions and product safety, in Israel and in countries where they manufacture and sell their products, including regulations for handling, manufacturing, transporting and using raw materials, as well as emission of pollutants into the environment.

In recent years there has been an ongoing trend of more stringent regulatory requirements for environmental, health and agriculture issues in Israel and abroad, causing a rise in current costs of investments in such operations. By joining the OECD, the State of Israel may have to apply reforms for the purpose of bridging the gaps in issues such as the quality of the environment and prevention of land, water, air and sea pollution respectively, as directed by this organization.

For information pertaining to quality of the environment issues with respect to Makhteshim Agan, see section 9.2.16 to this part.

- **Business Licensing.** A breach of the terms of a business license by Koor's investees or a breach of the Business Licensing Law, 1968 may cause these companies difficulties.
- **U.S. Tax Laws** Under certain circumstances, according to U.S. tax law and subject to the scope of their passive assets and operations, holding companies may be considered passive foreign investment companies (PFIC) under U.S. tax law, and their shareholders may undertake different tax rates from other holding companies. In the event that Koor and its investees are considered to be PFICs by the U.S. tax authorities, this may have an effect on the investments of U.S. shareholders in Koor and its investees, as applicable.
- **Developments in the energy market** The business results of Koor's investees operating in industrial segments (particularly Makhteshim Agan) are significantly impacted by changes in energy and oil prices, particularly changes in the price of oil and oil derivatives and the price and availability of natural gas. Large-scale natural gas reserves were recently found in Israel's territorial waters in the Mediterranean Sea, and according to various estimates, there are other gas reserves in the sea. These discoveries are liable to increase the availability of natural gas in the middle-term for Koor's investees. On the other hand, the political instability of recent months in several of the Middle Eastern countries, including Egypt, could under certain circumstances, adversely affect the availability of natural gas produced in Egypt. For further details, see sections 9.2.11[G] and 9.2.16[F] to this Part.

For information relating to the risk factors that affect the operations of Koor, Makhteshim Agan and Credit Suisse, see sections 23, 9.2.23 and 10.3 [E] to this part, respectively. For information relating to limitations and supervision applicable to Koor and Makhteshim Agan, see sections 19 and 9.2.17 to this part, respectively.

9. Makhteshim Agan

- 9.1 Below are details, as at December 31, 2010, relating to Makhteshim Agan, a company constituting a separate business segment of Koor (in accordance with IFRS8, Operating Segments):

% holding as of	Investment	Investment out of	Contribution to	See further
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31 December 2010	recorded in Koor's books (in NIS million)	Koor's total Shareholders' equity (%)	Koor's net loss (in NIS millions)²¹ [Profit (loss)]	details in the sections
46.55 ²²	2,367	80%	(287)	9.2

Below is financial information from Makhteshim Agan financial statements (in USD millions) as at December 31, 2010 (Makhteshim is an associate company of Koor):

Revenue in 2010	Loss attributed to Makhteshim Agan's owners in 2010	Equity attributed to Makhteshim Agan's owners as at December 31, 2010	Total assets as at December 31, 2010
2,362	(132)	1,131	3,719

9.2 Makhteshim Agan Industries Ltd.

9.2.1 Makhteshim Agan is a public company incorporated in Israel in 1997 and whose shares are traded on the TASE since 1998.

As of the report date, as noted, Koor is the principal shareholder in Makhteshim Agan holding 46.55% of the share capital and 47.02% of the voting rights in Makhteshim Agan.²³

9.2.2 Makhteshim Agan (and its investees) specialize in the chemical industry and as at the reporting date, it focuses primarily on the agricultural chemical industry (agrochemicals). Within this industry, Makhteshim Agan operates in a primary sector, namely crop protection products, which, in 2010 comprised about 92.3% of Makhteshim Agan's turnover, and includes development, manufacture and marketing of primarily generic crop protection products ("the Crop Protection Products Segment"). Generic products are products that are similar in their components to products developed by third parties whose intellectual property rights have expired.

Furthermore, Makhteshim Agan is engaged, in non-significant amounts, in additional operations, based on its core capacities (in the agricultural and chemical sectors) which are non-agro operations, which as at the report date are not in material amounts, and which jointly accounted for about 7.7% of Makhteshim Agan's turnover in 2010. These activities primarily include the manufacture and marketing of dietary supplements and ingredients for food enrichment, aromatic products for the perfume, cosmetic, body care and detergent industries, manufacture of industrial chemicals and other non-material operations. A large part of Makhteshim Agan's products in these additional operations are ethical products developed by Makhteshim Agan. Furthermore, as part of its foregoing operations, Makhteshim Agan routinely examines additional opportunities for developing or marketing ethical products. As at the report date, none of these activities, in and of itself, is significant for Makhteshim Agan.

9.2.3 In January 2011, Makhteshim Agan signed a merger agreement ("the Merger Agreement" or "the Merger Transaction"), the parties in which are: Koor and MAGM Chemical Holdings Ltd., a wholly owned subsidiary of Koor (together with Koor – "Koor companies"), Makhteshim Agan, ChemChina and Cinac Merger Sub Ltd., a private company wholly owned (indirectly) of ChemChina, which was established in Israel for the purpose of carrying out the merger

²¹ In this matter, contribution to profit means Koor's share in Makhteshim Agan's profits (loss) (taking into consideration amortization of excess cost pertaining to investment in Makhteshim Agan in Koor's books) for the reported period.

²² Koor's rate of holdings in the issued share capital of Makhteshim Agan (eliminating Treasury shares owned by Makhteshim Agan itself). As of December 31, 2010 Koor holds 47.03% of the voting rights in Makhteshim Agan (eliminating Treasury shares, some of which are owned by Makhteshim Agan and some by its wholly owned subsidiary).

²³ Furthermore, as at the date of this report, DIC directly holds approximately 0.24% of Makhteshim Agan's issued share capital and its voting rights. To the best of Koor's knowledge, other companies held or controlled, either directly or indirectly, by IDB Holdings hold additional Makhteshim Agan share, in lower rates, primarily through institutional investors, including profit sharing life insurance accounts, provident funds and joint investment in trust, and private companies controlled by Ruth and Yitzhak Manor, the indirect controlling shareholders in Koor, hold additional Makhteshim Agan shares in negligible amounts.

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agreement("the Designated Company"). Under the merger agreement, and subject to compliance with the preconditions for closing, ChemChina will purchase Makhteshim Agan's shares which on the closing date of the transaction constitute 60% of the issued and paid up share capital of Makhteshim Agan (this includes all public holdings as well as shares from Koor, which will constitute approximately 7% of the issued and paid up share capital of Makhteshim Agan). Upon completion of the Merger Agreement, Makhteshim Agan's shares will be delisted from the TASE and Makhteshim Agan will become a private company, 60% of which will be held by ChemChina and 40% by Koor Corporation. However Makhteshim Agan will continue being a reporting company, as this term is defined in the Securities Law. In addition, as part of the transaction, ChemChina is expected to ensure that a non-recourse loan to Koor will be extended to Koor in the amount of USD 960 million which will be secured by Koor's shares in Makhteshim Agan.²⁴ For additional information pertaining to the merger agreement and its supplementary agreements, and pertaining to the contingent conditions for completing the transaction, see section 9.2.5[A] of this Part. As noted, the transaction is subject to preconditions and it is uncertain if it will be closed.

9.2.4 During the course of the period from 2000 through 2010, Makhteshim Agan expanded its operations in Western Europe, East Europe, the USA, Australia, Latin America and Asia particularly through the acquisition of companies operating in its area of operations and the acquisition of licenses and distribution rights for the products of diverse companies.

Furthermore, since 2009, Makhteshim Agan began operating directly in the Indian market, which as an important marketing target as part of the growing Asian markets, and established a local marketing company there. It also began operating in a similar manner in Canada.

In addition, in September 2009 Makhteshim Agan signed a strategic collaboration agreement with Cibus Global Limited ("Cibus"), to establish a joint venture with the objective of developing improved traits in five key agricultural crops. For further information, see section 9.2.18 to this part.

In addition, on October 19, 2010 Makhteshim Agan engaged into a strategic joint venture agreement with Monsanto Co. ("Monsanto"), a company specializing in non-selective herbicides, with respect to the inclusion of several herbicides sold by Makhteshim Agan, in Monsanto's seed treatment program ("the Weed Management Program"). For further information, see section 9.2.18 to this part.

As at the report date, as part of the forgoing manner of operation and strategic goals (see section 9.2.21 to this part) Makhteshim Agan continues to examine, from time to time, collaborating or acquiring various companies, operations and products in the chemical, agricultural and seed industries, which are its areas of expertise, in its areas of operations and core activities.

In addition, during the course of 2010 Makhteshim Agan started applying a comprehensive strategy change plan intended to adapt its business operating model to changes in the competitive environment of the industry and to substantially strengthen its areas of operation. As part of applying the changes in the strategic plan, changes in the organizational structure were completed, including new positions, by redefining the various geographic regions in which Makhteshim Agan operates, its core organization-wide processes and supporting global functions. For further information, see section 9.2.21 to this part.

Makhteshim Agan began streamlining its production plants, purchasing and supply chain, in order to improve the costs structure of the products sold by Makhteshim Agan, to improve operating flexibility and to make better use of its wide global deployment. As part of this process, in October 2010, Makhteshim Agan signed an memorandum of understanding with the New General Federation of Workers, under which, inter alia, voluntary early retirement of employees in Israel was agreed upon. For further information, see section 9.2.12 to this part.

²⁴ For further information concerning a lawsuit and motion to approve it as a class action that was filed against Koor and Makhteshim Agan with respect to the merger transaction with ChemChina, see Note 1.28 C. to the financial statements.

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Makhteshim Agan has implemented a re-organization with regard to Milenia, Makhteshim Agan's subsidiary in Brazil, which includes substantial adjustment of the workforce, significant reduction of production operations at one of Milenia's production sites and partially at the another production, and switched a line of products from self-production to outsourcing, while lowering overheads. For further information, see section 9.2.22 to this part.

Acquisition of companies by Makhteshim Agan During the course of 2010 and 2011 until the reporting date, Makhteshim Agan completed, on its own and through its subsidiaries, acquisition of holdings and/or operations in various companies operating in Makhteshim Agan's areas of operation, including: A company of the Mexican Bravo AG group that deals in the manufacture and distribution of copper-based insecticides, the Korean company, JK Inc that deals in formulation²⁵ and distribution of crop protection products for the Korean market, and increased holding in Proficol (75%), the Columbian company dealing in the formulation and distribution of crop protection products in South America.

9.2.5 **Investments in Makhteshim Agan's share capital and transactions in its shares.**

[A] Makhteshim Agan's engagement in the merger agreement

In January 2011, Makhteshim Agan signed the merger transaction.

On January 20, 2011 Koor published an immediate report (Ref. No.: 2011-01-024453) to which the report issued by Makhteshim Agan on same date was attached, pursuant to Securities (Transaction between a Company and a Controlling Shareholder therein) Regulations, 2001 and whereby the information in it is noted in this report by way of reference ("the Transaction Report"). For further information about the merger agreement and its terms, pertaining to the other agreements between the parties to the merger agreement or some of them, and regarding the opinion Makhteshim Agan received about the fair merger consideration for the shareholders of Makhteshim Agan (including the value of the benefit attributed to Koor with regard to the loan agreement), see the transaction report and Note 9.A.7 to the financial statements. For further information pertaining to Makhteshim Agan's plans following the merger, see section 9.2.21 of this Part and to Note 9A7 to the financial statements.

As part of the merger transaction, the parties to the merger transaction, or some of them, as the case may be, and as set forth below, engaged in other agreements as follows: (1) A loan agreement will be signed between ChemChina, Koor and a Chinese bank according to which ChemChina will ensure a non-recourse loan to be extended in favor of Koor through the Chinese bank, in the amount of USD 960 million, which will be assured by lien on Makhteshim Agan shares that will be held by Koor and will be repayable in cash or by way of the attached shares; (2) On the date of the signing of the merger agreement and in connection thereto, Koor and ChemChina will sign a voting agreement and a shareholders agreement; (3) by the closing date (see below), additional agreements will be signed in connection with the merger, including a trust agreement between the parties and a registration rights agreement between Makhteshim Agan, Koor and ChemChina.

Under the merger agreement Makhteshim Agan undertook that during the interim period, from the signing of the merger agreement through to the date of closing of the merger (or date of cancellation of the merger agreement, the earlier date) and other than what is noted in Makhteshim Agan's budget for 2011, and as excluded in the merger agreement and its appendices, Makhteshim Agan and its subsidiaries will continue its normal course of business, and including Makhteshim Agan's undertaking not to perform certain actions during the interim period without receiving consent of ChemChina, in accordance with the conditions prescribed in the agreement.

Closing of the merger will take place immediately after compliance with all the merger terms as required prior to the closing date (or waiving of a contingent condition by the party permitted to waive any contingent condition under the merger agreement. The merger

²⁵ Adapting the active ingredient into a product for agricultural use.

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agreement prescribes that if the merger is not closed by August 31, 2011 (or a later date under certain conditions as set in the agreement), the agreement may be canceled by any of the parties. The merger will become effective on the date of receipt of the merger certificates from the Registrar of Companies. It is clarified that there is uncertainty regarding the completion of the merger agreement.

- [B] Other than signing the merger agreement as set forth in section 9.2.5[A] to this part, to the best of Makhteshim Agan's knowledge, during the course of 2009 and 2010, the controlling shareholders of Makhteshim Agan did not engage in any material off-floor transactions with Makhteshim Agan shares.²⁶

During the course of 2009, 2010 and 2011 through to the reporting date, Makhteshim Agan employees exercised options for Makhteshim Agan shares, totaling approximately 0.03% of Makhteshim Agan's issued shares (0.01% of Makhteshim Agan's issued share capital during the course of 2010).

- [C] Buy back of Makhteshim Agan shares

As of the reporting date, Makhteshim Agan holds its own shares constituting 8.4% of its issued share capital. In addition, a subsidiary of Makhteshim Agan holds shares of Makhteshim Agan constituting about 1.02% of Makhteshim Agan's issued share capital.²⁷ It is noted that a contingent condition for closing the merger agreement is, inter alia, that all Makhteshim Agan shares held directly or indirectly by Makhteshim Agan or by its subsidiaries will be canceled by the closing date of the merger.

- [D] Rights issue by Makhteshim Agan

In March 2010, the general meeting of Makhteshim Agan's shareholders approved the exclusion of the foreign holders of its securities from any issue of securities by way of rights, that may result in the applicability of the laws of the foreign country on Makhteshim Agan as well.²⁸

9.2.6 Distribution of dividends

- [A] Below are particulars relating to dividends distributed by Makhteshim Agan during the course of 2009, 2010 and 2011 (through to the reporting date):

Year of approval and distribution	Amount distributed (in USD millions)	Koor's share in the distribution (in NIS millions)
2009	70	109

The above distribution was made in cash and did not require authorization from the courts.

- [B] The balance of distributable profits under Makhteshim Agan's financial statements as at December 31, 2010 amounts to USD 611 million.²⁹

In March 2007 Makhteshim Agan decided that the Board of Directors would examine from time to time, at its sole discretion, possibilities of distributing dividends in Makhteshim Agan and their scope, based on its needs as they may be from time to time, its cash flow and anticipated investment plan in it, contingent upon the existence of appropriate distributable earnings and the provisions of the law. Under the amendment to the January 2010 securitization agreement as set

²⁶ In March 2010 Makhteshim Agan sold 24 million treasury shares of Makhteshim Agan to a subsidiary at NIS 16.55 per share. In December 2010 Makhteshim Agan acquired 24 million treasury shares of Makhteshim Agan from the said subsidiary at NIS 16.01 per share.

²⁷ For further information pertaining to the sale of shares from the subsidiary to Makhteshim Agan and from Makhteshim Agan to its subsidiary during 2010, see footnotes to section 9.2.5[B] to this part.

²⁸ In May 2010, Makhteshim Agan's board of directors resolved not to make an issue of shares by way of rights to Makhteshim Agan's shareholders, for which a resolution in principle was adopted in March 2010.

²⁹ For further information pertaining to taxation applicable on these profits see section 9.2.15 to this Part.

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forth in section 9.2.13(D)[2] to this part, so long as the ratio of interest-bearing financial liabilities to EBITDA will not exceed 3.3, Makhteshim Agan shall not distribute dividends to its shareholders and will cause its subsidiaries to refrain from distributing dividends to its shareholders and or to make any other distribution, and shall not pay management fees other than during the normal course of business and at market terms.

Under the merger agreement, Makhteshim Agan undertook that during the interim period, from the signing of the merger agreement through to the date of closing of the merger (or date of cancellation of the merger agreement) not to distribute a dividend to the shareholders without consent of ChemChina, as set in the agreement. If and when the merger transaction will be closed, the provisions of the provisions of the shareholders agreement between ChemChina and Koor with respect to Makhteshim Agan's dividend distribution policy will become effective (as set forth in section 2.5.3 of the transaction report).

9.2.7 Financial information. Below is financial information relating to Makhteshim Agan's operations (in NIS millions)³⁰

	2010		
	Agrochemical products	Other operations	Total
Segment income	2,180	182	2,362
Segment costs ³¹	2,198	158	2,356
Profit from operating activities attributed to Makhteshim Agan owners	(18.2)	24.2	6
Profit from operating activities attributed non-controlling interests	0.24	-	0.24
Profit margin from operating activities (%)	(0.8%)	13.3%	0.3%
Total assets as of December 31	2,690	205	
Total liabilities	477	26	503

	2009		
	Agrochemical products	Other operations	Total
Segment income	2,042	172	2,215
Segment costs	1,945	150	2,095
Profit from operating activities attributed to Makhteshim Agan owners	95.4	22.3	118
Profit from operating activities attributed non-controlling interests	1.89	0.14	2
Profit margin from operating activities (%)	4.8%	13%	5.4%
Total assets as of December 31	2,605	216	
Total liabilities	544	20.5	564

	2008		
	Agrochemical products	Other operations	Total
Segment income	2,335	201	2,536
Segment costs	1,996	172	2,168
Profit from operating activities attributed to Makhteshim Agan owners	336	29.1	365
Profit from operating activities attributed non-	1.81	0.1	1.92

³⁰ As at the report date the total and the rate of revenue and gains from sales among Makhteshim Agan segments of operation is negligible.

³¹ At the reporting date, Makhteshim Agan's management is of the opinion that the breakdown of costs for this segment into fixed and variable costs (as required under the Securities Regulations (Particulars of Prospectus and Draft Prospectus – Structure and Form)1969, is irrelevant to Makhteshim Agan's operations and therefore its management does not examine these data and they are not available.

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	2008		
	Agrochemical products	Other operations	Total
controlling interests			
Profit margin from operating activities (%)	14.5%	14.5%	14.5%
Total assets as of December 31	2,632	223	
Total liabilities	507	33.9	541

With respect to a description of developments in Makhteshim Agan’s financial information, see Section 1.2.2.1 of the Directors Report.

9.2.8 **General environment and effects of external factors on the activities of Makhteshim Agan.**³²

Makhteshim Agan’s activity is influenced by a variety of external factors, as outlined below, and particularly by factors that significantly impact the situation of the world agriculture market in general and specifically in countries in which Makhteshim Agan operates:

Demographic changes, economic growth and rising standard of living: The multi-annual growth in the global economy, increasing populations, urbanization and the rising standard of living in recent years in populations around the world, particularly in developing countries has led to both an increase in the quantities of food consumed in general and consumption of animal-derived products. Accordingly, there is a trend towards increased demand for agricultural crops for the food industry, so that the demand for said quantities of food can be met, and for increasing demand for plant crops that are a source of plant protein (cereals, corn and soybeans). This demand led to growth in the agricultural sector, together with the stable extent of planting areas (the maximum area of which around the world is limited), to a decline in the expanse of land available for crops (inter alia, due to the need for these lands for establishing new cities) and at the same time to steps to increase the yield per unit, increase productivity of each farmer and improve the quality of the crops. The rise in standards of living in the emerging markets is expected to further increase the consumption of food products, including consumption of meat products, and as a result lead to an increase in the consumption of grains.

Prices of agricultural produce: In 2010, particularly towards the end of the year, the prices of agricultural produce started to increase and almost reached their peak prices in 2008. The global population growth, multi-annual rise in standard of living worldwide and changes in nutritional habits, especially in developing countries such as Brazil, China and India, where the growing demand for food in general and animal-derived products in particular, have increased the demand for agricultural produce. At the same time, the area of planted crops worldwide has remained relatively stable over time, requiring action to increase the yields of the existing crop areas. In this regard it is noted that in 2010, extreme weather conditions such as fires in Russia, extended winter and floods in Europe and extreme cold in North America caused a decline in agricultural productivity and inventories. As a result of the foregoing and in order to address the growing demand for agricultural produce, the demand for Makhteshim Agan's crop-protection products which are necessary for the protection of the agricultural crops from diseases and which contribute to the maximum crop period of existing planted areas is discernible. Nonetheless, the higher the prices of agricultural produce increases its profitability to the farmers, so that the feasibility of increasing protection of the crops rises accordingly and the demand for crop protection products also rises accordingly. Makhteshim Agan estimates that in the long term, the relative stability of the extent of planted areas, population growth and rising standards of living will continue to have positive impact on the demand for its products in this segment.

³² Makhteshim Agan’s estimates in this description are, among other things, based on published data but not independently checked by Makhteshim Agan, in (1) Phillips McDougall – an independent consultancy engaged in agriculture, crop protection and biotechnology - /http://www.phillipsmcdougall.com (data received by Makhteshim Agan in February 2011); (2) Cropnosis – a provider of market research and consultancy services in the crop protection and biotechnology sectors - /http://www.cropnosis.com; and (3) United States Department of Agriculture – USDA – /http://www.usda.gov/wps/portal/usdahome - Agriculture.

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Material changes in global oil prices: In 2009 and 2010, prices of oil and oil derivatives began to increase, however, the price of oil still remains lower than the peak prices reached during the course of 2008. In the world market, in the areas in which Makhteshim Agan operates, the price of oil has several cumulative effects: (1) Approximately 75% of the selling costs of Makhteshim Agan products are for the purchase of raw materials, which are chemicals produced, generally, as a third or fourth derivative of oil. Consequently, an extreme increase in world oil prices leads to an increase in the price of said chemicals (and as a result influences the Makhteshim Agan's selling costs), but this increase only applies in part in light of the fact that they are distinct oil derivatives. It should be noted that such impacts are generally seen in Makhteshim Agan's results only several months later; (2) Furthermore, oil is used by the companies in this field as a source of energy for operation of the manufacturing facilities and transportation (marine and overland) of products. A rise or fall in world oil prices impacts directly, fully and immediately on the costs of using said source of energy. However the scope of these expenses is low compared to the expenses attributable to the costs of using oil derivatives as raw materials, as outlined above.

Makhteshim Agan signed a multi-annual contract for the supply of natural gas for the Group's production plants in Ashdod and Ramat Hovav, and Makhteshim Agan is currently in advance negotiations for the purchase of natural gas from alternative sources. When the supply under these contracts begins, natural gas will also be used as part of the energy sources used in Makhteshim Agan's production processes and therefore the developments in the gas market which affect its price and availability could have an impact on Makhteshim Agan's businesses. Large-scale natural gas reserves were recently found in Israel's territorial waters in the Mediterranean Sea, and according to various third party estimates, there are other gas reserves in the sea. These discoveries could, for the mid term, provide Makhteshim Agan with other sources of natural gas. On the other hand, the political instability of recent months in several of the Middle Eastern countries, including Egypt, could under certain circumstances, adversely affect the availability of natural gas produced in Egypt. For further details, see section 9.16 of this Part.

Development of the Genetically Modified Organism (GMO) market: Over the past decade genetic engineering technology to improve crop seeds has developed, which has affected and will likely continue to affect demand in the chemical and agrochemical market in which Makhteshim Agan operates. As a result, agricultural advances have developed, affecting the increased use of crop protection supplementary products. Furthermore, increasing the farmers' tendency to protect their crops, which yield more per given planted area. As a result of developments in the genetically engineered seed market, the price of certain crop protection products has eroded, which led to an increase in the demand for non-selective products at the expense of selective products, while generating pressure on their profitability. Makhteshim Agan takes the necessary steps to adapt its product mix and because of this markets herbicides adapted to crops grown with genetically engineered seeds. In this context, Makhteshim Agan engaged in a joint venture in 2009, which aims to develop improved traits in agricultural crops. Furthermore, in 2010 Makhteshim Agan signed and a strategic collaboration agreement with Monsanto - for further details see section 9.2.18 of this Part.

Expiration of patents and a rise in the number of generic products: According to Makhteshim Agan, in recent years the market share of patent-protected ethical products for crop protection has experienced a steady decline due to the expiration of patents and the smaller number of new ethical products. As a result, the potential was created for an increase of generic companies for the development of new generic products to replace the ethical products whose patents have expired. However, the growth potential for general products worldwide generates fiercer competition for market share, including from the ethical companies, and may even lead to price erosion of product prices.

The chemical industry in China, including the agrochemical industry: During the course of the past decade, the chemical industry in China has developed and Makhteshim Agan estimates that it is the second largest such industry worldwide, after the United States. The agrochemical industry developed as part of this industry, and includes thousands of players which invested in production infrastructures, and today approximately half of their production capacities are directed to export for selling via small and large companies that are competitors of Makhteshim Agan. The increased

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production capacity on the one hand, the price level and competition with the products manufactured in China on the other, affect the competition structure in the entire industry.

The agriculture market and tough weather conditions: Weather conditions during the agriculture season in each of the countries in which Makhteshim Agan is active has a direct impact on the demand for its products. This is due to the fact that its Crop Protection products are designed, primarily, for the agriculture market.

Environmental protection: Makhteshim Agan's area of activity is subject to strict environmental regulation that is becoming ever stricter. With respect to Makhteshim Agan's production processes and production environment, the requirements vary by country in all of the countries in which Makhteshim Agan operates. Additionally, approvals from the health, environment and agriculture authorities in the various countries are required for use of Makhteshim Agan products. In recent years there has been a trend towards ever-stricter ecological, health and agricultural regulatory requirements in various countries and in Israel (and with regard to Makhteshim Agan), leading to an increase in Makhteshim Agan's ongoing investments and costs. This has caused an increase in Makhteshim Agan's total investments and current costs, Makhteshim Agan invests material amounts in development and licensing as well as in upgrading the production and ecological facilities, inter alia, to comply with said regulatory requirements.

Licensing: Makhteshim Agan's area of activity is subject to licensing requirements for its products in each of the countries in which it operates. In addition, Makhteshim Agan is required, from time to time, to renew the licenses it has. Stricter or laxer licensing requirements increase or decrease, respectively, the costs of companies that want to receive licenses for their products. Furthermore, stricter licensing requirements make it difficult for new companies to enter new markets and strengthens the companies with licenses in said markets, and vice versa. Therefore, Makhteshim Agan estimates that in the countries in which it has a competitive edge, stricter licensing requirements may increase its edge, and visa versa. Furthermore, changes in licensing requirements for the registration of chemicals in Europe or customer preferences in developed western countries which may limit the use of the raw materials purchased by Makhteshim Agan in emerging markets will require Makhteshim Agan's procurement system to make changes and this may hurt its profitability for a certain period.

Government policy: Governments around the world at times use subsidies and/or other forms of government support as an incentive or to reduce development of the agriculture sector in that country. The nature of the government policy and, as a result, the extent of planted areas in that country, impacts on the demand for and prices of Makhteshim Agan products. As of the report date, governmental policies had not had a material impact, positive or negative, on Makhteshim Agan results.

Given Makhteshim Agan's international nature, its import and export activity is subject, inter alia, to the requirements and standards for their approval in the different countries. Furthermore, the release of substances or products from the customs and port authorities requires receipt of approval. If said requirements and standards become much stricter, this may make the import of raw materials and export of Makhteshim Agan products more difficult and may even hurt Makhteshim Agan's profitability.

World ports: Import and export of products or raw materials of international companies in Makhteshim Agan's area of activity are primarily dependent on the services of ports around the world. Strikes or work stoppages at the various international ports, loads, weather conditions or faulty infrastructure at specific ports may cause a delay in the supply of Makhteshim Agan products and the unavailability of the raw materials it requires. This could negatively impact on Makhteshim Agan's ability to meet its commitments to its customers and the deadlines defined. Thus, it could hurt its credibility and reputation. To minimize said risk, from time to time Makhteshim Agan adjusts the amount of its product inventory and sometimes uses air transport.

Fluctuations in foreign exchange rates: Makhteshim Agan prepares its consolidated financial statements in USD (Makhteshim Agan's functional currency), while its activity, sales and purchases of raw materials are done in various currencies. Therefore, fluctuations in the exchange

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rate of the purchasing currency against the sales currency, as the case may be, impacts on Makhteshim Agan's results, especially due to two key factors: (1) the dollar strengthening against other currencies in which Makhteshim Agan operates reduces the volume of its dollar sales and profitability, and (2) the extreme volatility of exchange rates for the currencies in which Makhteshim Agan operates, increasing hedging costs for protection against currency exposure and therefore also increasing Makhteshim Agan's financing costs. As at the Report Date, Makhteshim Agan regularly monitors currency exposure from said fluctuations, and takes steps to hedge most of the material net exposure to a specific currency by means of derivative financial instruments. At the same time, since as part of these activities Makhteshim Agan hedges most of its balance sheet exposure and only part of its financial exposure, aforesaid extreme currency exchange rate volatility is liable to impact, positively or negatively as the case may be, Makhteshim Agan's outcomes and profitability.

Fluctuations in the Israeli CPI: Makhteshim Agan finances its business activity both through shekel-denominated, CPI-linked loans, such as debentures issued in Israel. Therefore increases in the Israeli CPI as well as changes in the exchange rate of the shekel may materially impact Makhteshim Agan's financing expenses. As at the report date, Makhteshim Agan's policy is to hedge most of said risk through derivative financial instruments. The Board of Directors Makhteshim Agan may, from time to time, should the circumstances change, or at its discretion, change this policy.

Circular pertaining to an investment by institutional organizations in non-government bonds

For further information see Section 2.1.1 of the Directors' Report. Makhteshim Agan estimates that the provision of the circular may have implications on the options and terms for raising capital from institutional entities by way of debentures.

It should be noted that Makhteshim Agan's business activity and its results may also be influenced, positively or negatively, by the factors specified in this section in the future. The extent of the effect, if any, is dependent, inter alia, on the strength of the events, their length and Makhteshim Agan's ability to deal with them. For further information relating to risk factors pertaining to Makhteshim Agan, see section 9.2.23 of this Part.

The steps Makhteshim Agan takes to prepare for an increase in the standard of living, prices of commodities, prices of raw materials, legislative developments and the impact of these factors on its development are forward-looking statements as defined in the Securities Law. They are based on the information and data Makhteshim Agan has, research and publications as outlined in this section and on Makhteshim Agan's assessment on the Report Date as to the impact of the market trends on supply and demand for its products. This information is uncertain and is dependent, inter alia, on additional factors that are not under the control of Makhteshim Agan, including action by its existing and potential competitors, global economic regulatory processes and in the different countries and by the economic situation in said countries. Said steps by Makhteshim Agan may not be taken if it turns out that the information and data, as aforementioned, are erroneous or if other factors, out of Makhteshim Agan's control, impact on said supply and demand.

9.2.9 Crop protection products (Agrochemical).

Makhteshim Agan's crop protection products include research, development, manufacturing and marketing of products that improve yield quantity and quality of crops by protecting them from the harmful or destructive effects of a range of weeds, insects and fungi. Crop protection products include ethical products – developed by leading companies in the field (research-based companies, as described below) and are protected by patent; generic products, such as Makhteshim Agan's products, which are similar to the original product, the license of which has expired (in terms of the composition of the materials and how they work) that are manufactured by generic companies.

As of the Report Date, Makhteshim Agan sells its product in this area in 120 countries around the world and locally, as a leading international company in the manufacture and distribution of generic crop protection products.

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The crop protection products are primarily used in the agricultural market and on crops. Nonetheless, Makhteshim Agan uses its expertise to develop and adapt similar products for use in **non-crop** areas, to protect against weeds, diseases and pests.

Legislative and standards restrictions and special constraints applying to the area.

Makhteshim Agan's activity is subject to legislative restrictions and constraints related to licensing and environmental protection, and the requirement for permits from government offices, such as the Ministry of Health, Ministry of Agriculture and Ministry for Environmental Protection in the countries in which it operates.

Trends and changes in the scope of activity and profitability in the area.

According to information Makhteshim Agan received from Phillips McDougall,³³ Makhteshim Agan estimates that more than 70% of the world market for crop protection products is controlled by six large multinational research-based companies that develop and manufacture the ethical products and register patents on the rights included in the research in most countries around the world ("Ethical Companies"). Furthermore, since the validity of the patents for some of the products of the ethical companies have expired, the ethical companies also sell products whose patents have expired (constituting as at the reporting date, a substantial part of the products sold by the ethical companies. Between 1995-2002, there was major consolidation among ethical companies. Makhteshim Agan believes that the merger between Ethical Companies is designed to create worldwide economies of scale vis-à-vis competition, while generating operational efficiency and expansion of the scope of R&D investments. As at the report date, Makhteshim Agan is in seventh place worldwide (among ethical and generic companies) in terms of total sales turnover, with annual sales amounting to USD 2,362.2 million in 2010 (of which USD 2,179.9 million was in the crop protection products market), and it is the largest generic company in the world in its field. However, it should be noted that a significant portion of Ethical Company sales are of products whose patents have expired and which they continue to sell.

To cope with the strengthening of the Ethical Companies due to said consolidation process, large companies, which are not ethical companies, have begun strengthening their position through the acquisition of local medium-sized distribution companies or creating partnerships with other medium-sized companies, in a manner that streamlines and reduces the price of licensing processes and helps penetration of new markets. Furthermore, in light of said consolidation process and due to the large market shares controlled by the merging companies as a result, the anti-trust authorities in the various countries at times conditioned said merger upon the sale or waiver of certain product lines from the product baskets if the merging companies. Sometimes, said companies even gave up certain products for strategic reasons. This opened up opportunities to other companies in the area of activity, including Makhteshim Agan to purchase these products and expand their product portfolios.

The crop protection products segment is impacted by a variety of external factors, as outlined in section 9.2.8 to this part, and particularly by factors that significantly impact the situation of the world agriculture market in general and specifically in countries in which Makhteshim Agan operates: In addition, the agriculture industry worldwide and a good agricultural season are influenced by weather conditions. Makhteshim Agan operates in different countries from both hemispheres of the globe – the northern hemisphere where the agricultural season begins during the first quarter of the year and the southern hemisphere where the agricultural season begins during the third quarter of the year. This fact moderates the impact of external factors applicable in various territories, and which do not exist in other territories in which it operates, on Makhteshim Agan's results.

Growth in the global agriculture market that took hold in 2000 had an effect on the growth in the extent of planted areas (which are limited from the outset) and the scope of crops worldwide, designed to meet ever-increasing demand and, accordingly – led to growth in demand for crop protection products which is mainly expressed in the quantity of sales of the crop protection products (against a real decline in the prices of crop protection products). Makhteshim Agan

³³ Phillips McDougall- Industry Overview, information Makhteshim Agan received in February 2011.

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believes that two main factors led to said growth in the agriculture industry: One being population growth and the global increase in standards of living and shifts in eating habits, together with urbanization trends, especially in developing countries such as China and India, where the demand for food in general and animal-derived food as well has increased and has led to an increase in the number of commodities, and the second being the increase in the global demand for fuel substitutes, produced from sugar cane and corn. The occurrences had immense impact on the extent of planted areas and the efforts made to protect and increase maximum yield of the crop from a given area. As a result of these factors and the restriction on the scope of growing areas worldwide, the demand for agricultural produce increased leading to an increase in the prices of commodities such as cotton, soybeans, corn and wheat. This trend simultaneously generated an increase in the demand for crop protection products, which is Makhteshim Agan's core area of operations, which help to protect crop yields. This trend as well as the high prices of agricultural produce have made the growing process very expensive for the farmers. Consequently, farmers required larger quantities of crop protection products during all phases of growth, so that they could maximize protection of these crops.

During the course of 2009 significant changes took place in the business environment in which Makhteshim Agan operates, which affected the companies operating in the crop protection products industry and including Makhteshim Agan, and this is mainly as a result of the global economic crisis and due to a decrease in Glyphosate prices, which is the main product in the market. The price of Glyphosate declined drastically during the course of 2009. As a result, the rapid growth that was typical of Makhteshim Agan was halted in 2009.

In 2010 Makhteshim Agan's sales increased worldwide. The moderate growth in Makhteshim Agan's sales in 2010 is similar to the positive trends typical of most competitors and Makhteshim Agan increased its market share in some of its existing regions of operations (Europe and APAC), and maintained stability of its market share in other operating regions (Latin America, particularly Brazil). Furthermore, stability in the basic trends affecting the crop protection product segment was maintained, including stabilizing of the scale of planted areas and the high prices (in a multi-annual comparison) of agricultural produce. Notwithstanding the foregoing, since 2010 Makhteshim Agan's results have begun to decline and particularly in the fourth quarter of 2010. This is, inter alia, taking into account non-recurring events, deterioration of the business results of Makhteshim Agan in Brazil, which together with a comprehensive re-organization plan, led to non-recurring costs being recorded (including provisions for impairment of assets), for employee resignations and other expenses incurred due to this re-organization (see section 9.2.22 to this part), and expenses for employee retirement at the production plants in Israel under the memorandum of understanding that was signed (see section 9.2.12 to this part), as well as an increase in financing and tax expenses. For further information and explanations pertaining to Makhteshim Agan's results see section 1.2.2.1 to the Directors' Report.

In 2010 planting area remained stable and the demand for crop protection products rose compared with 2009. This was, inter alia, due to the rising trend in agricultural produce prices, particularly towards the end of 2010, which supported the demand for crop protection products and sales increase in the market. Stocks in the marketing pipelines decreased compared with 2009.

Makhteshim Agan's results for 2010 were adversely affected, inter alia, by extreme climatic conditions in some areas in which the Company operates, including cold winter in the northern hemisphere (mainly Europe and North America) which caused a delay in the start of the agricultural season in the first quarter, floods in Northern Europe in the second quarter, as well as arid conditions and drought in Eastern Europe in the third quarter. In addition, weather conditions in the northern hemisphere harmed sales of fungicides in the relevant seasons.

Also, in 2010 the upward trend in the volume of sales in the crop protection market continued together with continuing decline in the prices for crop protection products. The decline in prices was primarily caused due to the effect of climatic conditions on the agricultural season in the northern hemisphere, the stocks in the marketing pipelines of certain products as well as the increased competition in the crop protection products market. The increase in competition is both because of competition from the larger companies in the market and because of the development of

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the agrochemical industry in China and increased imports from China, which primarily harmed companies that have Glyphosate as the main part of their operations (such as Monsanto and Newpharm). During the fourth quarter of the year, the average sale price stabilized. During the course of 2010, investment increase was evident in commercialization and marketing of the large companies in emerging markets, with the focus on Asia.

Makhteshim Agan's management estimates that the changes in its business strategy (as set forth in section 9.2.22 to this part) and the moves completed by Makhteshim Agan during the course of 2010 will become evident in the gradual improvement in its results in 2011. AS At the reporting date, Makhteshim Agan estimates that subsequent to these moves, and given the trends in the business environment (as expressed at this reporting date) Makhteshim Agan presented in the first quarter of 2011, business results similar to those presented in the first quarter of 2010.

The foregoing with respect to Makhteshim Agan's estimates pertaining to the expected long term and short term developments in the crop protection product segment, as well as its estimates concerning the possible increase in demand for its products and gradual improvement in its results, are forward-looking statements, as defined in the Securities Law, based on Makhteshim Agan's subjective estimates based on the experience of its managers and in light of the trends that began to take place in the market in 2010. Since most of these factors are not in Makhteshim Agan's control, it is uncertain whether Makhteshim Agan's assessments will be realized, inter alia, due to the fact that Makhteshim Agan is unable to anticipate non-recurring, unusual or significant events or due to the occurrence of any of the risk factors as specified in section 9.2.23 to this part or due to the effect of other external factors that Makhteshim Agan has no control over.

Factors that affect supply and demand in the segment. In addition to that stated in this section, in recent years the market has experienced a higher rate of patent expirations than entry of new patent-protected products. Therefore, in recent years, the growth in the generic products market, in which Makhteshim Agan is active, has been relatively fast compared to the market for ethical products. However, it should be noted that a significant portion of Ethical Company sales are of products whose patents have expired and which they continue to sell. Furthermore, the long standing increase in the standard of living of developed countries in the western world increased the demand for crop protection products also in non-crop industries. The strategy adopted by Makhteshim Agan in recent years in order to grow and expand was, among other things, to acquire companies and products. These acquisitions enhanced Makhteshim Agan's marketing ability in a wide geographic area, ability to respond rapidly, shortened the supply chain, reduced dependency on independent distributors and lower commissions. Additionally, this strategy expanded Makhteshim Agan's product portfolio and its ability to provide a wide range of solutions for a variety of needs. In addition, during the course of 2010 Makhteshim Agan started applying a comprehensive strategy change plan intended to adapt its business operating model to changes in the competitive environment of the industry and to substantially strengthen its areas of operation. For further information, see section 9.2.21 of this Part.

Technological changes that can impact the segment. Towards the end of the 1990s, genetically engineered seeds allowed the use of a single non-selective herbicide – Glyphosate, therefore other selective herbicides are less necessary. Development of the Genetically Modified Organism (GMO) spurred the development of non-selective herbicides. To the best of Makhteshim Agan's knowledge, at the Report Date, said genetically engineered seeds are primarily used for key crops such as corn, soybeans, cotton and canola. As at reporting date, genetically modified seeds are mainly sold in the USA, Brazil and Argentina, and recently also in India and in China. European Union countries (which constitutes 40% of Makhteshim Agan's total sales) recently reconsidered their decisions to forbid the use genetically modified seeds, and the countries were given the option of deciding individually about certain issues.

Identifying a demand for Glyphosate, Makhteshim Agan signed a long term (non exclusive) agreement with Monsanto, according to which Makhteshim Agan markets its non-selective herbicides in Brazil, Europe and other countries worldwide. Furthermore, Makhteshim Agan purchased Glyphosate from other suppliers. In addition, Makhteshim Agan manufactures and markets complementary products for protection of the genetically engineered seeds and in 2010

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Makhteshim Agan engaged into a strategic joint venture agreement with Monsanto with respect to the inclusion of several herbicides sold by Makhteshim Agan, in Monsanto's seed treatment program ("the Weed Management Program"). For further information, see section 9.2.18 of this Part.

Despite the decreased demand for Makhteshim Agan's selective products in areas and for crops where there is increasing use of genetically engineered seeds, Makhteshim Agan believes that this technological innovation also opens up new opportunities for companies in the field that manufacture selective products, particularly in light of the new challenges the non-selective products create for farmers, which Makhteshim Agan products may resolve, and in light of the resistance which weeds may develop to the non-selective product which will require the use of other Makhteshim Agan products.. This is also true in light of the fact that if the weeds are from genetically engineered seed planted in the past in agricultural land (for example crops remaining from the previous season), they are resistant to the product. In addition, the large international seed companies continue developing seeds resistant to other agrochemical products. Nonetheless, if Makhteshim Agan fails to prepare for adapting its product mix to these technological changes, this may impact the demand for its products. Furthermore, Makhteshim Agan estimates that further GMO research and development will focus mainly on improved seeds with traits that benefit and improve the quality of the crop and its nutritional components (Output Traits) which will make the crop valuable for the farmer. This trend also constitutes potential increase in the demand for Makhteshim Agan's products for protecting such crops.

The foregoing with respect to Makhteshim Agan's assessment of the impact of the technological changes, the generation of business opportunities for companies manufacturing selective products and the expected GMO trends are forward-looking statements as defined in the Securities Law, and are based on Makhteshim Agan's subjective estimates which are, inter alia, based on external assessments and various publications, and on Makhteshim Agan's assessment concerning the possible consequences of the development of genetically modified seeds and the scope of the use of Glyphosate. It is uncertain whether the said assessments will be realized, inter alia, due to realization of the risk factors described in Section 9.2.23 of this part, changes in the trends of Makhteshim Agan's areas of operation or the GMO sector or the effect of external factors which are out of Makhteshim Agan's control.

Critical success factors in Makhteshim Agan activities. Makhteshim Agan believes that the critical factors for its success include: accrued goodwill and know-how; financial strength and stability and consistent growth; access to sources of financing and reasonable financing terms; specific knowledge and technology as well as financial investments, skilled human resources and registration of licenses; required licenses for development and use of the intended product; successful completion of the development of generic products and entry at the right time into the market; consistent and ongoing development of additional products; accessibility of raw materials and supply chain efficiency; costs, prices, quality and appropriate quantities of raw materials and operational flexibility to reflect actual demand; a flexible purchasing system, including infrastructure in China; effective production costs structure and appropriate global deployment; receipt of regulatory approvals and licenses for manufacture and commercial marketing of the product in the relevant markets; considerable technological know how accumulated by Makhteshim Agan in industrial manufacturing of its products, endowing them with superior quality, effectiveness and safety; suitable dedicated manufacturing facilities and efficient operation of a managed and safe production system; an efficient and comprehensive marketing system as well as a worldwide marketing and distribution system; ability to leverage knowledge, expertise and experience in marketing and management in the target countries, to facilitate entry into the market at the right time; stable and ongoing relationships with strategic customers; extensive product portfolio for each agricultural season and for each agricultural crop; and expertise in receiving licenses for its products in the various countries.

Entry and exit barriers of the area of operations. Makhteshim Agan believes that the parties engaged in the field primarily require equity and financial strength to allow them to begin activity in the area and the investment required in manufacturing facilities. Knowledge, experience in the area, and a good reputation in the industry are also important.

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The crop protection product market has high entry barriers, including high development expenses (particularly at companies that develop ethical patent-protected products), payments for use of knowledge for licensing, requirement for appropriate knowledge and expertise and particularly extensive knowledge of technology in the industrial production of chemical syntheses and formulations that are based on professional and experienced human resources or external consultants, high marketing and distribution costs, complying with ever-stricter licensing requirements, significant investments in establishing and maintaining production facilities and strong customer loyalty. Nonetheless, in the markets where licensing requirements are relatively lenient, shortening the process and costs, the entry barriers are lower which, together with the options of outsourcing production, enables small companies to enter into the segment of operations, to a limited extent.

Makhteshim Agan estimates that there are no material exit barriers from the crop protection product market, with the exception of future uses for the fixed assets and specialized facilities used by companies operating in this segment, and this, among others, because it does not have long term agreements with customers.

Alternatives to Makhteshim Agan products. To the best of Makhteshim Agan's knowledge, in this area of activity there is to date no service or product that is a significant alternative to its products, which protect crops from weeds, insects and fungi, that are not the type of products Makhteshim Agan manufactures or the equivalent ethical products. However, some people view genetically engineered seeds (GMO) and non-selective herbicides such as Glyphosate as products that may partially replace the selective products in certain territories and for specific crops. Furthermore, although their use is minimal, organic growing methods (which do not extensively use crop protection products) are an alternative to using Makhteshim Agan products.

Structure of competition in Makhteshim Agan's area of operation. For information regarding the structure of competition in the area of activity and changes that apply, see Section 9.2.9[E] of this part.

[A] Products. Makhteshim Agan manufactures and sells a wide range of crop protection products, divided into three main groups:³⁴ (1) herbicides; (2) insecticides and (3) fungicides. As mentioned, most of Makhteshim Agan's products are generic; however, Makhteshim Agan does have two patent-protected products for which it has exclusive production and marketing rights (for details, see Section 9.2.9[H] in this Part). According to Makhteshim Agan, in recent years the market share of patent-protected ethical products for crop protection has experienced a steady decline due to the expiration of patents on the one hand and the smaller number of new ethical products on the other.

To the best of Makhteshim Agan's knowledge, until 2020, due to the expiration of patents and termination of exclusive use of data, additional ethical products will be available to Makhteshim Agan, the annual volume of sales worldwide of which, subsequent to expiration of the relative patents, is estimated by Makhteshim Agan to be USD 9 billion (in terms of sales of ethical products). Makhteshim Agan believes that this trend offers growth potential for generic companies in this area. Furthermore, in the coming years, in light of the expected rate of patent expirations, as aforementioned, this segment of products is also expected to grow and offer additional growth potential for generic companies from sales, which until now had gone to the Ethical Companies. However, said growth potential generates increased competition between the existing generic companies, entry of new competitors and price erosion, and depends on the abilities of each of them, including Makhteshim Agan, to launch new generic products, at the right time, with the right scope and variety in order to retain market share. In order to exploit this potential, investment is required in R&D, marketing channels, production capacity, cutting-edge technologies and more. As at the report date, Makhteshim Agan intends acting, during the aforesaid period, according to its strategy to expand its product mix and to increase its market share, among other things, by means of

³⁴ The classification into product groups is based on the active ingredient component in them.

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development and licensing of new products based on ethical products for which patents have expired.

The foregoing with respect to Makhteshim Agan's assessment of the possibility of developing ethical products in the future is a forward-looking statement, as defined in the Securities Law, based on Makhteshim Agan's subjective estimates which are not certain, and Makhteshim Agan cannot assess the odds of their realization, inter alia, due to the realization of the risk factors in Section 9.2.23 of this Part or the effect of external factors Makhteshim Agan does not control.

Makhteshim Agan's operations include the production and marketing of active substances (over 100), the manufacture and marketing of end products (approximately 500 different formulas), and the purchase of active products and formulation operations of various kinds before selling them to third parties. At Makhteshim Agan's manufacturing facilities, active substances are for self-use (as inputs in manufacturing processes of end products) and for sale to third parties. As of the Report Date, annual sales of each of the products sold by Makhteshim Agan do not exceed 10% of Makhteshim Agan's total turnover.. In addition to its manufacturing activity, Makhteshim Agan engages to a lesser extent in commercial activities - the purchase of end products and/or active substances from third parties and their onward sale, as is, without manufacturing activity (usually as supplementary to Makhteshim Agan's product mix offered to its customers).

Moreover, since 1998, Makhteshim Agan began marketing Glyphosate through multi-year contracts (non-exclusive) with Monsanto for the purchase of active substances for the manufacture of Glyphosate, under which Makhteshim Agan markets in Brazil, Europe and other countries. During the said period, these agreements were renewed several times following negotiations, and during the course of 2009, they were once again renewed for a further period of a few years and were amended in 2010. These agreements contain various mechanisms for fixing the quantities that will be supplied, the price for each quantity and terms of payment, shipment, etc. In this context, these agreements prescribe price adjustment mechanisms based on market prices. Furthermore, the issue of licensing support for Makhteshim Agan products containing the active materials purchased are set out under the supply agreements.. For further information pertaining to the strategic collaboration agreement Makhteshim Agan signed with Monsanto in 2010, see section 9.2.18 in this Part.

Moreover, due to the increase in the number of Glyphosate suppliers and the number of suppliers worldwide for the active raw material used for manufacturing the products, especially in China, Makhteshim Agan purchases, at its discretion and with focus on the price, active raw materials for the manufacture of Glyphosate products from other suppliers (especially from China). As at the report date, Makhteshim Agan has signed long term contracts with these suppliers. Under said agreements, Makhteshim Agan purchases these active raw materials, performs formulation processes, packs and markets (but does not manufacture) Glyphosate, especially in Brazil and other countries worldwide.

In 2010, the trend that began in the last four months of 2008 continued, of significant excess supply of Glyphosate products which was caused as a result of an increase in the number of suppliers, particularly in China. During the course of 2009, the prices of Glyphosate stabilized at a relatively low level which recovered slightly at the end of the year mainly in Latin America and in 2010 both the purchase and selling prices of Glyphosate stabilized. The prices further improved slightly recovery towards the end of the year. In 2010, this product's share of Makhteshim Agan sales in the area was close to 7.6%.

Pricing of the products by Makhteshim Agan is done for the most part according to the price of products on the market. This is due to the fact that Makhteshim Agan's products are sold in competitive markets and Makhteshim Agan's share in the various markets is relatively small (Makhteshim Agan estimates its global market share in 2009 to be approximately 5% - 12% of the generic companies). In view of the foregoing, Makhteshim Agan usually adapts the prices of its products to the prices of existing products on the market and the costs have minimum affect on costing and Makhteshim Agan's ability to cost them at a price that will

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be higher than the market prices. However, Makhteshim Agan usually takes steps to maximize grossing up of raw material costs in its sales price.

As aforesaid, Makhteshim Agan's strategy is to make full use of its abilities in the chemical industry and to act to expand its existing product mix and others based on the market needs, to penetrate new markets and to strengthen its position in the existing markets, by way of developing and producing supplementary generic products or new product and by acquisitions and mergers. Therefore, Makhteshim Agan is continuously developing and licensing additional herbicides, insecticides and fungicides. In 2010 Makhteshim Agan continued, pursuant to its policies, to invest in the development and production of new products and of these, it launched 2 new active ingredients, 27 compounds and received 210 licenses to market its products in new regions.

Below is a breakdown of Makhteshim Agan revenue in the main crop protection product markets in 2008-2010 (in USD millions):

	% of change in 2010 compared with 2009	2010	2009
Europe	2.8%	966	940
Latin America	(0.2%)	540	541
North America	0.5%	404	402
Asia, Pacific and Africa	48.2%	363	245
Israel	2.8%	89	87
Total	6.7%	2,362	2,215

In recent years Makhteshim Agan made efforts to expand its presence in the European market (including in Eastern Europe), the American market, in South America and in the Asia, Pacific and Africa region characterized by growth and increased standard of living. Furthermore, in 2010, Makhteshim Agan sales in the Indian market increased significantly. In 2010, Makhteshim Agan acquired companies which, in its assessment, will enable it to penetrate new markets with growth potential in Mexico and South Korea. For further information relating to these acquisitions, see section 9.2.10 in this Part.

In 2010, Makhteshim Agan's total sales (including its other operations that are not in this segment) amounted to USD 2,362 million. Of this amount, Makhteshim Agan's sales from its industrial operations amount to a total of USD 2,050 million, and its sales from its commercial operations amounted to USD 312 million.

- [B] Below is a breakdown of revenues from Makhteshim Agan's products for 2008, 2009 and 2010 from each product group that constitutes more than 10% of Makhteshim Agan's revenues, by Makhteshim Agan's areas of operation (in USD millions):

2010		
Product group	Revenue	% of total Makhteshim Agan revenue
Herbicides	1,110	47%
Insecticides	620	26.3%
Fungicides	450	19.1%
Total crop protection products	2,180	92.3%
Other operations	182	7.7%
Total	2,362	100%

2009		
Product group	Revenue	% of total Makhteshim Agan revenue
Herbicides	1,060	47.9%

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Insecticides	563	25.4%
Fungicides	419	18.9%
Total crop protection products	2,042	92.2%
Other operations	172	7.8%
Total	2,215	100%

2008		
Product group	Revenue	% of total Makhteshim Agan revenue
Herbicides	1,323	52.2%
Insecticides	598	23.6%
Fungicides	414	16.3%
Total crop protection products	2,335	92.1%
Other Operations	201	7.9%
Total	2,536	100%

It should be noted that the fluctuations in insecticide and fungicide sales is higher than in the herbicide sales, since insecticides and fungicides are more receptive to the presence or absence of various diseases or more susceptible insects.

- [C] Customers. Makhteshim Agan's crop protection products are sold to numerous customers in many countries. In some of the countries, sales are made to a small number of customers. As a rule, Makhteshim Agan products designed for farmers are primarily sold to regional and local distributors in the various countries, who market them to the end customers in that country. Additionally, Makhteshim Agan sells, inter alia, to multinational companies (which purchase Makhteshim Agan products so they can market them as end products or intermediate materials for their own manufacturing activities), and to other manufacturers that produce end products from Makhteshim Agan's active substances. In the countries where Makhteshim Agan has an independent marketing and distribution system, sales are sometimes also made to cooperatives and large farmers.

Most sales are to regular customers with which the company has good and longstanding business relations, usually without long-term supply contracts. In most of the countries customer purchases are conducted without orders made far in advance, and in some of regions, customer purchases are based on (non-binding) rolling sales projections and actual orders, with Makhteshim Agan manufacturing its products based on those projections.

Sales prices to customers are determined by, among other things, the quantity purchased. Discounts are at times given contingent upon a minimum purchase. The delivery dates of the products in which Makhteshim Agan operates subsidiaries are immediate and for the most part within several days of the date of order.

In most cases, the importers, which in recent years in many cases are Makhteshim Agan Group subsidiaries, sell Makhteshim Agan final products to the distributors (Makhteshim Agan subsidiaries or third parties to which Makhteshim Agan sells the active ingredients), who sell Makhteshim Agan end products to retailers who supply them to farmers.

Makhteshim Agan works according to a detailed policy for credit monitoring, according to which it conducts ongoing credit assessments on new and existing customers, and adjusts the customer's credit limit in light of the circumstances. In certain countries (such as Brazil and the Argentine) farmers are required to provide property securities (such as agricultural land and equipment). Makhteshim Agan signed an agreement with an international insurance company, which is renewed from time to time, for some of the customers of Makhteshim Agan and its subsidiaries.

Makhteshim Agan entered into ongoing securitization transactions for customer debts in order to reduce the amount of financing from banks and non-bank institutions. Under the

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agreement designated foreign companies (that are not owned or controlled by Makhteshim Agan) with financing from international financing organizations will purchase the debts of Makhteshim Agan customers. As of the Report Date, the maximum volume of debt purchasing by the designated companies is limited to an amount of up to USD 250 million, on a current basis, so that the considerations received from the customers whose debts were sold will be used to purchase new trade receivables. In September 2009, this agreement for securing customer debts was amended and extended for a further framework period of three years without significant changes in the structure of the securitization structure, whereby during the framework period, the credit framework will be approved once a year under the securitization agreement. As at reporting date, this line of credit was approved until February 27, 2012. As of the Report Date, the trade receivables balance sold in cash amounted to approximately USD 160.5 million.

As at December 31, 2010, provisions for Makhteshim Agan's doubtful debt amounted to approximately USD 55.7 million (compared to approximately USD 48.1 million as of December 31, 2009). As at the Report Date, Makhteshim Agan does not have any single customer whose total purchases exceed 10% of its sales turnover, and it does not believe it is dependent on any single customer whatsoever. It should be noted that Makhteshim Agan's policy is that the provisions are made for specific debts and a significant part of the doubtful debts originate in Brazil.

- [D] Marketing and Distribution. Makhteshim Agan's marketing activities are global, with the aim of consistently increasing its global market share. As at the beginning of 2010, Makhteshim Agan operates in three key regions: Europe (Western and Eastern); the Americas (including USA, Canada and Latin America, particularly Brazil); Asia, Pacific, Africa and the Middle East (including Israel). Makhteshim Agan's global sales system, which serves all the product groups (herbicides, insecticides and fungicides) are, since 2010, organized into these regions. For further information pertaining to redefining the regions in which Makhteshim Agan operates, as part of implementing the strategy plan changes, see section 9.2.21 of this Part. Makhteshim Agan operates through a worldwide system of more than 50 subsidiaries, which it acquired or established, that handle marketing, sales, development and licensing of Makhteshim Agan products in 120 countries. In countries where the company has no subsidiaries, it operates a network of local agents and marketing channels (for commissions usually ranging between 3% - 5% of the turnover and are paid after receipt of the proceeds from the customers, on the basis of exclusivity), each adapted to the market structure in that country, which helps Makhteshim Agan in the ongoing handling of its customers. Since, in Makhteshim Agan's main markets, the marketing system is based on subsidiaries, Makhteshim Agan does not believe it is dependent on external marketing channels, the loss of which could significantly and negatively impact on its activities. Within this framework, Makhteshim Agan took steps during 2009 and 2010 to reinforce its marketing system and to establish marketing companies in India and Canada. Makhteshim Agan strengthened its marketing capacity in 2010, including by way of acquisition of companies in Mexico and Korea. Makhteshim Agan's marketing activities include a wide variety of marketing tools and sales promotions. Furthermore, Makhteshim Agan provides support to farmers and professional agronomy consulting. Makhteshim Agan's strategy of strengthening its marketing and independent sales capacity in key markets is meant to minimize, over time, its dependence on external distributors and to maintain its high profit margins. Makhteshim Agan's marketing and sales expenses in the crop protection product segment amounted to USD 396 million in 2010, constituting about 18.1% of Makhteshim Agan's turnover in the crop protection products market for that year.
- [E] Competition in segment. As mentioned, the crop protection products market is controlled by six large multinational Ethical Companies, each with annual sales turnover exceeding USD 2 billion.³⁵ Makhteshim Agan was ranked seventh (by Phillips McDougall) on its global list for 2009 (among the ethical companies and the generic companies). Makhteshim Agan

³⁵ As at the report date, up-to-date information has not yet been received with respect to the market share of these companies.

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estimates that its market share in 2009 is about 5% (similar to its market share in 2008) and 12% out of the generic companies. Makhteshim Agan is considered the largest generic company worldwide in the segment. Makhteshim Agan's competitors in this field are large-scale multinational corporations, based on research, which continue to produce and market ethical products after the patent has expired, and also other generic manufacturers (which as a result of the mergers, acquisition of companies and acquisition of products has increased their market share in recent years, even in additional geographic markets around the world, in which they were not previously active). Makhteshim Agan believes that in most cases the market share of the ethical manufacturer drops to approximately 60%-70% within several years of expiration of its patent, and then the remaining market share is open to competition among the generic companies, in addition to competition between the Ethical Company (which continues to manufacture the product and even leads its market price and terms of sale), which has recently adopted a policy of aggressive price reduction which affects the market sales prices. Additionally, the nature of the competition in this field is influenced by the ever-increasing rate of patent expiration compared to the rate of new patent-protected products.

In recent years, several new trends could be identified which affect the nature of the competition in this segment, as follows: (1) increase in the number of products for which patents have expired; (2) expansion and reinforcement of some of the generic companies and accordingly, an increase in their share of the market; (3) the entry of small companies, in limited volumes, in certain markets due to lower entry barriers in those markets; (4) the development of the agrochemical industry in China; and (5) aggressive reduction of prices by the multinational ethical companies.

Makhteshim Agan's expertise in successful launches of new generic products, as close as possible to the date of patent expiry on their ethical product, is an important component of how Makhteshim Agan retains its status on the global market.

With respect to genetic engineering development, see section 9.2.8 of this part.

The increase in competitiveness in the segment in recent years can be explained in part by the following main reasons: (a) increased competition from manufacturers in south-east Asia (which conversely lower the costs of purchases of raw materials and products); (b) simplification in obtaining registrations for products in a way that lowers the costs of registration in certain countries and makes it easier for new generic competitors (small and medium-sized) to enter, and conversely also makes things simpler for Makhteshim Agan in terms of licensing costs and enables its entry into markets and products in which it is not active; and (c) growth potential of the generic market in this field. Makhteshim Agan believes that as of the Report Date, it has significant competitive advantages attributable, inter alia, to strong abilities in technology and chemistry; professional know-how; financial strength and availability of financial resources to set up and upgrade manufacturing facilities; development and licensing abilities; strict compliance with environmental regulations; worldwide marketing and distribution system and partnerships with multinational companies for the manufacture and marketing of products.

- [F] Seasonality. Sales of crop protection products are directly affected by farming seasons (in each one of the various markets) the climatic conditions in each region and crop cyclicity, so that Makhteshim Agan's income is not divided evenly over the quarters of the year. In northern hemisphere countries (particularly Europe and the US) the farming seasons occur in the first two quarters of the year, in which Makhteshim Agan shows higher sales (subject to the impacts of external factors and Makhteshim Agan's risk factors). In contrast, in southern hemisphere countries, the seasons are reversed and sales peak accordingly, except for Australia, where most sales are made in April – July. Makhteshim Agan believes that its global activities and distribution of the markets in which it operates moderates some of the effects of seasonality.

Below is the breakdown of Makhteshim Agan's quarterly revenues in each of the quarters of 2009 and 2010 (in USD millions).

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2010	Q1	Q2	Q3	Q4	Annual
Total sales	723	601	533	505	2,362
% of total Makhteshim Agan annual sales	30.6%	25.4%	22.6%	21.4%	100%

2009	Q1	Q2	Q3	Q4	Annual
Total sales	722	560	436	496	2,215
% of total Makhteshim Agan annual sales	32.6%	25.3%	19.7%	22.4%	100%

[G] Development and licensing activities. As a manufacturer of generic crop protection products, Makhteshim Agan does not conduct research for the development of new molecules; rather, it develops production processes and licensing data for existing molecules in ethical products, upon expiry of the relevant patents. As a result, in the development and licensing of generic products is significantly less expensive than the development of ethical products that involve tremendous resources and a long time to discover the active substance and the appropriate molecules through full and successful development of the product. Most development and licensing activity focuses on the chemical engineering development of production processes for new generic products, biological and agricultural testing for receipt of a license, development of mixtures (developed by Makhteshim Agan), and streamlining of production processes, and the development of innovative formulations and the exclusivity of existing products. Furthermore, Makhteshim Agan's activity includes the scientific-technological backup of existing production processes, with emphasis on improving quality, efficiency, safety and environmental protection, and on cutting production costs for its products. In addition, Makhteshim Agan develops several innovative substances, develops their biological uses and registers them in target countries. At times, the development incorporates knowledge that is proprietary to Makhteshim Agan, sometimes knowledge developed jointly with subcontractors, and sometimes knowledge that belongs solely to the supplier. Makhteshim Agan's development and licensing costs are lower than the R&D costs of the multinational corporations, thus granting it competitive advantage.

The amounts recognized as research and development in 2010 (not including licensing) totaled USD 23.2 million, which constituted 0.98% of Makhteshim Agan's revenues for that year (consolidated). Research and development expenses are not recognized as an intangible asset. Makhteshim Agan assesses, subject to fulfilling its working plan, in a period of twelve months as of the reporting date, an estimated USD 25 million for research and development expenses.

Makhteshim Agan has several research laboratories in Israel, Germany and in China, India and Brazil, where the various products undergo quality tests. Makhteshim Agan has about 200 development and licensing employees, most of them specializing in various branches of chemistry, the agricultural and life sciences, chemical engineering and agriculture, and also receives research services from academic, agricultural, chemical and toxicological research institutions.

Some of Makhteshim Agan's development and licensing program in Israel has been awarded grants by the Chief Scientist (insignificant amounts) – for details, see also Section 8 of this part.

Registration. At different stages of their manufacture and marketing, the substances and products marketed by Makhteshim Agan require licenses for each country in which it plans to market them. To do so, Makhteshim Agan employs 120 workers to deal with licensing its products around the world and also works with external contractors. Crop protection products are sold under the control of government authorities in every country (usually ministries of agriculture, health and the environment). Licensing requirements change from time to time and are becoming stricter worldwide. The most demanding licensing standards are in the United States, Japan and the EU. In some of the countries, the license is not limited

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in time, but further development of licensing information is required every few years. Licensing costs and the time required to obtain them are different for each country and could take several years. Furthermore, since formulation and active ingredients of the products distributed by Makhteshim Agan also vary from time to time Makhteshim Agan is committed to make changes to ensure that the licensing requirements of a certain country matches its licensing requirements. Makhteshim Agan regularly examines its products' compliance with licensing requirements in the various countries and adjusts them as needed. Licensing costs usually amount to hundreds of thousands of dollars per product; and in countries such as the USA, EU and Japan, the costs can be in the millions of dollars per product. In 2010, Makhteshim Agan received about 210 new licenses for active ingredients, formulations and various admixtures (not including license renewals and extending labels to new crops for licenses products). For further information relating to the licensing requirements applicable to Makhteshim Agan and their related risks, see section 9.2.23 in this Part.

In 2010 Makhteshim Agan's licensing expenses amounted to a total of USD 77.3 million, net with the addition of depreciation the amount constitutes a gross 3.3% of Makhteshim Agan's revenue for this year.

In the US, the registration process includes federal licensing by the Environmental Protection Agency (EPA). In addition, in several states special permits are required. As part of the requirements for registration renewal by the EPA, Makhteshim Agan can cooperate with international companies to prepare the new data for registration renewal. In some cases Makhteshim Agan must compensate the developing company that has the original license, in an agreed amount, which is a function of the value of the data and registration cost incurred by the original license owner in the past, and as compensation for the time saved by shortening the registration process. In the last few years, new regulations concerning crop protection products have been introduced in Europe due to unification of licensing procedures in the European Union countries. In recent years, the European authorities have been reevaluating all existing licenses of crop protection products in the European market (including Makhteshim Agan products). In light of the foregoing, Makhteshim Agan filed new licensing information for part of its products. In July 2011, the new licensing regulations will become effective, based on rejection of products based on their potential danger, opposed to the existing directive which examines products according to the risk they pose to humans and the environment. Makhteshim Agan acts consistently to prepare and submit the required data, and with regard to some of the materials marketed by Makhteshim Agan, it cooperates with other companies with the aim of reducing license renewal expenses. The registration dossier and the licenses themselves are an economic asset with strategic value and Makhteshim Agan's policy is to retain ownership of them.

In June 2007, the legislative framework for registration and evaluation of chemicals entered into force in the European Union (REACH legislation). In accordance with said legislation, some of the products manufactured by chemical manufacturers in the European Union or imported there (with the exception of active crop protection substances that undergo regulation under the re-licensing process, as aforementioned) will be required to submit portfolios containing specific data pertaining to each substance or chemical compound contained in the product, apart from the active ingredient, if the quantity of the material exceeds one ton per year. This legislation will be gradually applied over the course of the years between 2007 through 2018. Makhteshim Agan met the first stage dates (the pre-licensing stage) and was granted an extension to fully license the material, allowing it to continue its regular sales of these materials, until the full licensing stage. Makhteshim Agan is in compliance with all the deadlines and has submitted full registration portfolios for pre-licensing registration, which will require registration by December 1, 2010. Over the course of the next two years Makhteshim Agan will continue preparing registration portfolios for additional substances which will require registration by June 2013.

Makhteshim Agan receives ongoing external support and counseling in the legal and licensing area. As at the report date, Makhteshim Agan estimates that the costs involved in

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applying the Reach legislature in the coming year stems mainly from external consultants' costs and fees and is not expected to be material.

Makhteshim Agan's assessments relating to completion of the approval processes and/or the expected costs regarding the application of the Reach legislature as aforesaid, are forward looking statements, as defined in the Securities Law, based on Makhteshim Agan's knowledge of the required process and with the tasks required from it. Makhteshim Agan's assessments may not be realized in the event that the requirements of the relevant authorities and/or Makhteshim Agan's non-compliance with these requirements will lead to the extension of the process and it becoming more costly.

The licensing process for generic material in Brazil is based on chemical identification of the existing active ingredient on the market. Shorter testing process expected to take between one to two years. As of 2006, changes are applicable to license filing to the authorities in Brazil. This is due to the relief that allows submission of multiple requests for licensing, which could not be submitted before. In practice, as at the report date, the time taken for the licensing process as aforesaid is between two to four years due to the Brazilian Ministry of Health's strict rigorous testing and backlog caused by submission of numerous materials for approval.

- [H] **Intangible assets** As noted, the majority of Makhteshim Agan's products in this market (both in terms of quantity and share of sales) are generic and therefore not protected by patents. Nonetheless, Makhteshim Agan has four protected patent families for innovative products and approximately 30 additional patent families for processes, formulations, properties of material and exclusive compounds. Furthermore, Makhteshim Agan relies on the registration of trademarks to protect its goodwill in the products that it manufactures and markets. As of the Report Date, Makhteshim Agan has over 7,000 trademarks on its products. Some of the company's products carry the brand "Makhteshim Agan". Makhteshim Agan has two patent protected products for which it has exclusivity licenses: An insecticide, Rimon® Novaluron which patent extension expired in various countries during the course of 2007 and 2008, and will expire in Italy in December 2011 and in Switzerland and Japan in December 2012; and a herbicide marketed under the brand name HEROLD® (which marketing and manufacturing rights refer to Germany and Belgium only) which expires in 2011. Furthermore, in 2007, Makhteshim Agan acquired all the rights to four patent protected materials (a pesticide against nematodes, two types of insecticides and one type of material against diseases) (most of the patents have been transferred into Makhteshim Agan's name and a few of them are still in the process of transferring patent ownership). In addition, Makhteshim Agan also has several exclusive territorial licenses for other substances. As at the report date, Makhteshim Agan's revenue from these products is not material to its operations, however it should be noted that the profitability margin in these products is higher than the average profitability margin for Makhteshim Agan's generic products. The amounts recognized in Makhteshim Agan's financial statements at December 31, 2010 as assets for Makhteshim Agan's mail intangible assets, including goodwill of companies, amount to approximately USD 653 million.

For further information pertaining to Makhteshim Agan becoming the sole distributor of select products which are part of the Monsanto's Glyphosate resistant Weed Management Program, see section 9.2.18 of this Part.

- [I] **Raw materials and suppliers.** The most significant component in Makhteshim Agan's sales costs in the crop protection product segment is the cost of raw materials used for its industrial operations, and this cost is affected by the extreme fluctuations in global oil prices. Furthermore, the cost of finished products that Makhteshim Agan buys and markets for third parties are significant costs. Makhteshim Agan purchases its raw materials from various suppliers, mainly in Europe, the USA, China and South America. Makhteshim Agan increased the volume of its purchases from Chinese suppliers in order to save on costs. Makhteshim Agan purchases many and varying raw materials some of which are distant oil derivatives. The shelf life of most of the raw materials is several years, and they remain stable over the years. Therefore, loss of raw materials due to age is minimal. In 2010, the

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costs for raw materials and packaging amounted to a total of USD 1,134 million (compared with a total of USD 1,044 million in 2009). This cost, in 2010, constituted some 81.9% of Makhteshim Agan's total production costs for this segment (without finished products) (compared with 78.7% in 2009) which totaled in 2010 USD 1,384 million (compared with USD 1,326 million in 2009). As of the Report Date, based on Makhteshim Agan assessment, Makhteshim Agan has no material supplier on which it is dependent.

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9.2.10 Additional activities

In addition to its main sphere of operation, Makhteshim Agan is also engaged in additional activities the revenues and cumulative investments in respect thereof do not exceed about 10% of total revenues and investments of Makhteshim Agan (consolidated). As of the Report Date, Makhteshim Agan's additional activities focus primarily on the four areas (in order of importance): dietary supplements and ingredients for food fortification, aroma products, industrial chemicals and additional products.

[A] Dietary supplements and food fortification

Through Lycored Ltd. (as at the reporting date, a wholly owned Makhteshim Agan subsidiary), Makhteshim Agan is engaged in the development, manufacture and marketing of dietary supplements, special components for food fortification, and development and marketing of substances and applications for dietary supplements, primarily for markets outside Israel. Makhteshim Agan specializes in the development and production of natural carotenoids (oxygen absorbers) and a wide range of other ingredients for food fortification (natural and synthetic). Most of Makhteshim Agan's customers with respect to these products are industrial companies, including companies that manufacture and sell end products to supermarkets and stores, and industrial companies engaged in formulation and packing for dietary supplements and private label products. As at the report date, Makhteshim Agan sells these products mainly in North America, Europe, Japan and the Far East.

The food and nutrition industry is marked by retail competition, a conservative approach to technology and increasing commitment to the quality of food and dietary supplements, health implications, dietary habits of consumers and changes in taste. The main competitors with respect to these products are the manufacturers of synthetic lycopene, manufacturers of natural luteine, and the formulators and manufacturers of vitamin and mineral mixtures. Additionally, the dietary supplements market has recently experienced an increasing trend towards centralization through mergers and acquisitions, and shortening of the supply chain, leading to a reduced ability to compete among small companies, and faces competition from manufacturers from East Asia that market raw materials and recently also formulated substances.

As of the Report Date, Makhteshim Agan has approximately 17 families of registered patents on various manufacturing and formulation processes and about another 24 families of patents in the advanced stages of registration. Additionally, Makhteshim Agan has several brands of these products registered as trademarks.

Manufacture and marketing of dietary supplements and food fortification ingredients is the responsibility of health ministries around the world and registration and quality requirements. Makhteshim Agan recently received the approval of the American Food and Drug Administration (FDA) for the use of lycopene from tomatoes as a natural food coloring in addition to approvals it has from the European and Japanese authorities.

Suppliers of raw materials for these products are mainly agricultural growers (therefore delivery is also dependent on factors that affect the agricultural sector), seed companies and companies that provide vitamins and minerals.

Lycored Ltd's gross profitability margin for this segment is not significantly different from the gross profitability margin for Makhteshim Agan's products in the crop protection products segment.

Total Makhteshim Agan sales of these products in 2010 amounted to approximately USD 79 million (compared with USD 83 million in 2009). As at the report date, Lycored Ltd's market share is not significant in any of its product lines.

[B] Aroma products for the cosmetics, flavor and fragrance industries

With respect to these products, Makhteshim Agan is primarily engaged, through Agan Aroma and Fine Chemicals Ltd. ("Agan Aroma") (held indirectly by Makhteshim Agan at a

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rate of 100%), in the development, manufacture and marketing of chemicals and synthetic fragrances for the detergent industry, cosmetics and body care industry and perfume industry (the bulk of production of these products is for export). The fragrance products manufactured by Makhteshim Agan are generic products.

Approximately 75% of Makhteshim Agan's customers for these products are multinational companies. Makhteshim Agan is a supplier to most of the world's leading companies in the fragrance industry (with cumulative market share of approximately 75% of world activity).

Makhteshim Agan's main competitors with respect to these products are leading multinational companies in the flavor and fragrance industries with manufacturing capacity in this field.

Makhteshim Agan's fragrance products are gradually complying with strict health, safety and environmental regulations. Furthermore, see the description of the Reach legislation referred to above.

The main raw material suppliers for these products and overseas chemical suppliers.

Total Makhteshim Agan sales of these products in 2010 amounted to approximately USD 51 million (compared with USD 40 million in 2009).

[C] Industrial chemicals

Makhteshim Agan is engaged in the manufacture and marketing of certain industrial chemicals, which are primarily ancillary products of its manufacturing processes in the crop protection area. At times, it manufactures raw materials for this area. Since this refers to basic chemicals, their use is common among a wide variety of customers in all areas of industrial companies, including food, energy, textiles, plastics, construction and chemistry. Most of Makhteshim Agan's customers in this area are from Israel.

Makhteshim Agan's market share in this area in Israel is approximately half of the local market. Its main competitors include local industrial chemical manufacturers and importers.

Total Makhteshim Agan sales of industrial chemicals in 2010 amounted to approximately USD 41 million (compared with USD 40 million in 2009).

Subsequent to a failure that occurred in November 2009 with the carbon dioxide supplied to Makhteshim Agan's customers, the delivery of carbon dioxide to the customers was temporarily discontinued. During the course of the second quarter of 2010, Makhteshim Agan reintroduced regular production of carbon dioxide after receiving approval of the Ministry of Health.

- [D] In addition, Makhteshim Agan manufactures additional industrial chemicals, leveraging its know-how and/or manufacturing technologies (intermediate substances for pharmaceuticals and other industries). As at the reporting date, the production and sales volume of each of said products is minimal.

9.2.11 **Fixed assets and facilities; production capacity.** Makhteshim Agan has a number of plants at which it conducts manufacturing, R&D, formulation and packing of products. Makhteshim Agan's main production plants are in Israel and Brazil. There are also several formulation and packaging facilities owned by Makhteshim Agan around the world.

In 2010, Makhteshim Agan began implementing a comprehensive strategy change program under which it is undergoing an optimization process of its production, plants, purchasing and supply chain. As part of this process, decisions were made during the latter half of 2010 with respect to closing of two production lines in Israel during 2011.

- [A] Be'er Sheva plant – where the formulation and packing system of Makhteshim Agan's products takes place, of products manufactured in the Ramat Hovav plant and of the products of third parties. The Be'er Sheva plant stands on a 4.07 hectare plot of land, of which 37,000 sq.m. are built up (including buildings, offices, installations and storage warehouses). Makhteshim Agan's rights in the said land are based on long-term lease agreements of

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Makhteshim Chemicals Ltd., a subsidiary of Makhteshim Agan ("Makhteshim") with Israel Lands Administration.³⁶

- [B] Ramat Hovav plant – where all the active substances of Makhteshim Agan used to manufacture insecticides and fungicides are produced. Additionally, active substances are packaged and industrial chemicals for Makhteshim Agan and other industries are manufactured at the facility. The area of land on which the plant stands in Ramat Hovav is 1,086 dunams, of which about 170,000 sq m. are built up (including buildings, offices, facilities and warehouses). Makhteshim Agan's rights in the land are by virtue of long-term lease agreements with the Administration.

In May 2007, Makhteshim Agan entered into an agreement with Ramat Negev Energy Ltd. ("Negev Energy"), and a third party which is unrelated to Makhteshim Agan, which is amended from time to time, for the establishment and operation of a power plant at Ramat Hovav ("the Agreement"). Subsequent to the Agreement the parties signed a sublease agreement according to which Makhteshim Agan will lease, under sublease (subject to approval of the Israel Lands Administration which as of the Report Date had not been given), the area on which, under the agreement, Negev Energy will build and operate the power plant, within 30 months from date of approval of the financing required for building the power plant. The proceeds received for the lease of the land is not material to Makhteshim Agan. Furthermore, under said agreement, Negev Energy will supply power, soft water steam, gas emissions producing CO₂, distilled water and compressed air to Makhteshim's facilities at Ramat Hovav for approximately 24 years and 11 months from the date on which the land was given to Negev Energy, after which the power plant will be transferred to the ownership of Makhteshim Agan. To the best of Makhteshim Agan's knowledge, as of the Report Date, all of the approvals required to construct the power plant had not yet been received, and the financing required to construct the plant had not yet been made available. Execution of the construction and set-up work is the responsibility of Negev Energy and are to be done at its expense. Negev Energy is also responsible for obtaining the permits and licenses required by law.

- [C] Ashdod plant – where the active substances for Makhteshim Agan's herbicides and fragrance products are produced. The plant also contains formulation and packing facilities. The plant is built on a 2.42 hectare plot of land, and has a built-up area of 42,000 sq m. (including, inter alia, production facilities, warehouses, engineering services, technical equipment, offices, laboratories, employee welfare services and various auxiliary buildings). Furthermore, Agan Chemical Manufacturers Ltd., a subsidiary of Makhteshim Agan ("Agan"), rents from various entities, who are third parties who are not related to Makhteshim Agan, an additional, adjacent area of about 0.7 hectare (2,250 sq m. built up) is leased and used for storage and parking.

In April 2006, Makhteshim Agan entered into an agreement with the City of Ashdod for a total period of 5 years (and an additional period of 19 years, subject to the approval of the Minister of Interior). Under the agreement, Makhteshim Agan will be entitled to use additional property measuring approximately 2.0 hectare for establishing and operating a wastewater purification facility at total cost of NIS 130 million (see also Section 9.2.25 of this part). In July 2006, Makhteshim Agan entered into a sublease agreement with Ashdod

³⁶ As at reporting date, Makhteshim Agan is conducting preliminary negotiations with respect to a discounted lease agreement for the 7.35 hectare property in Beer Sheva, where at the same time it has an extension option included in the original lease agreement with the Lands Administration. Notwithstanding the passage of time and in light of the advanced stage of the procedures regarding extension of the lease, the parties continue to act in accordance with the provisions of the original lease which has expired as aforesaid, and in Makhteshim Agan's opinion it is not expected to have significant exposure concerning this agreement. Furthermore, approximately 2 hectare included to the area of the plant and which is used by Makhteshim Agan, is registered in the Israel Lands Administration register as leased to Harsa Israel Ceramics Ltd. plants ("Harsa") and in the past Makhteshim Agan used this land under an arrangement between Harsa and Makhteshim Agan. In practice, this agreement was made to transfer these lease rights to Makhteshim Agan said at the reporting date, Makhteshim Agan is acting to complete registration of the lease rights in its name in the Administration's register. The lease rights under this rights transfer agreement are due to expire in 2017.

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Energy Ltd. (Ashdod Energy) a third party which is not related to Makhteshim Agan, whereby Makhteshim Agan would lease Ashdod Energy approximately 1.05 hectare of land, which is part of a 2.225 hectare plot which Makhteshim Agan leases from the Israel Lands Administration, on which Ashdod Energy will erect a power station for generating electricity and steam and will supply Makhteshim Agan with electricity and steam from the station for a term of 20 years from the date of operation of the station, or for 24 years and 11 months from the date of execution of the sub-lease agreement, whichever is the earlier. The proceeds received for the lease of the land is not material to Makhteshim Agan.

- [D] Plants in Brazil – Makhteshim Agan has two plants in Brazil, owned by Makhteshim Agan's subsidiary, Milenia. One of the plants covers an area of 24.1 hectare (of which approximately 36,000 sq m. is built up), and contains production, formulation and packing facilities, warehouses and offices; the other is an area covering 49.2 hectare (68,000 sq.m. built up), and contains production, formulation and packing facilities for crop protection products. For further information pertaining to the Milenia re-organization plan, which includes, inter alia, significant reduction of the production operations at one of the plants in Brazil and partial reduction of a second plant, see section 9.2.22 to this part.
- [E] Additional facilities – A subsidiary of Makhteshim Agan has a facility in Be'er Sheva located on a 17,000 sq m.³⁷ property it purchased from Makhteshim Agan, and an additional facility located in Yavneh, where Makhteshim Agan leases 2,707 sq m. Furthermore, said subsidiary has two other wholly owned facilities - one in England and the other in the US. These facilities are engaged in the production of carotenoids, coatings of vitamins and minerals and mixtures for the food industry and manufacture of other dietary supplements. In addition, Makhteshim Agan has several additional facilities in its areas of operation around the world, including in the US, Columbia, Spain, Italy, Greece and Korea, and subsequent to the date of the statement of financial affairs, also in Mexico (for particulars concerning the Bravo transaction see section 9.2.4 to this part), particularly for the final formulation process and packaging, which is not significant for it. Furthermore, Makhteshim Agan has agreements with distribution companies worldwide, under which they provide it, as needed, with outsourced services for formulation and packaging at their facilities.
- [F] Makhteshim Agan offices, equipment – In April 2007, Makhteshim Agan entered into an agreement for rental of approximately 3,870 sq m. (at an immaterial cost) for a period of 15 years in a building located at Airport City. This space is used as Makhteshim Agan headquarters. Moreover, during the course of 2010, Makhteshim Agan rented additional space in a building, which as at reporting date, Makhteshim Agan is negotiating to sublease.

The total amortized cost of Makhteshim Agan's facilities and equipment as at Friday, December 31, 2010 amount to approximately USD 504.5 million.

- [G] Production capacity, investments in production facilities – Makhteshim Agan's production capacity is mainly affected by the location of the production, formulation and packaging facilities at a number of sites in Israel and around the world, their output and allocation of space and time at each one in full production conditions. Makhteshim Agan's production facilities generally work continuously, with the exception of scheduled breaks to perform maintenance.

At its manufacturing sites, there are specific facilities (for the manufacture of a single product or single family of products) and multipurpose facilities (that constitute over half of Makhteshim Agan's facilities). Makhteshim Agan believes that its sites have sufficient facilities and space to increase its production capacity, if required.

Makhteshim Agan makes regular investments to expand its production capacity, particularly through expansions and changes in the existing manufacturing facilities, erecting new production facilities, operating production facilities of distribution companies it acquired,

³⁷ The registration of the land in the name of Makhteshim Agan's subsidiary has not yet been completed.

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expanding the research and development infrastructure, and in various environmental protection projects.

During the course of 2007, Makhteshim Agan completed the construction of three purification facilities and established another biological facility to purify waste water at Agan, which was in continuous operation throughout 2010. As at reporting date, this plant is operating and various pilot runs are continuing according to Makhteshim Agan's future programs and the requirements of the Ministry for Environmental Protection.

In 2010, Makhteshim Agan invested a total of USD 75 million in facilities and equipment. Makhteshim Agan intends to continue and act towards expanding its production capacity by investing in production plants, if and when required, subject to the restrictions and requirements of the various laws. Furthermore, Makhteshim Agan intends to continue acting to expand its investments in environmental issues whether on its own initiative or to comply with standards and the provisions of the law.

In December 2009 Makhteshim Agan engaged in a multi-annual contract with EMG East Mediterranean Gas ("EMG") for the supply of natural gas for Makhteshim Agan's production facilities at its plants in Ashdod and Ramat Hovav. Pursuant to an amendment signed in November 2010 to the multi-annual contract, the supply start dates were postponed. Furthermore, Makhteshim Agan is conducting advanced negotiations for an additional agreement for the supply of natural gas from alternative source, based on Makhteshim Agan's needs and consumption. For further information pertaining to this contract and details of Makhteshim Agan's investments in its plants in the area of environmental issues in recent years up to the report date, see section 9.2.16 [F] in this Part.

As a rule, average output of Makhteshim Agan's facilities is approximately 80%. However, some of Makhteshim Agan's production facilities operate at certain times at a higher capacity (over 90%). If there is a substantial increase in the demand for the products made there, Makhteshim Agan will look into the possibility of expanding those facilities compared with the possibility of purchasing the same materials from other suppliers.

If production volumes at Makhteshim Agan facilities decrease, given the market conditions, the relative proportion of Makhteshim Agan's fixed expenses will rise. These expenses vary from plant to plant.

For expanding its plants in Israel, Makhteshim Agan has been granted approved enterprise status, which entitles it to investment grants and/or tax benefits under the Capital Investment Encouragement Law. See also sections 8 and 9.2.15 in this part. All the benefits due from approval letters sent to Makhteshim Agan plants, as aforesaid, are contingent upon compliance with the conditions set forth in the Encouragement of Capital Investments Law and its regulations and on customary conditions set forth in the letters of approval for investment in approved enterprises. Makhteshim Agan operates continuously in accordance with the relevant provisions of the Capital Investment Encouragement Law.

The amortized cost balance for fixed assets in Makhteshim Agan's financial statements (consolidated) as at December 31, 2010 less investment grants, amounts to a total of approximately USD 619 million.

This section includes forward-looking statements as defined in the Securities Law, based on the Makhteshim Agan's subjective assessment relating to the output of its plants, facility expansion and availability of land and its existing facilities. The aforesaid assessments may not be realized, inter alia, due to the risk factors specified in section 9.2.23 to this part, and as a result of non-completion of the plant extensions on time because of its dependence on external contractors and wear and tear of machinery and equipment with regard to the output of its plants.

9.2.12 **Human capital.** As at December 31, 2010, Makhteshim Agan employs 3,937 employees compared 3,872 in 2009. In 2010, Makhteshim Agan started applying a comprehensive strategy change plan intended to adapt its business operating model to changes in the competitive environment of the industry and to substantially strengthen its areas of operation. As part of

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applying the changes in the strategic plan, changes in the organizational structure were completed, including new positions, by redefining the various geographic regions in which Makhteshim Agan operates. In January 2010 Makhteshim Agan announced its management's decision concerning changes in the functions and authority of several officeholders. In addition, during the course of 2010, Makhteshim Agan completed administrative changes in its marketing operating model in the American continent, including comprehensive re-organization of its Brazil operations (as specified in section 9.2.22 of this Part).

Makhteshim. Makhteshim has one Workers Council that is the consolidation of three historical committees. Collective agreements and wage agreements for defined terms are signed from time to time between Makhteshim and its employees, which regulate the salary terms and increments as well as auxiliary benefits. Towards the end of 2007, a collective employment contract was signed, ending a previous labor dispute, including setting out the salary and labor conditions for each of the years from 2007, 2008 and 2009. The parties currently act according to the effective collective agreements.. Under said agreement, a salary increment is only paid from Makhteshim profits. Furthermore, the agreement includes a commitment to refrain from industrial unrest and not to take unilateral steps. It further sets out the scope of promotions of employees, determined by the success of the employees. In April 2010, Makhteshim received notification, pursuant to the Settlement of Labor Disputes Law, 1957, ("the Labor Dispute Settlement Law") of the intention of the New General Federation of Workers – Negev District to announce a strike with respect to Makhteshim's plant in Beer Sheva. Further to the foregoing, in October 2010, Makhteshim Agan reached an agreement with the New General Federation of Workers, according to which the labor dispute announced with respect to the subsidiaries' plants as stipulated in this section, hereunder, will end.

Agan. Labor relations at Agan are regulated by special collective agreements. According to the collective bargaining agreement that was extended through 2010, the employees committed to refraining from industrial unrest through out the period. In September 2007 a special collective agreement was also signed with respect to earlier retirement of up to 30 workers, whereby the costs of which, as at the report date, are not material to Makhteshim Agan.

Memorandum of Understand (MOU) with the New General Federation of Labor with respect to Makhteshim Agan employees. On October 17, 2010 Makhteshim Agan received notification, pursuant to the Labor Dispute Settlement Law, sent by the New General Federation of Workers – Negev District ("the Federation"), concerning the option of a strike with regard to Makhteshim Agan's plants. On October 31, 2010, Makhteshim Agan announced that it had reached agreement with the Federation ("the MOU") according to which the labor disputes announced with regard to the subsidiaries' plants, were terminated. Below are the main points of the agreements reached under the memorandum of agreement: (1) Makhteshim Agan undertakes to continue production operations of a certain scope and at the Company's plants in Israel through to June 1, 2017 ("the Obligated Period") and on condition that any agreement to transfer control of the Company will be completed by June 1, 2012 The Obligation Period will be anchored under the contract for transfer of control in Makhteshim Agan, if such a contract will be signed. (2) Voluntary early retirement was agreed for 100 employees over the age of 57, over the course of the years 2011-2012, at each of the subsidiaries (i.e. total of up to 200 employees). It was clarified that the names of the voluntary retirees will be decided by mutual consent of the parties. (3) In the event of the signing of any agreement whatsoever for the transfer of control in Makhteshim Agan, a special assistance fund will be set up for the employees and voluntary retirees.

The representatives of the employees undertook to ensure industrial calm with regard to the issues that were settled under the agreements reached between the parties, including with regard to the future transfer of control in Makhteshim Agan. In November 2010, Makhteshim Agan's management gave the employees committee of Makhteshim its agreement in principle, based on the provision of the memorandum of understanding, according to which during the years 2013-2014 an additional 50 tenured employees may retire, over and above those stipulated in the memorandum of understanding.

The MOU includes a broad process of optimization of Makhteshim Agan's production plants, purchasing and supply chain, in order to improve the costs structure of the products sold by

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Makteshim Agan, to improve operating flexibility and to make better use of its wide global deployment. For information regarding Makhteshim Agan's goals and strategy, see Section 9.2.21 of this Part.

For the lay-off of 150 employees from the production sites in Israel, concerning whom agreement was obtained as aforesaid, Makhteshim set aside a one-time provision in Makhteshim Agan's 2010 financial statements in the amount of USD 58.2 million. For further information, see Note 5(A)9 to the financial statements. In the assessment of Makhteshim Agan's management the completion of the foregoing employee retirement is expected to gradually lead to a saving of USD 8 million in 2011 and USD 13 million in 2010

Labor relations in Brazil. At one Makhteshim Agan's facilities in Brazil labor relations reflect the guidelines of federal legislation in Brazil with respect to employment of workers, and at the other labor relations are set out in collective bargaining agreement that is renewed every two years. As of the Report Date, labor relations in Brazil are proper. For information pertaining to the re-organization plan concerning Milenia, including significant adjustment of the scope of human resources, see section 9.2.22 to this part.

Remuneration: Makhteshim Agan adopted a number of stock option plans for its employees and officers and those of its subsidiaries, to purchase Makhteshim Agan shares. Makhteshim Agan allocated, from time to time, options for employees and officers of Makhteshim Agan and Makhteshim Agan Group. For further information see Note 9[A]2 to the Financial Statements.

In October 2007, the Makhteshim Agan board of directors approved index criteria for the distribution of bonuses as part of a general compensation policy for management and intermediate level employees, customary at Makhteshim Agan, that includes annual bonuses and long-term compensation. These criteria will be part of and subject to a distribution budget which will be approved every year under Makhteshim Agan's labor program. The scope of the bonus, if at all, is based on the worker's performance and Makhteshim Agan's results and therefore this policy is not expected to cause a significant increase in the bonuses granted at Makhteshim Agan.

The compensation policy for the management level (both middle managers and executives) is based on three levels – base salary and fixed increments; annual bonuses (at the discretion of the Board of Directors); and compensation through options. Makhteshim Agan officers and executives are employed through personal employment contracts and/or management service agreements, including base salary, pension coverage and various types of insurance, customary benefits, personal incentives (bonuses) and receipt of Makhteshim Agan stock options.

Senior management and officers. Until December 31, 2010, Mr. Avraham Bigger served as Chairman of the Board of Directors of Makhteshim Agan. As of January 1, Mr. Ami Arel began his term as Chairman of the Board of Directors of Makhteshim Agan

It is noted that, one of the contingent terms for completing the merger agreement (as defined in section 9.2.5[A] in this Part) is the receipt of signed letters of resignation of the board of directors of Makhteshim Agan, effective from the date of completion of the merger, if and when the merger will be completed.

The directors and officers at Makhteshim Agan and its consolidated companies are covered by liability insurance under an insurance policy with a liability limit of USD 100 million. and an addition of up to 20% of the foregoing amount to cover legal costs in Israel. The insurance policy is renewable every year (for a cumulative period that does not exceed 5 years), in accordance with the framework agreement approved by the general meeting of the shareholders of Makhteshim Agan in December 2010. In October 2007, the Makhteshim Agan general meeting approved a prior undertaking to compensate officers (serving at the time of the approval and who will serve in the future) and an amendment to Makhteshim Agan's articles of association with regard to this matter.

9.2.13 Working capital. Below is data regarding Makhteshim Agan's working capital for 2010 (USD thousands):

Working capital balance	Current ratio	Quick ratio
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Working capital balance	Current ratio	Quick ratio
697,395	1.46	0.82

Customer credit – In general, Makhteshim Agan operates in accordance with a customer credit control procedure that sets out the terms for granting a credit line to a customer and method of monitoring collection. Makhteshim Agan generally grants customers credit for periods ranging from several months to a year, with credit limits being managed separately for each customer, based on the customer profile, its specific need and type of contractual agreement with it. The total of customer credit days varies and is a function of the competition and credit terms in each of the markets in which Makhteshim Agan operates, the type of crops in that region, the number of factors involved in the supply chain and, consequently, factors that can influence, at given time, the total credit days. In certain regions around the world, particularly in South America, the number of credit days is long (compared to the number of credit days given to customers in Western Europe), and at times, inter alia, due to tough agriculture seasons or the economic situation in those countries, Makhteshim Agan may encounter problems collecting customer debts and the length of collection may extend over several years. This risk also exists in developing countries, where Makhteshim Agan's is less familiar with the customers, the quality of collateral is doubtful and the existence of insurance for said customers is uncertain (in this regard, also see section 9.2.9[C] to this part regarding provisions for doubtful debts). The average supplier credit period in 2010 was 133 days. Sales of crop protection products is directly dependent on the agricultural seasons and rotation of crops, and therefore Makhteshim Agan's sales are not evenly spread throughout the year. Accordingly, there are differences in the type of customers and average credit period at Makhteshim Agan between the first half and the latter half of 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, while in the southern hemisphere, the seasons are opposite and most of the local sales (with the exception of Australia) are carried out during the second half of the year.

Customer credit days in the countries in the northern hemisphere are lower than Makhteshim Agan's average customer credit days, while customer credit days in the countries in the southern hemisphere are higher than Makhteshim Agan's average customer credit days. Because of this seasonality, the average credit days on June 30 of each year is usually lower. Sales in Brazil, which is 15% of Makhteshim Agan's turnover, are primarily in the third and fourth quarters of the year and payment is collected mainly in the second quarter of the following year. The Company's doubtful debt balance (including a deferred promissory note) as of December 31, 2010 amounted to NIS 681 million.³⁸

Securitization of customer debts – See Section 9.2.9[C] of this Part.

Inventories. For the most part, Makhteshim Agan's policy for holding raw materials and finished products inventories is flexible. To the extent possible, Makhteshim Agan generally times delivery of raw materials from suppliers close to the planned production date. Makhteshim Agan's production program is based on a forecast of periodic (seasonal) orders according to actual orders. Shelf life of most of the raw materials is several years, and it is generally possible to extend their shelf life through simple treatment. Makhteshim Agan has a distinct inventory policy for each finished product depending on its profitability and the production dates and projected orders from customer. Each period, Makhteshim Agan examines the need for recording provisions for impairment of inventory. For this purpose, Makhteshim Agan examines various indications (such as new competitors, regulatory changes, receipt of permits, expiry of licenses, etc) that may impact the expected sale of a certain product, its selling price and production costs. Makhteshim Agan's total inventory as at December 31, 2010 was USD 1,002 million (compared with a similar amount in 2009). The average supplier credit days in 2010 was 206 days.

³⁸ Total provisions for doubtful debt in 2010 were approximately USD 17.4 million (compared to USD 6.4 million in 2009). The rest of the change in the provisions for doubtful debt derives from the credit risks of the subsidiary in Brazil.

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Supplier credit – as a rule, Makhteshim Agan receives credit from its suppliers ranging between 30 to 180 days. Makhteshim Agan consistently acts to receive the greatest number of days credit from its various suppliers. As at December 31, 2010 the average days credit from suppliers was 127 days. Makhteshim Agan's debt balance to suppliers as of December 31, 2010 amounted to NIS 503.4 million.

9.2.14 **Financing and loans.** Makhteshim Agan finances its business operations from equity, primarily by way of medium and long-term debentures, raised by Makhteshim Agan, the balance of which, at reporting date is USD 980 million. Under its debentures, Makhteshim Agan does not undertake any financial covenants. The smaller part of Makhteshim Agan's financing sources are external as follows: (a) long term bank loans, the balance of which as at the reporting date (including current maturities) is USD 254.2 million and under which Makhteshim Agan undertook to comply with the financial covenants as set forth in section 9.2.14[D] to this part; (b) short term bank credit, the balance of which as at the reporting date (excluding current maturities) is USD 260 million; (c) securitization of trade receivables of USD 250 million, the balance of which as at December 31, 2010 is USD 166 million, under which Makhteshim Agan undertook to comply with financial covenants as set out in section 9.2.14[D] to this part; and (d) supplier credit. On the other hand, as of December 31, 2010, Makhteshim Agan's liquid balance in cash and cash equivalents amount to USD 423 million.

[A] Long-term loans from banks (including current maturities) for 2010 (in USD millions, segmented according to primary financing currency)

	2010		
	Weighted interest rate as of 31 December 2010	Effective interest rate	Amount
In USD	3%	3.03%	232
In BRL	6.40%	6.56%	8
In EUR	3.10%	3.14%	10.5
In other currencies	5.40%	5.51%	3
Total	--	--	254

Below is a breakdown of Makhteshim Agan's total estimated future payments under the terms of the aforementioned loans in each of the six years following the date of statement of financial position (in USD millions):

Payments	2010
First year	179.7
Second year	24.8
Third year	25.3
Fourth year	18.9
Fifth year and thereafter	5.3

[B] Short-term loans from banks for 2010 (in USD millions, segmented according to primary financing currency)

	2010		
	Weighted interest rate as of 31 December 2010	Effective interest rate	Amount
Overdraft:			
In NIS	5.90%	6.08%	0.3
In USD	4.5%	3.98%	71.8
In EUR	4.2%	4.29%	13.4
In BRL	12.4%	13.20%	4.7
In other currencies	6.1%	6.29%	43
Total	--	--	94.5

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Short-term credit:			
In USD	3%	2.94%	65.6
In EUR	2.1%	2.12%	0.6
In other currencies	9%	9.42%	33.7
Total short-term credit	--	--	99.9

- [C] Breakdown of liabilities in respect of debentures (non-convertible) issued by Makhteshim Agan and which are not yet repaid as at the report date:

Series	Linkage	Interest rate	Balance at December 31, 2010 (in USD millions)
Series B	Israeli CPI-linked	5.15%	502.6
Series C	Israeli CPI-linked	4.45%	271.5
Series D	Unlinked	6.5%	197.3
Total	--	--	971.5

The above debentures will be repaid during the years 2010 through 2036. In November 2010, Makhteshim Agan paid the first instalment on account of the principal of Debentures (Series C), in the amount of NIS 281.5 million.

On May 10, 2010 Koor published a shelf prospectus.

- [D] Credit restrictions applicable to Makhteshim Agan:

[1] **Restrictions due to long term bank credit documents:**

Makhteshim Agan is subject to restrictions pertaining the receipt of credit, which include Makhteshim Agan's commitments under its long term bank credit finance documents and under those of its consolidated companies to maintain financial ratios (financial covenants), the principal ones being: (a) the interest-bearing financial liabilities to shareholders' equity ratio shall not exceed the ratio set in some of these financing documents and is between 1.25 (the most stringent ratio) and 1.5;³⁹ (b) the interest-bearing financial liabilities to EBITDA ratio shall not exceed 4. Following Makhteshim Agan's explanation of the possibility that it may not comply with certain covenants, Makhteshim Agan turned to the relevant banks and subsequent to its request, Makhteshim Agan received, during the course of December 2010, letters of agreement from its financing banks according to which financial covenant pertaining to interest-bearing financial liabilities to EBITDA ratio so that for the period ended December 31, 2010, the financial liabilities to EBITDA ratio shall not exceed 4.5 with respect to one of the financing banks and 5 with respect to the other financing banks.⁴⁰ At December 31, 2010 the interest-bearing financial liabilities to EBITDA ratio (less the foregoing non-recurring expenses) was 4.2 and accordingly, at December 31, 2010, the Company is in compliance with this covenant. In addition, under the letters of agreement Makhteshim Agan received, the financial covenant concerning Makhteshim Agan's interest-bearing financial liabilities to EBITDA ratio was amended so that for each period until the third quarter of 2011 (inclusive), with regard to some of the financing banks and until the fourth quarter of 2011 (inclusive) with regard to one of the financing banks, this ratio was amended and will not exceed 5; (c) equity shall not fall below the amount set in part of the financing documents and is

³⁹ As at December 31, 2010 this ratio was 0.9

⁴⁰ Furthermore, an exclusion is fixed in the letters of agreement given to the Company by the relevant banks, according to which at December 31, 2010 and for each of the quarters until the third quarter of 2011 (inclusive), in calculating the foregoing ratio, non-recurring expenses will be deducted, in the amount of USD 90 million (concerning some of the banks) or up to USD 90 million for certain non-recurring events (with regard to one of the banks).

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between USD 1.22 billion (the most stringent amount) and USD 850 million;⁴¹ (d) the financing documents of one of the banks also stipulate that Makhteshim Agan's retained earnings or balance of profit based on Makhteshim Agan's financial statements for each period shall not be less than USD 700 million. The letter of agreement received from the relevant bank notes that in calculating the retained earnings, as aforesaid at December 31, 2010, less non-recurring expenses in a cumulative amount that shall not exceed USD 90 million for certain non-recurring events (at December 31, 2010 Makhteshim Agan's retained earnings amounted to USD 611 million and its retained earnings less foregoing non-recurring expenses amounted to USD 701 million);⁴² (e) in addition, it was agreed that no changes will be made in the control of Makhteshim Agan or in its subsidiaries, Makhteshim and Agan, without the prior written consent of the bank. Furthermore, it is noted that there are credit restrictions applicable to Makhteshim Agan's subsidiaries which to the best of Makhteshim Agan's knowledge are not material and as at the reporting date, the foregoing companies are in compliance with these restrictions.

As at December 31, 2010 Makhteshim is in compliance with the financial covenants prescribed by the financing banks under the financing documents and letters of agreement received from the financing banks by the reporting date. Consequently, Makhteshim Agan estimates that it is in compliance with the financial covenants as prescribed in the letters of agreement at the relevant periods. It is clarified that following these relevant periods, the original financial covenants, as set in the financing agreements will be reinstated.

The primary financing agreements of Makhteshim Agan and its subsidiaries with the financing banks include cross default clauses according to which the relevant bank will be entitled to call its debts for immediate repayment, in the event that one of the other banks is entitled to call for the immediate repayment of Makhteshim Agan and/or its subsidiary's debt, in whole or in part, provided that the amount of the debts and liabilities of Makhteshim Agan and/or its subsidiaries to such other bank will exceed the minimum amount as set in the various financing agreements.

[2] Credit restrictions applicable to Makhteshim Agan under the securitization documents:

Makhteshim Agan is subject to restrictions pertaining the receipt of credit, under trade receivables securitization documents of Makhteshim Agan and its subsidiaries, which include Makhteshim Agan's undertaking to maintain financial ratios (financial covenants).

Since Makhteshim Agan believes that it may not comply with certain criteria, during 2010, it turned to the financing entities with whom it has engaged in a securitization agreement and consequently, in September and in December 2010, amendments to the securitization agreements were signed, according to which at September 30, 2010 and at December 31, 2010, Makhteshim Agan will not be required to comply with the financial covenants set in the securitization agreements. In accordance with the amendments to the securitization agreements, which were signed in December 2010, as of March 31, 2011, Makhteshim Agan will again be required to comply with the financial covenants set in the securitization agreements, which are: (a) Makhteshim Agan's financial liabilities to equity ratio shall not exceed 1:25; (b) Makhteshim

⁴¹ As at December 31, 2010, Makhteshim Agan's equity amounted to USD 1.13 billion and equity less non-recurring expenses amounted to USD 1.221 billion.

It is noted that the letter of agreement received from one of the relevant banks states that in calculating the equity as aforesaid, at December 31, 2010 and for each of the quarters until the third quarter of 2011 (inclusive), non-recurring expenses amounting to USD 90 million will be deducted for certain non-recurring events.

⁴² Furthermore, an exclusion is fixed in the letters of agreement given to the Company by the relevant banks, according to which at December 31, 2010 and for each of the quarters until the third quarter of 2011 (inclusive), in calculating the foregoing retained earnings, non-recurring expenses will be deducted, in the amount of USD 90 million (concerning some of the banks) or up to USD 90 million for certain non-recurring events (with regard to one of the banks).

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Agan's interest bearing financial liabilities to EBITDA shall not exceed 3.3. As part of the extension of the lines of credit for an additional year and the amendment of the securitization agreement, Makhteshim Agan reached agreement with the financing entity with regard to the amendment of its financing covenants concerning the interest bearing financial liabilities to EBITDA ratio, so that for the period ended March 31, 2011 and for each period until December 31, 2011 (inclusive) this ratio will be updated and will not exceed 5.⁴³ As at reporting date, the foregoing agreement was given to Makhteshim Agan verbally and the agreements related thereto have not yet been signed; (c) Makhteshim Agan's equity shall not fall below USD 1 billion.⁴⁴

The securitization agreement contains cross default clauses according to which the entity with which Makhteshim Agan has engaged in the securitization agreement will be entitled to call for the immediate repayment the debts of Makhteshim Agan and/or its subsidiaries, in whole or in part, provided that the amount of the debts and liabilities of Makhteshim Agan and/or its subsidiaries with the other financing entity exceed the minimum about as set in the various financing agreements.

Further to the foregoing, Makhteshim Agan undertook, under the letters of agreement with the financing banks, as aforesaid, to comply with additional standards which it estimates, as at the reporting date, will not significantly restrict its operations.

As at the report date, to the best of Makhteshim Agan's knowledge, Makhteshim Agan is in compliance with all the restrictions imposed on it under these letters of agreement. Pursuant to aforesaid financial documents and letters of agreements, Makhteshim Agan's compliance with these financial covenants are examined once every quarter and with respect to the four quarters prior to the date examined.

Notwithstanding the foregoing, an unexpected deterioration in Makhteshim Agan's results due to the occurrence of an event outside of Makhteshim Agan's control or non-materialization of Makhteshim Agan's forecasts as stipulated in section 9.2.9 to this part, could cause non-compliance of Makhteshim Agan with the covenants set out in the letters of agreement .

The foregoing with respect to Makhteshim Agan's assessment concerning its compliance in 2011 with the financial covenants as set in the letters of agreement is a forward-looking statement, as defined in the Securities Law, and is based on Makhteshim Agan's subjective estimates and is uncertain, and may not materialize, inter alia, due to the materialization of any of Makhteshim Agan's risk factors as set forth in section 9.2.23 to this part, changes in the debt market, or the effect of external factors that are not in Makhteshim Agan's control.

[E] Makhteshim Agan is considered to be included in a "group of borrowers", as part of the IDB Group, see Section 8 in this Part.

[F] On December 3, 2009, Maalot announced impairment ratings for Makhteshim Agan's Debentures (Series B, C and D) which Makhteshim Agan issued, from a iIAA rating to a iIAA with credit watch negative rating.

In June 2010 Maalot announced the a credit watch negative rating. On September 7, 2010 Maalot announced confirmation of Makhteshim Agan's iIAA rating with negative outlook and removed it from the credit watch negative rating.

[G] Variable interest credit

Hereunder breakdown of the interest margin as at the reporting date, and the interest rate proximate to the reporting date, for Makhteshim Agan's variable interest loans:

⁴³ Furthermore, Makhteshim Agan reached agreement with the financing entity that under the amendment of the securitization agreement, an exclusion will be included according to which at March 31, 2011 and at each period until December 31, 2011 (inclusive), the foregoing ratio will be calculated less the non-recurring expenses of USD 90 million).

⁴⁴ As at December 31, 2010, Makhteshim Agan's equity amounted to a total of about USD1.13 billion.

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Type of credit	Currency	Amount of credit shortly prior to the date of the statement of financial position (in USD thousands)	Variance mechanism	Interest rates proximate to report date	Interest margin for 2010 (in %)
Long-term loan	USD	33,334	M Libor 1	0.261	0.228-0.354
Long-term loan	USD	179,251	M Libor 3	0.303	0.2485-0.539
Long-term loan	EUR	10,490	M Libor 3	0.939	0.5756-0.995
Overdraft	USD	88,030	D USD 1	0.252	0.16938-
Overdraft	EUR	13,415	D EUR 1	0.606	0.27125-0.77
Overdraft	NIS	291	1 D ILS	1.850	0.25-1.88
Overdraft	BRL	4,725	1 D BRL	10.640	8.55-10.65
Overdraft	Other	4,331	-	3.458	2.1221-3.8729
Short-term credit	USD	67,622	M Libor 3	0.261	0.228-0.354
Short-term credit	EUR	614	M Libor 3	0.303	0.66-2.847
Short-term credit	Other	33,727	-	7.820	2.6869-7.9678

9.2.15 Taxation

Makhteshim Agan is assessed in accordance with the permanent income tax laws in Israel under the Income Tax Ordinance (New Version), 1961 ("the Tax Ordinance") and its regulations. Makhteshim Agan operates in 120 countries world wide through 50 subsidiaries around the world and which employ the majority of Makhteshim Group's employees.. Each of the foreign companies in the Makhteshim Agan Group has a different role and a different contribution to the series of operations of the Makhteshim Agan Group, and they are assessed under the tax laws of their resident countries, as specified below. It is clarified that the following information is a very brief description based on the tax law as they were in force as at the report date and that any future changes in these tax laws may lead to different results.

Corporate Tax in Israel. The tax base in Israel is territorial and personal and therefore is applicable to companies defined as resident in Israel under the provisions of the Income Tax Ordinance. Pursuant to the provisions of section 1 of the Income Tax Ordinance, a company is resident in Israel for income tax purposes if it was incorporated in Israel or if the control and management of it are carried out in Israel. The term "control and management" are not defined in the Income Tax Ordinance. To the best of Makhteshim Agan's knowledge, the control and management of its foreign investees are carried out outside of Israel and therefore, to the best of Makhteshim Agan's knowledge, they are not considered resident in Israel for income tax purposes. It should be noted that the tax authorities in Israel and/or the tax authorities in the foreign countries are liable to reject the tax results as they are described in general above and below.

In February 2008 the Knesset adopted the Income Tax (Inflationary Adjustment) (Amendment No. 20) (Limitation of Effective Period) Law, 2008 ("wardsthe Amendment"). According to the Amendment, the applicability of the Adjustments Law will end in the 2007 tax year, and in the 2008 tax year, the provisions of the said law shall no longer be applicable, with the exception of the transfer provisions which were for the purpose of preventing distortion of the tax calculations. Pursuant to the amendment, as of 2008 and onwards, CPI linkage of the depreciation on fixed assets and of losses carried forward for tax purposes was discontinued and the carried forward balances will be the balances adjusted to the CPI at the end of the 2007.

In July 2005 the Knesset adopted the Amendments to the Income Tax Ordinance (no. 147), 2005 ("Amendment 147"). Amendment 147 stipulates, among other things, that the corporate tax rate in Israel will be gradually reduced to the following tax rates: 2008 – 27%, 2009 – 26%, 2010 and onwards – 25%.

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In July 2009, the Knesset passed the Economic Arrangements (Amendments for the Application of the Economic Plan for 2009 and 2010) Law 5769-2009 ("the Economic Arrangements Law"). Under the Economic Arrangements Law and section 126 of the Income Tax Ordinance, the corporate tax is expected to be reduced gradually from 2011 through 2016. Pursuant to the Economic Arrangements Law, corporate tax rates applicable from the 2010 fiscal year onwards are as follows: 2010 tax year – 25%; 2011 tax year – 24%; 2012 tax year – 23%; 2013 tax year - 22%; 2014 tax year - 21%; 2015 tax year - 20%; and from the 2016 tax year onwards – 18%. Under the Economic Arrangements Law, the tax margins applicable for individuals are also expected to be reduced from maximum margin of 46% in 2009 to 45% in 2010-2011 and will gradually be reduced to 39% in 2016.

Encouragement of Capital Investments Law. In January 2011 the Economic Policy Law for 2011 and 2012 (Legislative Amendments), was published under which the Capital Investment Encouragement Law (in this section - ("the Amendment"). The Amendment is effective since January 1, 2011 and its directives apply to preferred derived or grown by a preferred company, as defined in the Amendment, in 2011 and thereafter. Makhteshim Agan is permitted to choose not to transfer to the scope of the Amendment to the Encouragement Law and to remain within the scope of the Law, prior to its amendment, until the end of the benefit period. The last base year that Makhteshim Agan is allowed to choose is the 2012 tax year, provided the minimum eligible investment took place in 2010.

The Amendment stipulates that companies in Development Area A will be eligible for the grants track only, and they will be eligible to benefit from this track and from the tax benefit track simultaneously. Moreover, the existing tax benefit tracks were canceled (tax exemption track, Ireland track and strategy track). These tracks were replaced with two new tax tracks: a priority enterprise and a special priority enterprise, which are mainly taxed at a uniform and reduced rate for Makhteshim Agan's eligible income, as follows: For a preferred enterprise, in the 2011-2012 tax years – 10%; in Development Area A - 15% and in other parts of Israel , in the 2013-2014 tax year – 7% in Development Area A and 12.5% in other parts of Israel and in the 2015 tax year and thereafter – 6% in Development Area A and 12% in other parts of Israel . In addition, an enterprise that is within the definition of a special preferred enterprise is eligible for a benefit period of 10 consecutive years, for a reduced tax rate of 5% if it is in Development Area A or a reduced tax rate of 8% if it is not in Development Area A.

The Amendment further prescribes that tax will not apply to a dividend distributed from preferred income to a shareholder that is a Company, resident in Israel Tax at a rate of 15% will still apply to a dividend distributed out of the preferred income to a single shareholder or a foreign resident subject to double taxation treaty, meaning that there is no change compared to the existing law. Furthermore, the Amendment also prescribes relief regarding tax paid on a dividend received by an Israeli company from the profits of an approved/substitute/beneficial enterprise, which grew in the benefit period according to the provisions of the law prior to the amendment, if the Company distributes the dividend, it will inform the Tax Authority before June 30, 2015 of the applicability of the provisions of the amendment to the Law and the dividend will be distributed after the date of the notice.

At reporting date, Makhteshim Agan chose to continue the benefits received under the Law, prior to its amendment.

The law encourages the establishment and expansion of industrial plants and other projects by granting approved enterprise status for investment plans in such plants. Until Amendment 60 to the foregoing law, the general criteria guiding the Investment Promotion Center administration when granting approved enterprise status were contribution to national interest, competitiveness on global markets, use of innovative technologies, generating jobs, high added value, and providing a suitable solution for the special needs of the State's economy. In the foregoing Amendment No. 60, several conditions were added whereby only those who comply with them are entitled to the approved enterprise status. The main conditions (export conditions) are as follows: (1) The primary operations of the enterprise is in the biotechnology or nanotechnology spheres and certification of this is obtained from the head of the Industrial R&D council prior to the aforesaid plan approval;

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(2) its revenue for the fiscal year from the plant's sales in a specific market does not exceed 75% of the plant's total turnover for the same fiscal year; (3) 25% or more of its total revenue in the fiscal year from the plant's sales are from sales in a specific market that includes a population of at least 12 million.

Under the said law, two main types of benefit tracks are offered: (1) **Benefits Track** – this status is granted to an enterprise that complies with the conditions specified above and is contingent upon equity investment of the enterprise's owners. This state is contingent upon obtaining approval of the Investments Center, which may make the approval conditional upon compliance with additional conditions; (2) **Tax Benefit Track** – until Amendment No. 60, the principal tax benefit track was the **Alternative Track**, as stipulated below. Subsequent to Amendment No. 60, two additional tax benefit tracks were added and they are: (1) the **Improved Track (Ireland Track)**; and (2) the **Strategic Investment Track**. An enterprise in the exemption track will be known, subsequent to Amendment 60, as a "beneficiary enterprise".

Grant Track: A development area A approved enterprise is entitled to two years exemption from corporate tax and to reduced tax rates for the rest of the benefit period on its unclassified income (five years for an investment in a company that does not comply with the definition of a foreign investment company and eight years for a company that does comply with the definition of a foreign investment). If the profits from the exempt year are distributed, the owners of the enterprise will be obligated to pay reduced dividend tax, while the Company will be required to pay the tax rate it would have had to pay had it not chosen the alternative track. Reduced corporate tax is 25% (this tax may be reduced up to 10%, dependent upon the rate of foreign investment in the enterprise).

Tax Benefits Tracks:

Three tracks as follows:

- (1) **Alternative track** – the Income Tax Authority is responsible for the alternative track. A company wishing to receive tax benefits for its industrial operations, and subject to it complying with certain conditions such as minimal investment and export conditions as specified above, is entitled to accelerated depreciation and to tax benefits based on national priority areas as follows:

	Priority Area A	Priority Area B	Center
Exemption from corporate tax	10 years	6 years	Two years
Reduced corporate tax			
A company owned by Israeli investors	None.	Year	5 years
A company complying with the definition of a foreign investment company	None.	4 years	8 years

- (2) **Improved Track (Ireland Track)** – granted in Development Area A only. The tax benefits are as follows:

	Reduced corporate tax	Dividend Tax
Israeli Investor	11.5%	15%
Foreign Investor	11.5%	4%

- (3) **Strategic Investment Track** – this track applies to enterprises in which capital investment is not very high, and especially in high priority development areas. Generally, this track grants an absolute tax exemption during the benefit period to enterprises that comply with the conditions.

Benefit period. The tax benefits to an approved enterprise are granted, according to the relevant development area in which the enterprise is located, for seven consecutive years from the first year of taxable earnings and provided that no more than 14 years have passed from the year in which the

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status was approved or for 12 years from the year deemed by the Investment Center as the year that the enterprise began operating or 12 years from the year selected concerning the beneficiary enterprise, whichever comes first. Tax on dividend distributed by an approved enterprise is 15%, subject to various double taxation prevention treaties, if the dividend is distributed to foreign residents.

For expanding its plants in Israel, Makhteshim Agan has been granted approved enterprise status, which entitles it to investment grants and/or tax benefits under the Capital Investment Encouragement Law. It is noted that the Ashdod plant received approved enterprise status only for tax benefit purposes and the benefit period for several expansion programs end in 2008 and for some of them also in 2010, and several other expansion programs will end in 2012. For an additional extension plan, the benefit period has not yet commenced.

Makhteshim Agan is entitled to benefits under the provisions of the Law for the Encouragement of Industry (Taxes), 5729-1969 and the Encouragement of Capital Investment Law.

The applicable tax rate in Israel on capital gains and dividend. As at reporting date, the tax rate applicable in Israel on real capital gains accrued by Makhteshim Agan is 25%.

A company is not taxable according to corporate tax for a dividend that the company receives that originates from revenue produced or grown in Israel and that is received directly or indirectly from another association of individuals who are taxable according to corporate tax.

A dividend that originates from revenue that was produced or grown outside of Israel, as well as a dividend that originates from outside of Israel, is taxable at the corporate tax rate of 25%. Alternatively, if the company chooses to receive an indirect credit (as specified below) for the said dividend, then the dividend as it will be included will be taxable with regular corporate tax.

Taxation abroad. As at the report date, Makhteshim Agan Group develops, purchases, produces and markets its products through numerous companies worldwide. Over 95% of Makhteshim Agan Group's sales are conducted in global markets outside of Israel and therefore, Makhteshim Agan Group operates through numerous subsidiaries, which to the best of Makhteshim Agan's knowledge, are consolidated, controlled and managed outside of Israel and are assessed in accordance with the income tax laws of their resident countries. Some of these foreign subsidiaries were established by Makhteshim Agan and others of the foreign companies were acquired during Makhteshim Agan's many years of operation during which Makhteshim Agan became a multinational company, whose primary commercial and marketing operations are carried out outside of Israel.

Taxation in Israel on foreign income. Income deriving from dividend distributed by foreign companies abroad will be taxable in Israel less a credit for the tax paid abroad, including by way of an indirect credit, subject to the requirements set forth in the Income Tax Ordinance as stipulated hereunder. When income from interest from a foreign company to an Israeli company is taxable per corporate tax in Israel, a credit will be received up to the amount of the tax deducted at source by the foreign company. As a rule, the credit amount for the foreign tax is limited to the taxable amount of the company for its income from the same source. The surplus credit which cannot be offset in the same fiscal year may be carried forward and be offset over the next five years against the same source.

"Indirect Credit in Israel" – under current legislature, instead of committing to a tax rate of 25%, an Israeli company will be entitled to decide to be taxed according to the corporate tax rate in Israel (25% in 2010, which rate is expected to gradually decrease to 24% to 2011 and to 18% in 2016 as aforesaid) for the total income from which the dividend was distributed and to receive an indirect credit for the foreign corporate tax applicable to the revenue from which the dividend was distributed, on condition that the Israeli company holds 25% or more of the means of control in the foreign subsidiary that is distributing the dividend. The Israeli company will be eligible for an indirect credit for the corporate tax applicable to the foreign granddaughter company, if it controls the granddaughter company generating the income from which the dividend is distributed at a rate of 50% or more.

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"Foreign Controlled Company" – if the majority of the revenue of the foreign companies held by the company (directly or indirectly) is passive revenue, said foreign companies may be considered to be a foreign controlled company. In this case, pursuant to section 75B Of the Income Tax Ordinance, the company that is the controlling shareholder in the foreign company that is a foreign controlled company, will be taxable in a way that it will be deemed to have received its share of the undistributed profits of the foreign controlled company during the fiscal year in which they were generated. The provisions of this section refer to profits originating in passive income of the foreign company (such as income from interest or dividends that are not utilized).

Resale price: In November 2006, section 85A of the Income Tax Ordinance became effective upon the publication of the Income Tax Regulations (Determination of Market Terms, 5767-2006 at that time (the "Resale Price Regulation"). Pursuant to this section and to the Resale Price Regulation, an international transaction (in which one of the parties is not resident in Israel), where there are special relations between the parties, as the term is defined in the Ordinance, will be reported in accordance with the market conditions and will be taxed accordingly. The Resale Price Regulation is applicable to various international transactions, including at varying stages in the production of a product until it is sold, that was made on the publication date of the Resale Price Regulation and forward. Rules for continuing reporting were also set, based on this regulation, and the tax assessors were granted the authority to demand market surveys.

As aforesaid, section 85A of the Income Tax Ordinance and the Resale Price Regulations adopt the market price principle in their determination that the fair value and terms of an international transaction between the parties that are connected by special relations will be examined by comparing them with similar transactions between parties that do not have special relations. In other words, these transactions, the international transactions, will be examined by comparing them to transactions that are similar to the examined transaction. Pursuant to Regulation 2(A) of the Resale Price Regulation, for the purpose of determining whether an international transaction is at market terms a study will be conducted of the market terms to which the international transaction will be compared with similar transactions of the examined party as defined in the Resale Price Regulations. The comparison will be conducted according to one of the methods stipulated in Regulation 2 of the said Regulations. The market survey will be presented to the tax assessor within 60 days of his or her request, unless the assessor approved the international transaction as a one-time transaction, under Regulation 4 of the Resale Price Regulation.

The international transaction will be deemed a transaction carried out at market terms if the results of the study conducted as aforesaid, according to the generally accepted methods as set forth in the Resale Price Regulations, do not deviate from the inter-quartile range (between the 25 and 75 percentiles) received by the comparison with similar transactions. In the comparison method which is the price comparison method, a transaction will be deemed as a transaction carried out at market terms also if it complies with all the value ranges of similar transactions. A transaction that cannot be deemed as a transaction at market terms as aforesaid, the resale price will be reported according to the value that is within the 50 percentile range as will be received in the comparison with similar transactions.

As at the report date, Makhteshim Agan Group develops, purchases, produces and markets its products through numerous companies worldwide. Each of the aforesaid companies, which are assessed in their various regions around the world, has a role in the overall system in which Makhteshim Agan's international activities are carried out (often for the same product), from the production stages, retention of know-how and its development, as well as acquisitions, logistics, marketing and sales of the various Makhteshim Agan products. Accordingly, some of the companies in the Makhteshim Agan Group own intangible assets, some serve as production subcontractors, others coordinate acquisition activities, some serve as logistics centers and others serve as marketing centers. Prices of the products and services (in the various production stages) are set on the basis of resale price studies conducted in order to determine the relative contribution and risks of each relevant company around the world in the Makhteshim Agan Group's operating system, and this, in order to reflect the market price that would have been set for said services and products if they were given to foreign parties who are not part of the Makhteshim Agan Group. Accordingly, the pre-tax profit is divided between numerous countries around the globe, at varying

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tax rates. As at the report date, the various double taxation prevention treaties have no effective impact on Makhteshim Agan. The various classifications or references of the proceeds for the value components of each of the companies in the Makhteshim Agan Group in the different countries, or of the characteristics of such companies, affect the amount of the profit generated and assessed in any of the countries and it is possible that this could have significant impact on the tax issues of Makhteshim Agan Group and its results (see also section 9.2.23 in this part).

Pursuant to the current Income Tax Law, in countries that recognize deferred taxes, there are not time restrictions on the exploitation of losses for income tax purposes and on the exploitation of deductible temporary provisions. Nonetheless, the amount of losses carried over in Brazil that can be deducted every year are restricted (30% of the annual taxable income).

The main supporting evidence used by Makhteshim Agan for recognizing tax assets are based on the characteristics of the market in which Makhteshim Agan operates, including: the agrochemical industry is stable and the products are well established products based on traditional chemistry without the effect of significant technological developments. For further information pertaining to the depreciation of tax assets in the amount of USD 2 million during the third quarter of 2010 as the result of events concerning the subsidiary in Brazil, see section 1.2.2.1 of the Directors' Report and Note 9A(6) to the financial statements.

According to Makhteshim Agan's consolidated financial statements as at December 31, 2010, Makhteshim Agan's pretax loss in 2010 amounted to approximately USD 121.2 million, whereby its tax income, calculated at the statutory rate, were meant to be an amount of USD 30 million. However, Makhteshim Agan's actual consolidated tax expenses, based on the foregoing statements, amounted to USD 7.37 million and this, inter alia, due to USD 44 million for non-registration of a tax asset, particularly for the losses in Brazil and in Israel, cancellation of a tax asset generated in Brazil in previous years, for losses carried over in the amount of USD 2, million and off setting of income taxable at other rates in the amount of USD 14 million.

Effective tax rate. The majority of Makhteshim Agan Group's tax expenses in 2010, originated from Makhteshim Agan Group's companies operating in Israel (at the rates as stipulated above), in Europe, especially Italy, Spain and France, in the USA and Latin American countries. To the best of Makhteshim Agan's knowledge, the statutory corporate tax rate as at December 31, 2010 was 37.5% in Italy (effective tax rate), 30% in Spain, 33% in France, 38.4% in the USA and between 25-35% in the Latin American countries. In other countries in which Makhteshim Agan Group operates, the corporate tax rate ranges between 16-40% and part of the Makhteshim Agan Group's companies are also incorporated in foreign territories where the tax rate is lower than 5%.

As set forth above, Makhteshim Agan's profits declined dramatically in 2010, while in certain areas, particularly in South America, Makhteshim Agan presented losses and in others slight erosion of its profitability. Due to the foregoing, realization of tax losses carried forward to the following year, which as at December 31, 2010 amounted to the adjusted sum of USD 353 million (which originate primarily from operations in South America and in Israel), may be spread over several years. The tax asset balance for the accrued losses amounts to, at the reporting date, USD 35 million, Makhteshim Agan estimates that there is a high level of certainty that these losses will be realized in the coming years. The effective tax rate (consolidated) in 2010 was 8.85%.

Part of Makhteshim Agan's surplus derives from income from approved enterprises in Israel and from revenues of foreign subsidiaries. The distribution of these surpluses may create a tax liability at the time of distribution if Makhteshim Agan should utilize the majority of the surpluses from its operations for expanding its business, and the calculation of Makhteshim Agan's deferred taxes did not take into account the taxes that would have been applicable in the event of exercising the investment in investees, and this since Makhteshim Agan, as at the report date, intends to hold these investments and not exercise them. Furthermore, Makhteshim Agan Group is liable to undertake additional taxation in the event that dividends are distributed among the companies of the Makhteshim Agan Group. Also such additional taxation is not included in the deferred tax calculation in Makhteshim Agan's financial statements as at December 31, 2010 due to the said policy not to distribute dividend that involves significant additional tax (with the exception of

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distribution of dividend that Makhteshim Agan carried out based on the Amendment 169 of the Income Tax Ordinance for 2009). As at the report date, Makhteshim Agan has no information and data with respect to the volume of liabilities, if any, that have accrued for the aforesaid distribution of dividend, however according to an initial assessment, if Makhteshim Agan is required, under certain conditions (that is not in accordance with its aforesaid policy and dependent upon the amount) to divide the aforesaid surplus this obligation is liable to be significant.

Tax assessments. Makhteshim Agan has final tax assessments up to and including the 2003 fiscal year, up to and including the tax year 2003 for Makhteshim, up to and including the 2005 fiscal year for Agan, and up to and including the 2006 tax year for Lycored Ltd.

9.2.16 **Environmental risks and means for their management**

[A] **General.** The production processes at Makhteshim Agan, as well as the products it manufactures and markets, involve environmental hazards and affect the environment. For this reason, Makhteshim Agan is subject, both in the countries in which it has production sites and in countries in which it sells its products, to comprehensive regulation relating to the production, storage, treatment, transportation, use and removal of its products, their ingredients and waste, as well as the emissions from the production process. Most of the environmental hazards and effects of Makhteshim Agan's operations are in the following areas: [1] emissions into the air; [2] industrial effluents; [3] ground and water pollution; [4] sea water pollution, and [5] environmental damage and harm to health from Makhteshim Agan's products.

As of the report date, to the best of Makhteshim Agan's knowledge, the permits and licenses applicable to Makhteshim Agan with respect to environmental protection are valid (see also Section 9.2.22 of this part - concerning risk factors "Liabilities for failure to comply with statutes or regulations regarding the environment, health and safety").

In recent years, the standards applicable to the production processes and facilities of Makhteshim Agan have become much stricter, as have the supervision and enforcement of environmental standards worldwide, and Makhteshim Agan estimates that this trend will continue and even deteriorate in the future. For these reasons, Makhteshim Agan invests considerable resources in ensuring compliance with the provisions of the environmental laws applicable to it, by continuous investment and ongoing expenses, and acts to prevent or minimize the environmental hazards that could occur during its operations. Makhteshim Agan consistently acts to reduce its environmental impact and will continue to adjust its operations to the applicable changes in the regulations and the provisions of the law and the guidelines of the enforcement authorities on ecological issues.

The principal environmental protection laws that relate to Makhteshim Agan operations in Israel are the Prevention of Environmental Damage Law, 1961, the Hazardous Substances Law, 1993 ("the Hazardous Substances Law"), the Business Licensing Law, 1968, the Prevention of Pollution of the Sea from Land Resources Law, 1988; the Water Law, 1959; the Freedom of Information Law, 1998, the Clean Air Law, 2008 ("the Clean Air Law") and the regulations deriving from them, and the Packaging Regulation Law, 2011 ("the Packaging Law"). In addition, there are several environmental bills in various stages of legislation, inter alia, Memorandum for the Prevention of Soil Pollution and the Rehabilitation of Polluted Soil, 2011 and the bill for the Prevention of Asbestos Hazards and Harmful Dust, 2011.

The purpose of the Clean Air Law is to regulate the air quality and prevent pollution in Israel, inter alia, by establishing a nationwide monitoring system for measuring air pollution and setting air pollution standards.

According the Clean Air Law, Makhteshim Agan's subsidiaries are required to file applications for emission permits for the facilities requiring such permits at their plants in Israel. These subsidiaries are required to file applications for emission permits for existing facilities by March 1, 2014. New facilities requiring permits will be required to obtain emission permits for running them at all times after January 1, 2011. According to the Clean

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Air Regulations (Fees), 2010, a fee will be imposed for an emission permit, which will be charged upon filing of an application for an emission permit, for each emission source requiring a permit according to the type and volume of operations carried out. Furthermore, an application levy was set for significant changes in the operation at the emission source.

Makhteshim Agan estimates that the maximum amount of such levies that it will be required to pay is not material.

In addition, it is noted that under the Clean Air Law, the Ministry is required to determine a pollutant emission levy to be imposed on an air emissions permit. This levy has not yet been fixed, however the Ministry for Environmental Protection intends fixing a permit mechanism as aforesaid, as part of the general trend to cost operations impacting the environments, even if it legally operates under a permit, similar to currently existing levies for pumping wastewater into the sea and for burying waste.

Makhteshim Agan's plant at Ramat Hovav is prepared to comply with the terms of the law, under the terms of its business license, imposed on March 23, 2008. Subsequent to the filing of surveys pursuant to the terms of the business license dated March 2008, in July 2010, similar to other plants at Ramat Hovav, a draft principles were received of additional conditions to the business license, which mainly deal with fixing air emission values. These principles are currently under professional discussion between the plants at Ramat Hovav and the Ministry for Environmental Protection. Upon completion of these discussions within a few months, they are expected to be imposed on the Makhteshim plant at Ramat Hovav as part of the terms of its business license. As at reporting date, in Makhteshim Agan's opinion, these terms are not expected to impose additional significant expenses on Makhteshim Agan, over and above the costs that is currently required to bear for the quality of the environment.

The Agan plant is also prepared to carry out work in order to comply with the conditions in this law, inter alia, as part of the terms of its business license concerning clean air quality that was received at Agan in March 2010.

The main requirements on environmental matters which relate to the production facilities and processes of Makhteshim Agan in Israel are concentrated in the special terms stipulated in its business licenses, permits for hazardous substances for Makhteshim Agan's plants in Ramat Hovav, Be'er Sheva and Ashdod as well as permits to pump substances into the sea, as set out below in section 9.2.16[H] to this part.

Integrative Licensing. The Ministry for Environmental Protection recently published a draft document concerning adoption of an integrative licensing policy in Israel for large-scale plants which have a complex impact on the environment and the guidelines for providing information for this licensing process.

Integrative licensing, as prescribed in the European directive IPPC (Integrated Pollution Prevention and Control) ("the IPPC Directive") seeks to examine the overall environmental impacts of the plant on the environment from all aspects (waste, air, land, etc.) and to determine, based on specific conditions for each plant taking into account the exclusive conditions and the integration between its various environmental impacts.

The draft document that was published includes a general outline of the information that will be required for the integrative licensing process. Among others, emission reduction programs will have to be submitted as well as information pertaining to plant development plans.

The plants on which the integrative licensing process will apply have not yet been determined by the Ministry for Environmental Protection and it gave notice that the target population for this process will be formulated during the course of the coming year. The IPPC Directive is applied to a number of categories, usually the same categories requiring an emissions permit under the Clean Air Law. As at reporting date, in Makhteshim Agan's opinion, the integrative licensing process is not expected to impose additional significant expenses on Makhteshim Agan, over and above the costs that is currently required to bear

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for the quality of the environment. The process will require re-organization and additional information and surveys given to the Ministry for Environmental Protection for licensing Makhteshim Agan's sites.

PRTR (Pollutant Release and Transfer Register). The Pollutant Release and Transfer Register (PRTR) is an environmental data base of all the potential pollutant substances that are emitted into the air, the water and the soil, or are transferred from one site, inter alia, by industrial sources. The system was established by the Ministry for Environmental Protection based on the corresponding European model, as part of Israel entering the OECD. When the system becomes fully operative, it will require that every potentially pollutant plant submit an annual report of the substances it emits into the air, water and soil. This information will be available to the public.

In December 2008, a tender was published for the establishment of an environmental information center and at reporting date, trials are being conducted by the Ministry for Environmental Protection for gradual application of the system. Makhteshim Agan, through its subsidiary, Makhteshim, voluntarily agreed to participate on the steering committee established for carrying out the pilot. To the best of Makhteshim Agan's knowledge, as it was informed by the Ministry for Environmental Protection, the running in of the system is expected to begin of the entire industry during the course of 2011. Routine and ongoing running of the system, as informed by the Ministry for Environmental Protection, is expected to begin in 2013. The Ministry for Environmental Protection intends anchoring the PRTR system in legislature over the coming years.

Packaging Law. In January 2011, the Packaging Law which was legislated in order to reduce the amount of packaging waste, to prevent burial of waste and to encourage recycling of packaging. In order to reach this objective, the law imposes, inter alia, extended responsibility on manufacturers of packaged products, manufacturers of packaging services, and importers of products and packaging when to implement the obligations imposed by law. The manufacturers and importers are required to contract with recognized organizations to coordinate and carry out the required recycling. The costs of these recognized organizations will be financed by the manufacturers and importers, based on, inter alia, their share of the total weight and type of material and the recyclability of the packages manufactured or imported by all manufacturers and importers who contract with the same recognized organization. The Law authorizes the Minister of Environmental Protection to fix guidelines with respect to marking of packages for various products, in order to achieve application of the Law. As soon as such guidelines are set, selling packaged products will be prohibited unless they are marked in accordance with these guidelines.

Som of the provisions of the Packaging Law will be applicable from March 1, 2011 and others from July 1, 2011. To date the recognized organization has not yet been established and the regulations have not yet been applied. The provisions of the law do not apply to packaging of a product which is hazardous material unless it is designed for domestic use. Makhteshim Agan believes that, according to data published as at the date of the report, this will not cause the Company material costs.

Additional Issues A significant part of the raw materials of Makhteshim Agan, as well as the products it manufactures, are considered to be hazardous substances under the Hazardous Substances Law, 1993, and Makhteshim Agan requires and has permits to hold all such hazardous substances in its plants in Israel. Makhteshim Agan has permits to hold the hazardous substances it keeps in Israel, which prescribe, inter alia, the conditions for holding these substances and the maximum quantity it may hold of each hazardous substance. In accordance with the law, Makhteshim Agan has appointed a hazardous substances officer in each of its plants.

Makhteshim Agan products manufactured or sold in Israel require registration under the Crop Protection Law, 5716-1956 and its regulations. This is to protect public health and the environment against the effects of various substances contained in crop protection products.

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- [B] **Emissions into the air in Israel** The business licenses of the subsidiaries - Makhteshim and Agan, set strict restrictions on the scope and components of the emissions of their facilities into the air. In May 1998, Makhteshim and Agan voluntarily joined a treaty for the application of standards for the emission of pollutants into the air ("the Treaty"), which are based mainly on the strict German standard Ta Luft (1986); the treaty was prepared by the Ministry for Protection of the Environment and the Manufacturers Association. After they joined the treaty, the emission standards set in it were adopted as part of the special terms in the business licenses of Makhteshim and Agan. It is noted that the Ministry for Environmental Protection recently based the additional terms and conditions for the business license of Makhteshim Agan's subsidiary, with respect to air pollution, on the provisions of the IPPC Directive. Makhteshim and Agan have been taking numerous steps with regard to pollutant emissions, the prevention of substance emission and the prevention of odor nuisances. For additional information regarding air emissions at Makhteshim Agan's plant in Ramat Hovav and air emissions at the Agan plant in Ashdod, see Section 9.2.15 [H] of this part. For additional information pertaining to the substantial reduction of air emissions from the consumption of fuels and electricity (including a reduction in greenhouse gas emissions) due to the shift to clean energy sources, see section 9.2.16 [F] to this part. Makhteshim Agan operates two thermal oxidizers, one at the Ramat Hovav plant and the other at the Ashdod plant, which to the best of Makhteshim Agan's knowledge is the best available technology (BAT) for removing organic pollutants given off in the gases emitted from the production facilities.
- [C] **Industrial effluents in Israel.** The production processes of Makhteshim Agan's products at all its sites generate industrial effluents containing various pollutants. At each such site, Makhteshim Agan treats the industrial effluents in a different way, based on the conditions and circumstances at the site, and on the terms of the license of the relevant business. For treatment of industrial effluents at the Ramat Hovav, Be'er Sheva and Ashdod sites, see Section 9.2.16[H] of this Part.
- [D] **Solid waste in Israel.** Most of the solid waste generated at the plants of Makhteshim and Agan is usually transferred for disposal at the national toxic waste site which is run by the Environmental Services Co. Ltd. ("the Environmental Services Co."), which is a government company. The standards for the manner of packing and marking the waste, and the prices for waste disposal are revised frequently, making the requirements stricter.
- [E] **Standards certificates for environmental quality.** Makhteshim Agan and Milenia, its manufacturing plant in Brazil, have been certified for Israeli Standard ISO 14001 – Environmental Management System. This is an international standard which was adopted as an Israeli standard by the Israel Institute of Standards in February 1997. The general objective of the standard is to support environmental protection and to prevent pollution and set management systems which carry out corrective actions that ensure continuous improvement.
- The standard sets out the requirements of an organized environment management system that integrates with general management activities and contains five main chapters, as follows: (1) setting an environmental policy by the senior management; (2) proper planning of implementation of that policy, in terms of the environment and according to the requirements of the law; (3) implementation and operation of the plan outlined on the basis of the policy; (4) inspection and corrective action of the actual implementation, and (5) management survey of events in the environment management system. In addition, Makhteshim and Agan are certified for Israeli Standard OHSAS 18001 for an industrial safety and hygiene management system, which is similar in its format to ISO 14001, with respect to all its plants.
- [F] **Makhteshim Agan investment in quality of the environment.** The total investments made by Makhteshim Agan as of the report date with respect to environmental issues in 2010 amount to USD 44 million. Makhteshim Agan's total costs (unamortized) in environmental facilities in 2010 amount to USD 36 million. Makhteshim Agan intends continuing to

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invest, as required, in environmental issues in order to execute its policy of applying the best technologies. Makhteshim Agan estimates, as at the reporting date, based on the existing work program, that in 2011 the total environmental costs will amount to USD 74 million. In 2012 the amount of environmental costs is expected to amount to USD 61 million and in subsequent years, the total environmental costs are expected to amount to USD 56 million (this amount is an estimate only, that on the one hand assumes increasing maintenance of new facilities under construction, maintenance and other costs and on the other hand savings resulting from the expected connection to natural gas as set forth in Section 9.2.16[b] of this Part).

Makhteshim Agan's management estimates concerning the extent of expected investments in environmental issues is a forward-looking statement, as defined in the Securities Law, based on Makhteshim Agan's budget and work programs. Makhteshim Agan's estimates concerning the extent of expected investments in environmental issues may not materialize or may materialize only partially or differently to its estimates, in part, due to factors that are not under the control of Makhteshim Agan, and other factors including such that may arise from the materialization of Makhteshim Agan's risk factors as set forth in section 9.2.23 of this Part.

Makhteshim Agan estimates that the total amount of environmental costs that Makhteshim Agan incurred during the reporting period was mainly invested future preventive actions and in reducing environmental harm, and the balance was invested in repairing damage and in environmental rehabilitation.

In December 2009 Makhteshim Agan entered into a multi-year contract with EMG for the supply of natural gas for Makhteshim Agan's production facilities at its plants in Ashdod and Ramat Hovav. Natural gas will replace the use of fuel oil, diesel and LPG and is expected to be carried out during the course of 2011, subject to receipt of permits from the Gas Authority and regular supply of gas. The switch to a clean energy source is part of Makhteshim Agan's long term policy to reduce consumption of natural resources and will enable significant reduction of air emissions from the production of electricity, including the emission of greenhouse gases and will significantly improve the quality of the environment. For further information pertaining to Makhteshim Agan's contract with Negev Energy and with Ashdod Energy for the establishment of a power station to produce electricity and steam based on the use of natural gas, see section 9.2.16[H] of this Part.

[G] **Environmental Protection and Safety Committee.** In 2003, the Makhteshim Agan Board of Directors established an Environmental Protection and Safety Committee to outline the environmental policy within the Makhteshim Agan and which convenes from time to time also at the various plants in Israel. Specific environmental issues are handled by the active subsidiaries of Makhteshim Agan, as the issues differ from site to site and country to country.

[H] Below are additional details on ecological matters in the principal plants of Makhteshim Agan:

Makhteshim plant at Ramat Hovav. The Ramat Hovav site was selected in the past by the Government of Israel as a chemical industry site, based on two assumptions taken together: (1) the limestone strata above the water aquifer are completely impervious to possible seepage and to possible pollution from the plants at the site, and (2) The direction of the wind in this area is such that most of the time the wind does not blow towards Be'er Sheva. Over the years, Makhteshim transferred most of its production from its plant in Be'er Sheva to its plant in Ramat Hovav, and in 2000, production processes in its Be'er Sheva plant had completely ceased, including chemical reactions.

The Ramat Hovav Local Industrial Council ("the Local Council") arranges and manages common services for the plants in its area (hereinafter in this section – "the Users"), including inter alia, cleaning and first aid, business permits and enforcement of the various governmental standards (particularly issues related to the environment), monitoring, development of public infrastructures and the like. The Local Council's area of jurisdiction is

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defined as Development Zone A. To finance its ongoing activity, the local authority collects taxes and various fees from Users as well as fees for the use of the Council's facilities, based on actual use. User fees for new users of the Local Council's existing facilities (users who did not participate in financing and construction of the facilities), are higher than the user fees for users who did participate in financing. The Local Council's management committee, whose members include two User representatives (including a representative on behalf of Makhteshim Agan), makes decisions regarding the initiation and performance of investments, particularly in terms of infrastructure and the quality of the environment. Approval for said investments is received after internal discussion by the users and a discussion on the reservations users have, if they have any. The decisions of the Local Council's management committee are brought for ratification at the Council's plenum, in which the users have three representatives.

Makhteshim Agan's facilities at Ramat Hovav were built with special attention to the ecological aspect. To achieve this, the following actions were taken: (a) An emission monitoring system was installed in the chimney stacks of the facilities, in addition to the environmental monitoring array erected by the Ramat Hovav Council; (b) An acid distillation system was erected, enabling reuse or sale of the acids rather than their neutralization; (c) A new system was erected for physico-chemical treatment of wastes; (d) The pipes that transport the wastes were replaced and the flows of wastes were separated. (The pipes were installed above the ground to allow rapid discovery and treatment of leaks without seepage of the wastes into the groundwater); (e) An installation was erected for plant-wide biological treatment; (f) Makhteshim Agan is making every effort to operate plant evaporation ponds. Under the terms of Makhteshim Agan's business license, and similar to other plants in Ramat Hovav, which participated with Makhteshim Agan in the arbitration process as described in section 9.2.16 [H] to this part, the completion of the plant's evaporation ponds was set for October 2011. During the course of 2010, the Ramat Hovav plants announced that statutory difficulties in the allocation of land for the ponds and a delay in the removal of unexploded ammunition from the designated area by the Ministry of Defense, is delaying the start of the establishment of the ponds, which will delay the completion of the beyond the date set. The Ministry for Environmental Protection's position, as at the reporting date, is that the Ramat Hovav plants will not be given an extension beyond the date set and that the Ministry will take enforcement proceedings against the plants in this matter. The Ramat Hovav plants act to push the issue forward with the various authorities and since these delays are not in the control of the Ramat Hovav plants, the plants intend taking necessary steps to receive a further extension from the Ministry for Environmental Protection for the establishment of the ponds; (g) Makhteshim Agan began, during the course of 2011, regular operation of the LOPROX oxidation system of part of the effluent before it reaches the wastewater biological treatment facility; (h) a thermal oxidizer for air emissions was installed in the stacks at the plant, which was completed and has been operating properly since February 2009.

Makhteshim conducts ongoing self-testing on the emissions of the chimney stacks, the results of which are reported to the Ministry for Environmental Protection and the Local Council. This is done in accordance with the requirements of the business license that apply to all of the plants in the Ramat Hovav area, including Makhteshim Agan. These tests are conducted in addition to the numerous unannounced test conducted by the Ministry for Environmental Protection and the Local Industrial Council.

A report issued in December 1997 to the Ministry for Environmental Protection and the Local Council, included research conclusion according to which there is certain improvement in the quality of the ground water in the upper aquifer and there is not need to treat contamination underground. The monitoring activities over the past two years clearly indicate an improvement of the underground water in most areas of Ramat Hovav. At a small number of specific sites where they located pollution of the groundwater, which could not be attributed to Makhteshim Agan or other plants in the region, the polluted water is being drained and pumped by the Local Council.

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In the wake of odor nuisances in the vicinity of Ramat Hovav and Be'er Sheva, rising from the evaporation ponds of the Local Council in the summer of 2002, in 2004 the Ministry for Environmental Protection decided to add conditions to the business license of Makhteshim and other plants at Ramat Hovav, requiring that they implement an innovative process for treatment of industrial waste until they become solid (this process is known as ZLD – Zero Liquid Discharge). They also set a timetable for this to be done. Subsequently, the foregoing plants filed a petition in the Court claiming that the evaporation technology is not proven with respect to the range of effluent at Ramat Hovav. The hearing on this matter was sent for mediation, when it was completed in December 2006, a mediation agreement was signed between the petitioners and the Ministry for Environmental Protection, the Local Council and the Sustainable Negev Association (“**Ramat Hovav Mediation Agreement**”) which was given validity of a court ruling. The Ramat Hovav Mediation Agreement sets new conditions for the business license of the plants, including the Makhteshim facility in Ramat Hovav. The Ramat Hovav plants, which are a party to the mediation agreement (including Makhteshim), took upon themselves considerable financial investments for the prevention of environmental damage.

The main points of agreement filed subsequent to the mediation and which were integrated into the terms of the business license for the Makhteshim plant at Ramat Hovav include: (1) Every plant will be exclusively liable for the treatment of its wastes. Transport of wastes to the central treatment system will not be permitted; (2) Each plant will be responsible for building an evaporation and collection pond; (3) Quality values for treated waste water, including interim values, were defined, including intermediate values with which the plants must comply according to the timetables set in the terms; To the best of Makhteshim Agan's knowledge, and as at the reporting date, the Makhteshim Agan plant at Ramat Hovav is in compliance with the terms of the business license and carries out all required actions. Makhteshim established a facility to desalinate brine at the Ramat Hovav plant, while recycling water to a good quality level and sending only the concentrate for evaporation. This enables reducing the area of the evaporation pools and prevents the need for salting the pools and saves a substantial amount of water. As at reporting date the facility is operating.

It is noted that during the course of 2009, a collaboration agreement was signed between all the companies party to the mediation agreement, arranging the matter of the joint establishment of future evaporation pools.

In February 2010, Makhteshim Agan received at its Ramat Hovav plant, additional draft terms and conditions updating the terms of the license pertaining to the matter of effluent (see section 9.2.16[H] to this part. The wastes from the Ramat Hovav facility are treated in a physico-chemical installation on site, up to the treatment level requiring an entry fee to the facility for biological treatment. After the treatment at the physico-chemical facility, the wastes are sent to an on-site biological treatment facility, construction of which was completed in August 2006. The biological treatment facility was established at a cost of USD 17 million. Said treatment includes a gas washing system designed to significantly reduce the odor nuisances that could be attributable to the activity of this facility. After treatment in the plant, the waste is carried to collection ponds which were built by the Local Council and are used by all the plants in the area.

In recent years, Makhteshim Agan has initiated a number of actions in the Ramat Hovav plant in order to reduce the environmental effects of the plant's emissions. These initiatives include emissions purification systems, such as: biological purification systems, absorption systems integrated into processes in production facilities and a thermic breakdown system for emissions from the chimney stacks of most of the plant's installations. In addition, in December 2009 Makhteshim Agan engaged in an agreement with EMG for the supply of natural gas for Makhteshim Agan's production facilities at its plants in Ashdod and Ramat Hovav as set forth in section 9.2.16 [H] to this part.

In April 2007, the Government of Israel decided to assign the Ministry of Defense and the Israel Defense Forces with the erection of a group of training bases at the Tzomet Hanegev site (**BHD City**), which is about ten kilometers from the Ramat Hovav site. The decision

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includes directives to the Ministry for Environmental Protection and the Local Council, the purpose of which is to ensure the air quality in the vicinity. As of the Report Date, Makhteshim Agan is unable to assess the effects, if any, of the Government's aforementioned decision on the operations of its plant in Ramat Hovav.

Makhteshim plant in Be'er Sheva The Be'er Sheva plant was previously the principal factory of Makhteshim, and approximately 30 years ago, production facilities, including chemical syntheses were moved to the Ramat Hovav plant as mentioned above. To date, the Be'er Sheva plant is used for the production of formulations, R&D pilot projects and packing and storing materials and products.

As part of the process to prevent ecological damage, the following installations were set up at this plant: (a) A 17 km pipeline was installed, by which the effluents were pumped from Be'er Sheva to Ramat Hovav until 2009 for treating effluents from the plant in Beer Sheva at the biological facility in Ramat Hovav; (b) After making the required adjustments, as of August 2009, the effluents are transferred from Be'er Sheva to Ramat Hovav by tanker; (c) Absorption systems were installed for gases and odors that are emitted from various parts of the plant; (d) Recently improvements were made to the facilities for storage and prevention of emissions for dust of pesticides, in accordance with the requirements of the Ministry for Environmental Protection.

From time to time Makhteshim has to verify claims concerning buried waste or that there are leftovers in the areas around its plant, or that seepage has occurred into the ground of waste generated by the production process. If indeed such ground pollution is created, Makhteshim may be required to clean up the applicable areas and/or underground areas.

During the course of 2008, several leaks were found along the underground effluent pipeline, use of which was recently discontinued, that runs between the Makhteshim Agan plant in Beer Sheva and the Makhteshim Agan plant at Ramat Hovav. Subsequent to the events, Makhteshim Agan managers were called in for investigation.

Under the terms of the toxins permit received by the Makhteshim Agan plant in Beer Sheva at the beginning of 2011, for 2011, Makhteshim Agan is required to do a soil survey at the site. A historic soil survey will be submitted over the coming months. In this initial stage of the soil survey, Makhteshim Agan is not able to estimate the results of the soil survey and whether it will incur material expenses for Makhteshim Agan.

Agan plant in Ashdod. Agan carries out ongoing environmental activities and investments at its Ashdod plant. Due to the Ministry for Environmental Protection's stricter requirements, especially because of Agan's location in an industrial zone close to populated areas, Makhteshim Agan allocates large resources, including administration resources, in investing in environmental facilities and in technologies, as well as ongoing expenses. These actions include, inter alia:

The treatment of air pollution, prevention of emission of materials and prevention of odor nuisances. The Ashdod plant works in accordance with the special terms of its business license in respect of environmental protection. As part of its compliance with these terms Agan is required to use low-leaded fuel and special additives. Similarly, at a cost of USD 10 million, the construction was completed of a system for gathering all gas emissions from the production processes and their oxidization in a thermal oxidizer, which also facilitates the use of organic solvents and organic waste that cannot be recycled as fuel, which is expected to reduce Agan's energy consumption and reduces the quantity of disposed organic waste. In May 2008, new terms and conditions for its business license were received, relating to thermal oxidation operation. The thermal oxidizer was constructed and it is operating to the satisfaction of the Ministry for Environmental Protection and contribute to significantly reducing air emissions. To the best of Makhteshim Agan's knowledge, and as at the reporting date, the Makhteshim Agan plant at Ashdod is in compliance with the terms of the business license and carries out all required actions in this regard..

In view of the agreement between Makhteshim Agan and EMG for the supply of natural gas for Agan as set forth in section 9.2.16 [F], that when the process is complete, Agan expects

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the level of air emissions to be reduced even further. Similarly, the changeover from fuel to natural gas (subject to regular supply) will reduce Agan's energy costs. It is noted that Agan's toxins permit dated July 2010, terms were added concerning the use of natural gas, the natural gas system and the pipeline.

At reporting date, Agan received additional terms to its business license. The terms focus on air emissions and deal with guidelines for conducting process surveys, best available technology (BAT) gap surveys, an emission non-point leak detection and repair program (LDAR) and various environmental surveys and monitoring. As part of the application of the provisions of the terms, over the course of 2009 and 2010, Agan carried out a preliminary testing process to detect non-point emissions in accordance with the program. The results of the preliminary tests were submitted to the Ministry for Environmental Protection. A second round of tests began during the course of 2010 and will continue in 2011. Detection and treatment of non-point emissions are carried out routinely at Agan's plant. These tests do not involve material expenses for Makhteshim Agan.

Treatment of industrial effluents. Since 1975 the Agan Ashdod plant's industrial effluence has run into the Mediterranean Sea using a delivery pipe owned by Paz Refining Ltd. (Paz Refining) over a distance of approximately 1,100 meters from the shore. Agan has a multi-year agreement with Paz Refining for use of the pipeline. Though the completion date set in the aforesaid agreement has passed, the parties are continuing to act according to it. Pumping effluence into the sea requires a permit from the Committee for the Issue of Permits for Pumping Effluence into the Sea. Furthermore, Makhteshim Agan is also required to pay (an insignificant amount) in a tax for pumping effluence into the sea. Nonetheless, as of 2010, Agan will be required to pay a levie in much more significant amounts than it paid in the past. To comply with the requirements if the permit, the effluence must be treated in a biological processing facility before being pumped into the sea. Following the successful testing of the trial facility (the pilot), it established the biological treatment facility, on land leased for the purpose from the Ashdod municipality ("the Biological Facility"). In June 2008, the construction of the Biological Facility was completed at an overall investment of NIS 130 million and began its running in. during 2010, significant changes were made at the facility by converting the anaerobic system to an aerobic system. The facility operated continuously throughout 2010. As at reporting date, this plant is operating and various pilot runs are continuing based on Makhteshim Agan's future programs and the requirements of the Ministry for Environmental Protection. The Ministry for Environmental Protection renewed Agan's permit for pumping wastewater into the sea for 2011 under the terms stipulated in the permit for this year. The Company is expected to invest in further upgrading of the wastewater treatment facility and to convert it to a membrane bioreactor system (MBR) and to complete the set-up of a system to improve the upstream quality of the wastewater.

It is noted that Agan is acting intensively to improve the quality of its waste water, downstream (the biological treatment facility), as well as upstream. Makhteshim Agan is currently conducting ongoing talks with the Ministry for Environmental Protection and acts in accordance with its requirements.

In recent years, the policy of the Committee for Grant of Marine Pumping Permits have become significantly more stringent and can be seen in the application stricter terms and requirements in the marine pumping permits in general and Agan's marine pumping permits for 2009, 2010 and 2011 in particular. As a result of this stricter policy, Agan is required to invest substantially in technologies for treating waste water and this policy may have material adverse affect on Agan's business, the results of its operations and its financial state of affairs.

Treatment of Industrial Waste. Agan sends the industrial waste (sludge) generated at its plant for treatment by the Environmental Services Company. Since there is no option for treating some of the materials that can not be recycled locally, the Environmental Services Company, Agan exports these materials to facilities abroad Regular operating of the thermal oxidizer at the end of 2007 allows Agan to use part of these solvents and waste flows as fuel for

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oxidation and creating steam. Continuous operation since 2010 of the system for drying sludge decreased the quantity of sludge sent to the Environmental Services Company.

Noise. During 2010 Agan carried out several projects aimed at lowering potential noise nuisances which may affect the environment of the plant. Additional operations are planned for 2011, including the establishment of acoustic insulation for part of the production plants, erecting an acoustic wall along the southern side of the plant. The erection of the foregoing wall does not involve material costs for Agan.

Agan submitted to the authorities, a detailed plan for the establishment of a logistics center for storing raw materials and products in a new plot in the northern industrial zone and is awaiting receipt of a building permit. Operating of this system will reduce the quantity of materials currently being stored in the area of the plant.

Land. In August 2009, Agan received requirements pertaining to the submission of plans to conduct a soil survey and the details for carrying it out is in collaboration with the Ministry for Environmental Protection. In 2010, a historic soil survey was submitted and as at the reporting date, a soil gas survey is being conducted. This survey does not involve material expenses for Makhteshim Agan. In this initial stage of the soil survey, Makhteshim Agan is not able to estimate the results of the soil survey and whether it will incur material expenses for Makhteshim Agan.

Fire extinguishing system. Agan is currently implementing a multi-annual program based on a fire risk survey. The program is carried out with full cooperation of the Fire and Rescue Authorities. Furthermore, Makhteshim Agan is installing a closed circuit TV system which is meant to help identify points of fire as fixed in the settlement agreement between Makhteshim Agan and the class action lead (see Note 2.28H to the financial statements.).

Milenia Plants in Brazil. Makhteshim Agan's subsidiary in Brazil ("Milenia") has two main factories there. To the best of knowledge of Makhteshim Agan, as of the Report Date, none of the permits and licenses that apply to Milenia with respect to environmental protection have been revoked. Between 1996-2010 (inclusive) Milenia invested in safety and in ecological facilities at both its plants in Brazil, as part of Milenia's policy to improve ecological processes. Ecology-related investments took the form of conducting underground tests and fixing shortcomings found, implementing changes in the manufacturing processes, construction of waste treatment facilities and storage of byproducts. The waste system at one of the plants conveys the waste, after treatment in the flocculation system and biological system in accordance with the requirements of the regulations and binding guidelines to the river that flows near the plant. The treatment of the entire flow, as aforementioned, is based on the oxidation method. The processes of treating the waste are conducted in accordance with the environmental protection authorities in the country. The second plant, engaged primarily in formulations, generates a relatively small amount of liquid waste. Some of the liquid waste created during the process is treated at the plant and recycled for internal use, and some is sent for treatment at an external site. Solid waste and non-recyclable solvents are taken to an external site where they are incinerated. As of 2002, Milenia will be implementing a plan to monitor emissions. To this end, Milenia is using new technology and equipment. Tests recently conducted to measure the scope of emissions show that Milenia complies with the requirements of the state environmental protection authority. Milenia regularly monitor the sources of water located around the plant and in most cases works to recycle industrial waste. Milenia recently joined a group of plants that works voluntarily to set policies with respect to treatment and removal of empty packaging from crop protection products.

- [I] Legal Proceedings Pertaining to the Quality of the Environment. In November 2009, a petition was filed with the Supreme Court by C.A.A. Ltd., and I.B.A.S. Investments Ltd. (together in this section - "the Petitioners") against the Ministry for Environmental Protection and Makhteshim Agan, in which an order nisi was requested against the Ministry for Environmental Protection, ordering it, inter alia, to determine a danger radius for Makhteshim Agan's plants and to refrain from renewing the toxins permit of the subsidiary, Makhteshim. In January 2011, the Supreme Court agreed to the request filed by Makhteshim

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to join the petition instead of Makhteshim Agan. On February 7, 2011, the Supreme Court ruled to approve the Petitioners' petition to add the Be'er Sheva municipality as a respondent to the petition, against which remedy is sought according to which it may negate or change the business licensing terms of Makhteshim Agan, so that the alleged risk at the plant was removed. In February 2011, an amended petition was filed, as aforesaid. In February 2011, Makhteshim filed its response to the amended petition with the Supreme Court. Makhteshim Agan believes at this stage, it is not possible to estimate the chances of the suit to succeed. Makhteshim has a valid toxins permit until January 2012.

For information regarding additional legal proceedings concerning environmental protection issues, see Section 9.2.19 of this Part.

- [J] Insurance for environmental protection. Makhteshim has a toxins permit valid until January 2012. Makhteshim Agan estimates, based on its insurance consultants, that the scope of insurance cover for such events is appropriate. As of the Report Date, Makhteshim Agan has only limited and relatively low cover for continuing environmental pollution, due to the difficulty in obtaining insurance cover large enough at a reasonable cost.
- [K] The information with respect to anticipated investments, completion of construction of facilities and meeting schedules, all – as stipulated in this Section 9.2.16, are forward-looking statements as defined in the Securities Law, which may not be realized in whole or in part, or be realized differently than expected by Makhteshim Agan, as they are based significantly on Makhteshim Agan's expectations and assessments, taking into account past experience and its subjective assessments. These assessments may change, in whole or in part, from time to time, inter alia, due to developments in the area of Makhteshim Agan's activity. Therefore, there is no certainty regarding the realization of Makhteshim Agan's intentions or implementation of its strategy.
- [L] Makhteshim Agan has an employee responsible for environmental and safety issues in Israel and employees responsible for environmental and safety issues at the Ramat Hovav plant, the Be'er Sheva plant, the Ashdod plant and at Milenia.

9.2.17 Limitations and supervision of Makhteshim Agan's operations.

In respect of licensing, environmental protection, grants by the Office of the Chief Scientist, and benefits from the Investment Center that apply to Makhteshim Agan's operations, see Sections 9.2.9[G], 9.2.16, 9.2.11 and 9.2.15 of this part (also see Section 8 of this part). Additionally, Makhteshim Agan products that are manufactured or sold in Israel must be registered under the Crop Protection Law, 5716-1956 and the associated regulations. The purpose of the law is to protect public health and the environment from the effects of various substances found in crop protection products. Furthermore, all of Makhteshim Agan's plants must receive business permits under the laws of their location. During 2009 Makhteshim Agan received a warning from the Ashdod City Council relating to its compliance with the terms and conditions of its business license with respect to significant changes to its approved building plans. As of the Report Date, Makhteshim Agan is dealing with the Ashdod municipality to settle this issue. The Makhteshim Agan production sites are also certified to ISO 9002, the standard for quality assurance, which defines the conditions required and compliance with standards of production processes, as well as supervision of those processes that accompany production. It is also certified to OSHAS 18001 for industrial health and safety management systems. Some of the manufacturing sites are certified under international Standard ISO 14001. Some of the production plants have certification for International Standard 14, ISO 14001. The large part of the property on which Makhteshim Agan operates is leased from the Israel Lands Administration through long-term lease. Consequently, the provisions with respect to rezoning and use of the rights to the property apply to the rights to the property and the transaction in respect thereof. Thus, Makhteshim Agan may also have to make different payments to the Israel Lands Administration.

9.2.18 Additional material agreements and joint venture agreements.

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For further information pertaining to Makhteshim Agan's merger agreement, subsequent to which, Makhteshim Agan's shares will be delisted from the TASE and Makhteshim Agan will become a private company, 60% of which will be held by ChemChina and 40% by Koor Corporation, see section 9.2.5[A] of this Part.

For information regarding securitization of customer debts, see Section 9.2.9[c] of this Part;

For information regarding acquisition transactions made by Makhteshim Agan in 2010, see Section 9.2.4 of this Part;

For information regarding Makhteshim Agan's debentures in circulation, see Section 9.2.14 of this part;

For information regarding multi-annual agreements with companies and suppliers for purchase or sale of materials (the Monsanto agreement) see Section 9.2.9[A] of this Part;

For information regarding the agreement with the Federation concerning the employees of the subsidiaries, see Section 9.2.12 of this Part.

For information regarding agreements for the construction of two power plants to generate electricity and steam at the Ashdod plant and at the Ramat Hovav plant, see Section 9.2.11 of this Part;

For information regarding the agreement to construct the biological purification facility in Ashdod, see Section 9.2.11 of this Part.

For further information pertaining to the agreement with for the supply of natural gas for Makhteshim Agan's production facilities at its plants in Ashdod and Ramat Hovav see section 9.2.16 H] of this Part.

Agreement for the exclusive development and manufacture of materials. During the course of 2009, Makhteshim Agan signed a contract with a Chinese supplier for the development and manufacture of materials by this supplier exclusively for Makhteshim Agan. The foregoing contract arranges the completion of the development of materials under development and the development of new materials. The development is based on Makhteshim Agan and the Chinese supplier's know-how. Makhteshim Agan undertook to invest a non material amount for research and development and manufacture of the new materials and undertook to purchase from the Chinese supplier a significant part of the consumption of the foregoing new materials. The foregoing contract regulates the joint property rights of the parties in the developed products. The parties also signed an supply exclusivity contract applicable on each of the completed products. As at the reporting date, the parties are in compliance with the agreement.

Collaboration agreement with Cibus. In September 2009 Makhteshim Agan engaged in a strategic collaboration agreement with Cibus according to which Makhteshim Agan will invest an amount of USD 37 million, based on milestones set over a period of five years, in a joint venture with Cibus, with the objective of developing improved traits in five key agricultural crops.

Makhteshim Agan will be granted the status of an exclusive Cibus partner in selling these enhanced crops in the European market and other regions, according to the relevant crop, and Makhteshim Agan has the exclusive option to collaborate with Cibus in a joint venture for future development of these crops, if Cibus decides to commercialize them. In addition, the parties signed, at the same time, on a strategic investment agreement, according to which Makhteshim Agan was granted a number of options which will become effective over a period of several years as of 2014. Makhteshim Agan will be able to convert its foregoing investment into Cibus shares and gradually increase its holding to up to 50.1% of Cibus.

Under the collaboration contract, Cibus will develop for the joint venture see varieties with specific improved traits to increase yields and resistance of key agricultural crops to a range of herbicides marketed by Makhteshim Agan. The objective of the joint venture is to engage in agreements with leading seed companies to integrate the improved traits in top quality varieties and to market them

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through the seed companies in return for royalties which will be paid to the joint venture and to be split between Cibus and Makhteshim Agan. According to the agreement, the joint venture will ensure that the seed companies will sell the seeds together with Makhteshim Agan's crop protection products.

The joint venture and the development of traits are based on the Rapid Trait Development System (RTDS™) developed by Cibus.

Collaboration agreement with Monsanto. In addition, in October 2010 Makhteshim Agan engaged in a strategic joint venture agreement with Monsanto with respect to the inclusion of several herbicides sold by Makhteshim Agan in Monsanto's seed treatment program (in this section - "the Weed Management Program" and "the Agreement", respectively). According to the agreement, Makhteshim Agan products will be included in the seed treatment program and Makhteshim Agan will be granted exclusive use of the well known Monsanto brand name: "Round Up Ready", with the addition of the word "Plus" on the packaging of the Company's herbicide, in lieu of a single annual payment in each of the years in the contract, in amounts that are not material. The foregoing exclusivity will be applicable to Makhteshim Agan's products that are included in the contract for the territories that will be stipulated therein and for a period of three years, with Makhteshim Agan having an option to extend it (while each party is entitled to terminate the agreement at the end of each year).

In addition, Makhteshim Agan has numerous collaborations with multinational companies concerning licensing and regulation.

9.2.19 **Corporate governance**

Furthermore, Makhteshim Agan has numerous joint ventures with global companies concerning licensing and regulation.

9.2.20 **Legal Proceedings**

For further information pertaining to material pending legal proceedings against Makhteshim Agan as at the report date, see Note 2.28 to the financial statements.

9.2.21 **Business Goals and Strategy**

As stated above, Makhteshim Agan is among the leading international companies in the area of its main activity, as at the report date – crop protection products. In addition Makhteshim Agan has other operations in its areas of expertise in the chemical and agricultural sectors, which as of the report date are not material to its results. At reporting date, Makhteshim Agan's objective is to continue as a leading player in the crop protection products market worldwide.

Strategic change plan. During 2010, Makhteshim Agan began implementing a comprehensive strategy change program intended to adapt its business operating model to changes in the competitive environment of the industry and to substantially strengthen its areas of operation. This plan expresses the Company's strategic emphasis in recent years, by creating a unique business model in its state-of-the-art agrochemical industry, combining licensing, R&D and marketing capacities with cutting-edge efficient operating, production and logistics systems. The objective of all this is to offer clients top quality, effective and accessible solution thereby attaining profitable growth in Makhteshim Agan's results. The strategic plan will enable the Company to continue establishing its competitive position by exploiting its full potential deriving from the changes in its business and competitive environment and the continuous need of the farmers to improve the productivity of their fields while coping with shortages of water and land resources. Makhteshim Agan estimates that as long as it can adjust the structure of the unique operating and production business model in the industry, it will be able to derive higher added value than the basic trends in the agrochemical market, especially from the acceleration in patent expiration and consistent growth in the generic market share of the global agrochemical industry. This is in addition to exploiting the growth potential in emerging markets in Asia, Latin America, Africa and Eastern Europe. As part of applying the changes in the strategic plan, changes in the organizational structure were completed, including new positions, by redefining the various geographic regions in

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which Makhteshim Agan operates, its core organization-wide processes and supporting global functions.

Aiming to improve the costs structure of its products, Makhteshim Agan acts to create the right balance between outsourcing and self-production of products and the optimum global supply distribution chain. In this regard, Makhteshim Agan began streamlining its production plants, purchasing and supply chain ("the "Optimization Process"), in order to improve the costs structure of the products sold by Makhteshim Agan, to improve operating flexibility and to make better use of its wide global deployment. Under the optimization process, decisions were taken during the latter half of 2010 concerning the re-organization in Brazil as set forth in section 9.2.22 of this part (and which has already been implemented), with respect to the closing of two production lines in Israel during the course of 2011 and agreements have been signed with the employees that are bound to collective agreements in Israel. Subject to the closing of the ChemChina transaction (see sections 9.2.3 and 9.2.5 [A] of this part), if it will be closed, the Company's management intends examining, during the latter half of 2011, the implications of the ChemChina transaction on continuing the foregoing optimization process (subject to commitments made to the employees under the MOU) concerning the existing and future production infrastructures and how the merger, if at all, will impact this optimization process. Makhteshim Agan's management estimates that all the foregoing processes are liable to lead to a gradual improvement in Makhteshim Agan's operating efficiency which will begin bearing fruit in 2011.

In addition, Makhteshim Agan introduced managerial changes in its marketing operating model in America, including comprehensive re-organization of its Brazil operations (as specified in section 9.2.22 of this part). With the purpose of continuing to reinforce its operations in America, Makhteshim Agan completed signing of a strategic collaboration agreement with Monsanto (as specified in section 9.2.18 of this part), which Makhteshim Agan's management believes could also support its organizational growth in the coming years, especially in the United States and Brazil. In order to exploit its full competitive and growth potential in this area, Makhteshim Agan completed (subsequent to the date of the statement of financial position) a strategic acquisition in Mexico, an agrochemical market with high growth potential. The completion of Makhteshim Agan's headquarters and creating a new Asia, Pacific, Africa and Middle East operating region enables focusing on the goal of expanding commercial operations along with streamlining the production and logistics system by improving the ability to provide solutions for customer needs in this geographic region. Further to the strategic focus in this area, during the course of the year, Makhteshim Agan made an acquisition in Korea. At the same time, Makhteshim Agan continues reinforcing R&D and licensing of new products which supports its global organic growth for the purpose of improving its product mix and adapting it to the changing market conditions and to the key trends in agriculture.

Simultaneous to implementing the changes to the operations structure and expanding its global deployment, Makhteshim Agan examined its processes for finding and applying options for carrying out a significant business deal, including through a merger or acquisition transaction with a company operating in the same industry as Makhteshim Agan or in related fields (for further details pertaining to the ChemChina transaction see section 9.2.5[A] of this part). Furthermore Makhteshim Agan examines, from time to time, opportunities for small-scale acquisitions in both cases, subject to the policies and decisions of Makhteshim Agan's Board of Directors and management, and the financial feasibility of such investments and operations.

Makhteshim Agan's management estimates that by completing all measures deriving from the foregoing strategic changes plan and by adapting its operating model, Makhteshim Agan will be able to realize the potential in its assets and its strengths while addressing its key issues and challenges, keeping in line with the direction of future developments in the industry. In addition, adapting the operating model will help Makhteshim Agan to continue to grow by improving profitability and will enable it to exploit the appropriate opportunities in the global plant protection market. In this regard, Makhteshim Agan adopted a multi-annual plan that expresses its business development, based on the application of all of said decisions.

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Makhteshim Agan's management estimates that the outcome of the strategic changes plan constitutes forward-looking statements as defined in the Securities Law, which is based on information currently in the possession of Makhteshim Agan's management and on the basis of which the plan was approved by Makhteshim Agan's board of directors. Makhteshim Agan's assessments may not materialize, inter alia, due to factors out of its control, including the operations of Makhteshim Agan's potential competitors in the markets in which it operates.

As of the Report Date, Makhteshim Agan reviews its business strategy and its goals from time to time, in senior management forums and in Makhteshim Agan's Board of Directors. The strategy is reviewed with an eye to Makhteshim Agan's competitive positioning, its growth, profitability, trends and developments in its business environment as well as in light of other considerations.

Accordingly, based on information in Makhteshim Agan's possession and its estimates with respect to the financial and technological developments in its area of operation, Makhteshim Agan has set goals (which are liable to change from time to time) with the objective of achieving a relative edge in the competitive market in the area of crop protection products, worldwide, which are primarily based on the following principles:

- [A] Makhteshim Agan's marketing and sales objectives include strengthening and establishing its status in the markets in which it operates as well as increasing its market share in the markets with high growth potential (such as Central and Eastern Europe, Asian countries and countries in Central and South America). To this end, Makhteshim Agan is working to establish its local marketing platform in its main regions of activity worldwide, and proactive efforts towards partnerships with local and international organizations to leverage mutual abilities for development, licensing and distribution of its products.
- [B] The objectives of Makhteshim Agan with respect to its products include growth based on the composition of its current product mix and as part of this development of new licenses for them for additional crops and geographical regions. Additionally, Makhteshim Agan is working to increase the variety of its products, while launching and licensing products for which the patent has expired, inter alia, by revising advanced and eco-friendly formulations and improving the range of finished products. Furthermore, Makhteshim Agan engages in R&D activity to selectively develop innovative products. These actions by Makhteshim Agan are done while adapting its products to the regulatory requirements, which change from time to time.
- [C] Makhteshim Agan continuously strives to improve its manufacturing abilities in many respects and to enhance its ability to compete through operational streamlining in all elements of the supply chain. Makhteshim Agan views the investment in ongoing improvement of its facilities, manufacturing processes and work environment at its plants as a key objective that will allow it to meet high safety and environmental standards.
- [D] Makhteshim Agan regularly examines crop-protection business opportunities in the crop protection products industry, by purchasing products and/or receiving rights to products and by acquiring companies in the industry, so that it will be able to decentralize its distribution and marketing system, access to customers and new markets and expansion of its product based and manufacturing system.

As part of its additional activities, Makhteshim Agan works primarily to promote the field of dietary supplements and food fortification, and fragrance products, completing development of product lines and marketing support. Makhteshim Agan focuses most of its efforts in maintaining the uniqueness and added value of its products, while ensuring their innovativeness and wide technology base, establishing R&D ability and acquiring new technologies. Additionally, Makhteshim Agan makes certain to provide excellent service and to offer a diverse range of products to large and medium-sized international customers.

Makhteshim Agan's strategic principles and objectives as set forth in this section 9.2.21, are based on the assessments of Makhteshim Agan's management, with attention to past experience, regarding economic (global, local and in the industry), technological, social and

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other developments, and on estimations with respect to the influence of these developments on each other. Naturally, the foregoing is liable to change or not to be realized, in whole or in part, or may be realized differently to Makhteshim Agan's expectations, from time to time, inter alia, due to developments in the markets in which Makhteshim Agan operates, in its field of activity and the demand for its products. Consequently, the realization of Makhteshim Agan's plans or implementation of its strategy is not at all certain. In the foregoing cases, Makhteshim Agan's management will examine its strategy as set forth above and its primary goals and will examine adjusting them to future changes.

Makhteshim Agan's plans following the merger. If and insofar as the merger agreement will be completed, the merged Makhteshim Agan intends to continue its operations and business, and including, Makhteshim Agan may in the future act, from time to time, to sell and/or acquire and/or merge assets, expand or reduce activities, re-organization of Makhteshim Agan, implement structural changes, etc. In this matter, Makhteshim Agan calls attention mainly to: (a) the agreements Makhteshim Agan reached with the Federation with regard to the employees of its subsidiaries, Makhteshim and Agan, as set forth in section 9.2.12 to this part; (b) the agreements between Koor and ChemChina, including with regard to the possibility of selling certain ChemChina agrochemical assets to Makhteshim Agan and with regard to Makhteshim carrying out an IPO in the future, as set forth in section 2.5.3 of the transaction report (as defined in section 9.2.5[A] of this Part).

9.2.22 **Event or issue outside the Corporation's regular course of business.**

In July 2009, Makhteshim Agan announced that subsequent to an investigation of conducted by the authorities in Brazil at Milenia, similar to investigations carried out by the authorities at other companies in the industry, pertaining to matters of licensing of a few formulas that Milenia manufactures and/or markets in Brazil, it was determined that Milenia will cease, temporarily, manufacturing and selling these formulas and that such cessation shall also apply to existing stocks at some of Milenia's customers in several of the sales areas. During the course of 2010, most of the formulas were released for production, with the exception of one formula for which Milenia submitted a new licensing application (but not all the permits have been received) and another formula for which Milenia submitted a request to cancel licensing and ceased producing and marketing.

In March 2010, Milenia received a decision of the Ministry of Health in Brazil, according to which in the administrative proceedings that were initiated against Milenia (separate for each formula) administrative fines were imposed on Milenia in amounts that are not material. Makhteshim Agan's statements include appropriate provisions for these fines. Milenia filed an appeal to the courts regarding the fines and at reporting date this appeal is still pending. Subsequent to the decision in the administrative proceedings, a criminal investigation was opened against Milenia and its managers. In October 2010 Milenia's managers were summoned for a hearing, the date of which is yet to be set, and following this hearing it will be decided whether to open criminal proceedings against Milenia and its managers.

The subsidiary in Brazil (Milenia) and its reorganization plan. In view of the fact that the subsidiary in Brazil is not in compliance with its business plan, sales forecasts and profit margins, and due to the need to adapt the operating model in Brazil to the variable market conditions, as well as part of the process of changing Makhteshim Agans global production system, in October 2010 Makhteshim Agan's board of directors approved a comprehensive reorganization plan for the subsidiary in Brazil ("the Reorganization Plan"). As at the reporting date, the re-organization plan has been implemented, including substantial adjustment of the workforce, significant reduction of production operations at one of the production sites and partially at another production site, as well as the switch from self-production to outsourcing, while lowering overheads. Furthermore, as part of the implementation of the re-organization plan, changes were made concerning the senior management at the subsidiary in Brazil and the CEO of the subsidiary was replaced. The number of employees at the subsidiary in Brazil will be reduced as a result of application of the foregoing plan by 320 people, of which 240 are full-time employees, and after completion of this move the number of employees will be 502, of which 483 are full-time.

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For further information regarding the non-recurring events concerning the subsidiary in Brazil, particularly as a result of the reduction of assets in the amount of USD 47 million, see Note 9.A.6 to the financial statements. Makhteshim Agan's management estimate that application of the plan is expected to result in annual savings of USD 30 million on selling, administrative and general expenses (not including cost savings of USD 7 million in production and overhead costs) of the Brazilian subsidiary, which will lead to improved results already during the course of 2011.

Makhteshim Agan's management estimates that the outcome of the implementation of the re-organization plan at the subsidiary in Brazil constitutes forward-looking statements as defined in the Securities Law, which is based on information currently in the possession of Makhteshim Agan's management and on the basis of which the plan was approved by Makhteshim Agan's board of directors. Makhteshim Agan's assessments may not materialize, inter alia, due to factors out of its control, such as supply and demand in the market in Brazil for Makhteshim Agan's products.

In addition, in 2010 Makhteshim Agan began implementing the wide-scale changes of its global production system which is intended to reduce the production costs of Makhteshim Agan products, by increasing its operating flexibility and the transfer of certain products from self production to outsourcing. As part of this, in October 2010, Makhteshim Agan signed an agreement of understanding with the New General Federation of Workers, under which, inter alia, voluntary early retirement of employees in Israel was agreed upon. For further information, see section 9.2.12 to this part.

Memorandum of Understanding for acquisition of Albaugh. In June 2010, Makhteshim Agan's Board of Directors approved the signing of a memorandum of understanding (MOU) according to which, subject to feasibility studies, agreement and signing of a binding contract between the parties and compliance with contingent conditions, Makhteshim Agan will acquire the total issued and paid up share capital of Albaugh Inc., the largest generic crop protection product manufacturer in the North and South America region. In September 2010, Makhteshim Agan announce that it was terminating negotiations with Albaugh Inc.

9.2.23 Makhteshim Agan risk factors.

Macro factors

Exchange rate fluctuation – Makhteshim Agan, as a company that has operations around the world, is exposed to fluctuations in the exchange rate of foreign currency that are primarily attributable to the strength of the exchange rate at which Makhteshim Agan purchases raw materials and other inputs, relative to the strength of the currencies in which it sells its products. If the value of the purchasing currency strengthens relative to the currency in which it sells its products, its profitability may be impacted negatively. Furthermore, the US dollar value in Makhteshim Agan's financial statements of customer debts and amounts due to suppliers denominated in currencies other than the US dollar is exposed to ups and downs when the US dollar strengthens against those currencies. Makhteshim Agan conducts, from time to time, according to its estimation, currency hedging transactions to minimize exposure. As at the report date, the currency of Makhteshim Agan's primary operations is the USD and the main exposure is to the Euro, NIS and Brazilian currency. The strengthening of the USD against the other currencies in which Makhteshim Agan operates reduces the scope of Makhteshim Agans dollar sales and visa versa.

Exposure to changes in interest rates, the Israeli CPI and the shekel exchange rate – Part of Makhteshim Agan's liabilities are interest bearing at variable rates and its liabilities with respect to its debentures (Series B and C) are shekel denominated and linked to the Israeli CPI, bearing fixed interest. Therefore, any increase in the exchange rate and/or in the Israeli CPI could lead to an increase in Makhteshim Agan's financing expenses. As of the Report Date, most of said risks are hedged through various tools.

Business activity in emerging markets – Makhteshim Agan conducts business activity, particularly sale of products and purchasing of raw materials, inter alia, in emerging markets such as South America, in Eastern European countries, and countries in Southeast Asia and Africa, exposed to the risks characteristic of these countries, including: sensitivity of the various regimes to political

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changes that could lead to economic instability there; changes in the exchange rate of the local currency (in which customer debts are denominated) against the US dollar; lack of economic fiscal stability and frequent changes in economic legislation; relatively high inflation and interest rates; barter transactions and potential for international competitors to enter these markets and acceleration of mergers in the markets by large competitors. The activity of Makhteshim Agan in numerous geographical regions around the world contributes to spreading the risk and minimizing dependence on a single country. Furthermore, changes in licensing requirements or customer preferences in developed western countries which would limit the use of the raw materials purchased in emerging markets will require Makhteshim Agan's procurement system to make changes and this may hurt its profitability for a certain period.

Hostilities in Israel – Since Makhteshim Agan's plants are located in Israel, military conflicts, hostile or terror acts and especially along Israel's southern borders, may disrupt the ongoing operations of Makhteshim Agan and harm its profitability.

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Sectoral factors

Activity in a competitive market – As of the Report Date, six leading, large, research-based multinational ethical companies with significant financial resources are active in crop protection products in the various markets around the world. Makhteshim Agan's ability, as a primarily generic company, to compete with said companies effectively is dependent on ongoing efforts and numerous investments in developing and licensing of new products at the right time and marketing and sales of existing products. Furthermore, Makhteshim Agan competes in most of the markets in which it operates with generic companies and small ethical companies, most of which, as of the Report Date, have still not established worldwide distribution networks and operate locally. Delay in development or receipt of license for a product and/or late penetration into the market and/or strengthening of the competing generic companies (either by expansion of their product baskets or by making their distribution network global) could hurt total Makhteshim Agan sales in the field and influence its position in the world market and lead to price erosion.

Unusual changes in the weather and in the various worldwide agricultural markets – Most of Makhteshim Agan's crop protection products are designed for use throughout the agricultural season. Numerous external factors such as abnormal weather conditions, a significant drop in the prices of agricultural produce, governmental policies and the economic condition of farmers, necessarily reduces the scope of agricultural growing and, as a result leads to a drop in demand for Makhteshim Agan's products, profit erosion and difficulties in customer debt collection and may significantly hurt Makhteshim Agan's results. Makhteshim Agan has no way of anticipating a tough agricultural season, although the more successive tough seasons there are, without a series of good seasons between them, Makhteshim Agan's results may be significantly negatively impacted.

Changes in environmental legislation, standards and regulation – Makhteshim Agan operates in strictly regulated environment, particularly with respect to storage, treatment, manufacture, transport, use and removal of its products, ingredients and by-products, which, in some cases, are hazardous materials. The regulatory requirements that apply to Makhteshim Agan change from product to product and from one market to another, are consistently becoming stricter. In recent years, there has been increasing pressure from both from law enforcement agencies and from environmental protection organizations, by way of investigations and filing of indictments, as well as through ever-stricter legislative initiatives on companies and products that have the potential to pollute the environment. These regulatory requirements are a condition to the manufacture and marketing of Makhteshim Agan's products. Makhteshim Agan is thus required to allocate financial resources (current costs and significant one-time costs) and substantial human resources to ensure compliance with the standards. At times, this even causes a delay in penetration of its products into new markets and negatively impacts its profitability. Furthermore, increasing strictness, revocation or change in licenses, permits or conditions, with respect to environmental protection may harm Makhteshim Agan's ability to operate the manufacturing facilities for which said permits were issued and impact negatively in a material manner on its business, financial situation and operating results. Although Makhteshim Agan invests substantial amounts to adapt its facilities and build special facilities to comply with environmental requirements, it cannot, with any certainty, be sure whether these investments (existing and future) and their results will be sufficient or comply with new requirements if they become stricter or if they change. For further information pertaining to the Committee's more stringent policies for granting Makhteshim Agan marine pumping permits, see section 9.2.15 [H] to this part.

Change in legislation, standards and regulations with respect to registration of Makhteshim Agan products – Most of the materials and products marketed by Makhteshim Agan must be registered at different stages of their manufacture and marketing, and they are also subject to strict regulatory oversight by the relevant authorities in each country. Compliance with the requirements for licensing, which are different in each country and which are becoming increasingly strict, is time intensive and expensive and strict adaptation of the licensing requirements for each product. Non-compliance with these regulatory requirements may materially and negatively impact on total costs for Makhteshim Agan and on its profitability as well as on the penetration of its products into the relevant market and may even lead to cessation of sales of the relevant products. Additionally, as new regulatory requirements come into effect with respect to existing registrations for a product

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(such that it requires additional investment or revokes the existing registration) and/or a requirement for damages to be paid to another company for the use Makhteshim Agan made of the licensing data of the product of said company, these amounts may add up to material amounts and place a heavy burden on Makhteshim Agan's expenses, hurting its results. However, stricter licensing requirements in countries where Makhteshim Agan has a large market share may create a relative advantage over other companies interested in penetrating the same markets and competing against Makhteshim Agan.

Exposure regarding the environment, health and insurance issues - Makhteshim Agan's operations include hazardous substances as defined in the Hazardous Substance Law. In the extreme scenario of a significant failure in the production operations and the spread of such hazardous substances, this could lead to harm to human life or to the vicinity in which Makhteshim Agan operates. Makhteshim Agan may be civilly or criminally liable to a material degree (including high fines) for non-compliance and/or violation of environmental protection, health and safety laws and regulations. Part of current legislation may make Makhteshim Agan liable, even without malicious or negligent activity (to the best of Makhteshim Agan's knowledge, according to the position of the authorities, mostly full liability applies and sometimes partial liability applies). Other environmental protection laws and/or regulatory requirements determine responsibility for cleaning up of pollution, and are therefore may expose Makhteshim Agan to land and/or water cleaning and purification costs, if said pollution is caused (even after Makhteshim Agan's production activities on the ground will have come to an end). Similarly, the growing pressure in recent years, both from law enforcement agencies and environmental protection organizations, on both companies and products that potentially might pollute the environment, has also been expressed in legal proceedings - criminal, civil (including class action suits) or administrative. Additionally Makhteshim Agan may be subject to claims for bodily harm or damage to property for exposure to hazardous materials, which for the most part are covered by Makhteshim Agan's insurance policies. See also Section 9.2.16[J] of this Part.

Product liability – Product and manufacturer liability is a risk factor. Lawsuits in respect of product liability (regardless of the chances or results) may generate significant costs to Makhteshim Agan and also hurt its good name and lead to lower revenues. Makhteshim Agan has an insurance policy for third-party liability and defective products with up to USD 350 million (cumulative annual cover). However, there is no certainty that a future lawsuit for product liability or a series of such cases will not materially affect its business and results should Makhteshim Agan lose the case and its insurance coverage prove insufficient or not applicable in the specific case.

Successful market penetration and product diversity – After the development stage of its new products, Makhteshim Agan must market its new products to the different markets in which it operates. The more its new products fail to comply with the licensing requirements in the various countries or the longer the time required to receive a license for them, the greater the possible harm to Makhteshim Agan's ability to successfully penetrate the new product into that market. Successful market penetration is dependent, inter alia, on the variety of Makhteshim Agan products, so that it can adapt to the needs of each market. Therefore, the less successful Makhteshim Agan is in adapting its product mix, its ability to enter the market, as aforementioned, may be hurt. Failure to bring a new product to market and to meet its targets (after a long time and significant resources being invested in development and registration) could negatively affect Makhteshim Agan sales of said product in the relevant market, hurt Makhteshim Agan's results and its profit margins.

Infringement of intellectual property rights of third parties – Makhteshim Agan operates mainly in the generic product field and accordingly it does not have intellectual property protected by registered patents for most of its products. Makhteshim Agan is dependent on commercial confidentiality and is exposed to the possibility that its competitors will develop similar or competitive technologies themselves. Also, Makhteshim Agan is exposed to lawsuits claiming that its products or manufacturing processes infringe upon intellectual property rights of third parties (despite the fact that the ethical products similar to its products are no longer protected by patent). To the best of Makhteshim Agan's knowledge, as of the Report Date, such lawsuits have ended in immaterial amounts.

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Fluctuations in inputs and prices of raw materials and in sales prices – Raw materials are an important component in the manufacturing inputs of the Makhteshim Agan's products, with a large portion of them being derived from oil, an input given to fluctuations in market prices (sometimes significant). Extreme price fluctuations in oil prices and energy costs may significantly affect the prices of the raw materials and sales prices and erode Makhteshim Agan's profitability and competitiveness.

Exposure due to developments in the genetically modified seed market (GMO) –the more significant the developments in the GMO market for crops and/or if there is significant growth in sales of genetically engineered seeds or Glyphosate and/or if new crop protection products are developed for additional crops and used at a significant rate (and replace the traditional products), affecting the demand for Makhteshim Agan products, and Makhteshim Agan should prepare and adjust its product mix to the changing demand. Therefore, the less successful Makhteshim Agan is in adapting its product mix, its ability to enter the market, as aforementioned, may be hurt. However, the fact that Makhteshim Agan itself markets Glyphosate moderates this impact (although only in marketing profit margins).

Operational risks – Makhteshim Agan's operations, including its production activities, are based, among other things, on state-of-the-art computerized systems. Makhteshim Agan invests consistently in updating these systems and in protection means against breakdowns. Unexpected malfunction of these systems, which may not be repaired within a reasonable time, may impact Makhteshim Agan's operations and results. As at the reporting date, Makhteshim Agan has a property and loss of profits insurance policy with cumulative annual cover of up to USD 1,345.7 million.

Special factors

Disruptions in the supply of raw materials and/or in transportation services and ports – A lack of raw materials or other products used to manufacture Makhteshim Agan's products may harm its ability to supply its products or to a significant increase in the cost of manufacturing them. Furthermore, Makhteshim Agan imports raw materials to its manufacturing facilities in Israel and/or abroad, and exports them from there to its subsidiaries outside Israel for formulation and/or marketing, as the case may be. This is done via the ports in Israel and other countries. Extended interruptions and/or long strikes and/or faulty infrastructures with respect to the activity of the relevant port, may make it much more difficult to obtain raw materials or obtain them at reasonable costs and may limit the ability to deliver Makhteshim Agan products and to meet the targets it guaranteed its customers. These factors may impact negatively on Makhteshim Agan, its financial situation and operating results.

Failure of mergers and acquisitions – Part of Makhteshim Agan's strategy is growth through mergers and acquisitions that will expand its product portfolio intelligently and deepen its presence in certain geographical markets. This requires successful coordination of the acquired activities and their efficient merger into the group successfully. This includes realizing certain projections, profitability, and market conditions and competition. Failure in integrating the acquired activities and/or failure to realize said projections, may not lead to achieving the planned added value, lead to loss of customers, exposure to unexpected liability, lower value of intangible assets included in the step and even lost of professional and experienced staff.

Concentration of production in a small number of factories – A significant amount of Makhteshim Agan's manufacturing activity is concentrated at a limited number of sites. Damage caused by nature, hostile activity, labor disputes a material operational failure or any other significant damage are likely to impact negatively and materially on the operations of Makhteshim Agan.

International taxation – More than 95% of Makhteshim Agan's sales are in international markets outside of Israel, conducted through incorporated subsidiaries around the world, fulfilling various roles within the overall system of Makhteshim Agan's international business operations (often for the same product), from the production stages through the maintenance of know-how and its development, as well as acquisitions, logistics, marketing and sales of the various Makhteshim Agan products. These companies are assessed under the tax laws in their domicile countries. Due to

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the varying tax rates applicable on Makhteshim Agan's profits in the various countries, the significantly different classification or attribution of the consideration for the value components of each of the companies in the Makhteshim Agan Group in the different countries, or the changes in their characteristics (including with respect to the control and management location) of these companies, can have material impact on the assessed profits in each country and may have a material impact on the tax issues of Makhteshim Agan Group and its results. For further information, see section 9.2.15 to this part. Makhteshim Agan did not include in its financial statements for 2010 material provisions for exposure due to international taxation as noted above, based on professional opinions it received.

Non-compliance with the terms of the Approved Enterprise status – Some of Makhteshim Agan's plants have received benefits and/or grants under the Encouragement of Capital Investment Law. Non-compliance with said approvals issued would likely lead to cancellation of the benefits granted and/or an additional tax liability for past income. Makhteshim Agan estimates, as at the report date, that it complies with the terms of the approval.

Non-compliance with the Chief Scientist's programs – The grants that Makhteshim Agan received for programs approved by the Chief Scientist's office limit its ability to manufacture and to transfer technology outside of Israel, and oblige it to comply with various conditions (see also Section 8 of this part). Non-compliance by Makhteshim Agan with such conditions is likely to cause it to have to return the grants together with interest payments and fines, as well as making it liable for criminal prosecution.

Limitations on securing bank credit and non-compliance with financial covenants – Makhteshim Agan is considered to be part of the "Group of Borrowers" as part of the IDB Group. For additional information on this matter, see Section 8 of this part. In view of this, Makhteshim Agan may be restricted in its ability to raise bank credit. Furthermore, Makhteshim Agan's financing documents include requirements to comply with certain financial covenants as set forth in section 9.2.14 [F] to this part. Makhteshim Agan's non-compliance with said covenants due to the occurrence of external events or non materialization of Makhteshim Agan's forecasts, insofar as it may not receive the consent of the financing entities to extend or update the financial covenants in accordance with Makhteshim Agan's ability, may lead to the immediate call for repayment of Makhteshim Agan's liabilities (or part thereof) by the financing entities.

Exposure to customer credit risk – Makhteshim Agan's sales to its customers in Israel and around the world are for the most part conducted by extending customers credit as customary in those countries. Some of the credit extended to customers is guaranteed through credit insurance, and the remaining credit is at risk, particularly during slumps in the relevant markets. Makhteshim Agan's credit is distributed among many customers and in different countries, a fact that moderates said risk. However, in certain regions around the world, particularly in South America, the number of credit days is large (compared to the number granted to customers in Western Europe), and at times, inter alia, due to tough agricultural seasons or the economic situation in those countries, Makhteshim Agan may find it difficult to collect customer debts and collection may take several years. This risk also exists in developing countries, where Makhteshim Agan's is less familiar with the customers, the quality of collateral is doubtful and the existence of insurance for said customers is uncertain. Failure to repay the credit by any one of the customers may negatively impact Makhteshim Agan's cash flow and results. Said risk is primarily in developing markets such as South America, Eastern Europe, Africa, Asia and the like.

Below are Makhteshim Agan's evaluations of the types and degree of impact of the above risk factors on it.

Risk Factors	Degree of Impact		
	Major Impact	Moderate Impact	Minor Impact

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Risk Factors	Degree of Impact		
	Major Impact	Moderate Impact	Minor Impact
Macro factors	<ul style="list-style-type: none"> ▪ Business activity in developing markets ▪ Hostilities in Israel 	<ul style="list-style-type: none"> ▪ Exposure to changes in interest rates, CPI in the NIS exchange rate ▪ Exchange rate changes 	
Sectoral factors	<ul style="list-style-type: none"> ▪ Uncustomary climatic changes and in the world agriculture markets ▪ Change in legislation, standards and regulation with respect to environmental protection ▪ Exposure with respect to environmental, health and safety issues. ▪ Product liability ▪ Fluctuation in the prices of raw materials and sales prices 	<ul style="list-style-type: none"> ▪ Activity in competitive markets ▪ Change in legislation, standards and regulation related to licensing of Makhteshim Agan products ▪ Successful market penetration and product variety ▪ Exposure due to developments in the market for genetically engineered seeds ▪ Operating risks 	<ul style="list-style-type: none"> ▪ Infringement of third-party intellectual property rights
Special factors	<ul style="list-style-type: none"> ▪ Concentration of production in a limited number of plants ▪ Restrictions on raising bank loans and non-compliance with financial covenants 	<ul style="list-style-type: none"> ▪ Interruptions in supply of raw materials and/or interruptions of transportation services and ports ▪ Failure of mergers and acquisitions ▪ International taxation ▪ Exposure to customer credit risks 	<ul style="list-style-type: none"> ▪ Non-compliance with Approved Enterprise approval ▪ Non-compliance with the terms of the Chief Scientist's programs

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10. Credit Suisse

10.1 Breakdown as at December 31, 2010 of Credit Suisse, a company in which Koor invests, which constitutes a separate operating segment of Koor (pursuant to IFRS 8 tests) and which is presented in the financial statements as an available-for-sale asset:

% holding as of 31 December 2010	Investment as recorded in Koor's books (in NIS millions)	Investment out of Koor's total equity (%)	Contribution to Koor's net loss (in NIS millions)⁴⁵ Profit (loss)	See further details in the sections
3.29% ⁴⁶	5,536	188%	216	10.2-10.3

Below is information from Credit Suisse 2010 financial statements⁴⁷ (in CHF millions) as at December 31, 2010:

Revenue (net) in 2010	Net earnings in 2010	Equity as at December 31, 2010	Total assets as at December 31, 2010
30,625	5,098	33,282	1,032,005

10.2 Investment in Credit Suisse shares

Due to the substantial impairment of institutions in the global financial market resulting from the market crisis that began during the latter half of 2007, Adivi Group established a special team in December 2007 to examine opportunities to acquire significant minority holdings in a large international financial institution or institutions. This team, which included experts in the banking sector, examined more than twenty five large commercial banks whose shares are traded on the stock markets worldwide, based on various qualitative and quantitative criteria. These criteria included market value, equity, price-earnings ratio, ROE (return on equity), credit portfolio structure, capital adequacy, share prices, equity trading turnover, the country in which the bank was incorporated and where its shares are traded, geographic deployment, analyst assessments and more. The findings of the team and its recommendations were presented to Koor's investment committee and its board of directors for examination. Pursuant to Koor's investment policy, which is based on identifying and exploiting investment opportunities, while focusing on export-oriented companies and/or international companies, Koor's board of directors approved, in March 2008, acquisition of shares in European financial institutions trading on European and/or US stock markets, in an overall investment of up to NIS 1.5 billion. At the same time, the Company applied for a designated lines of

⁴⁵ In this matter, the profit includes net profit from tax and dividends received due to the investment in Credit Suisse. For further information, see Note 24 to the financial statements.

⁴⁶ Koor's holdings in Credit Suisse as at December 31, 2010 is based on Credit Suisse's listed share capital on the SIX Exchange less Credit Suisse treasury shares, at that date, as stipulated in Credit Suisse's report of its results for the fourth quarter and for the year 2010. Koor's holdings in Credit Suisse as at the reporting date is 3.25%, according to the information of Credit Suisse's share capital as listed for trading on the SIX Exchange, as recently reported by Credit Suisse, excluding Credit Suisse's treasury shares (in the absence of updated public figures at the reporting date for the number of treasury shares).

It should be noted that, for the purpose of reporting the holdings of interested parties to the SIX Stock Exchange, the relevant holdings in Credit Suisse are calculated according to Credit Suisse equity data as recorded in the appropriate Swiss Commercial Register, and according to the information in this register, Koor's holding in Credit Suisse as at the report date is 3.25%. To the best of Koor's knowledge, in general, Credit Suisse is required to update the information pertaining to its shareholders equity in the foregoing register, at least once a year, in the event that its equity changes. Therefore, situations may occur whereby the information pertaining to the issued shareholders equity as it appears in the foregoing register may not necessarily reflect the actual amount of Credit Suisse's issued shareholders equity.

⁴⁷ As published by Credit Suisse on its website on February 10, 2011:

https://www.credit-suisse.com/investors/en/reports/2010_results_q4.jsp

and as reported by Credit Suisse to the SEC on February 10, 2011 and can be viewed on the website:

<http://www.sec.gov/Archives/edgar/data/1053092/000137036811000006/a110210-k6.htm>; and

<http://www.sec.gov/Archives/edgar/data/1159510/000137036811000004/a110210g4q.htm>.

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credit to finance the acquisition, which was extended by Goldman Sachs.⁴⁸ For stage one, the acquisition of shares of Credit Suisse and of the British Barclays Bank⁴⁹ were approved. Later Koor's board of directors resolved to focus on investing in Credit Suisse shares.⁵⁰ This resolution was made taking into consideration the parameters examined in this section, and assuming that Credit Suisse's strength derives from the combination of its private banking division whose profitability is relatively stable, in particular due its Wealth Management operations and its retail and commercial banking division in Switzerland, and its investment banking division whose business model is considered solid compared with the sector's norm.

Koor actually began acquiring Credit Suisse shares only three months after the board of directors resolution, during which Koor continued to closely monitor Credit Suisse's operations and the market developments. The shares were acquired as a strategic financial investment and not for the purpose of acquiring control of Credit Suisse. The scope of the investment was continually examined by Koor, based on its assessments concerning the development of the global economy and the trends in the financial markets, Credit Suisse's status, share price and market terms. Koor's board of directors receives continuous updates of its investment and from time to time approves the overall financial framework for investment which includes Credit Suisse shares, based on said assessments and the scope of investments at that time. From the data published subsequent to the decision to invest and while monitoring its progress, it became apparent that, in accordance with Koor's prior assessments based on the earlier examinations, Credit Suisse's risk profile, as reflected in the usual financial sector risk indices, such as Tier 1 Ratio, RWA and VAR⁵¹, indicated the bank's stability and its low risk level compared with other banks, throughout the financial crisis. Furthermore, the assessment of the superior quality of Credit Suisse's management and the way it managed the bank's risks was reinforced. This assessment was based on several meetings with the executive management of Credit Suisse and steps taken by it in the early stages of the crisis and during it, such as lowering of the bank's holdings in risk assets (for example non liquid assets and complex financial products) and adjustment of the bank's cost structure. During the investment period, Credit Suisse was extolled in various banking publications.

Accordingly, in July and November 2008 and in August 2009, Koor's board of directors decided to increase the investment in Credit Suisse shares to a total amount of up to NIS 3, 5 and 6 billion, respectively. As at the reporting date, based on the approval of Koor's board of directors in January 2010, the framework for the Company's investment in Credit Suisse shares, as approved by the Company's board of directors, is in the total amount of up to NIS 7 billion, and Koor intends to continue investing by exploiting buy and sell opportunities,⁵² while paying close attention to the market conditions and Koor's periodic assessments, and with the inclination to become a material shareholder in Credit Suisse. The expansion of the investment in Credit Suisse was enabled due to internal and external financing means available to Koor, including a line of credit extended to Koor for the purpose of the investment in Credit Suisse by leading financial organizations.⁵³ To date, Koor is a leading shareholder in Credit Suisse from the aspect of the rate of its holding. Koor does not have the right to and does not in practice, appoint a director on its behalf on the Credit Suisse board of directors.

Management of the investment in Credit Suisse includes, inter alia, buying and selling of shares, financing arrangements, contact with financiers through which the acquisitions are also usually carried out, sale and clearing of shares, ongoing monitoring of market developments and of Credit

⁴⁸ For further information pertaining to the up to date lines of credit extended to Koor by Morgan Stanley and Citibank, see sections 10.2 (a) and (b) of this part.

⁴⁹ The acquisition of Barclays shares was not material and they were subsequently sold.

⁵⁰ See Koor's immediate report dated July 21, 2008 (Ref. No.: 2008-01-208872).

⁵¹ For information pertaining to Tier 1 Ratio and RWA – Risk Weighted Assets, see footnote 10.3[D] of the report. VAR – Value at Risk is the potential loss in terms of fair value of trade positions due to negative market movements which are measured over a defined time span and on a clearly defined level. VAR is based on historic data and is considered a useful tool for assessing the loss potential in normal markets which do not have dramatic market condition changes.

⁵² The number of operations carried out varies accordingly, depending on Koor's assessments as noted in this section, and may also sometimes, under certain circumstances, be carried out over the course of several days in a certain week.

⁵³ See sections 10.2[a] and [b] of this Part.

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Suisse, and monitoring and reporting of the investment figures. During the investment period, this management was carried out, respectively, mainly by Raanan Cohen (Koor's CEO), Oren Hillinger (Koor's CFO), Haim Gavrieli (a Koor director, CEO of IDB Holdings and officer in IDB Development) and Lior Hannes (a Koor director, an officer in IDB Development and its representative in the UK)fn, while in practice, to date, Lior Hannes managed the issue of financing and carried out the buy and sell transactions of Credit Suisse shares.⁵⁴ The investment in Credit Suisse (buying and selling of shares, increasing the investment limit and financing aspects) are managed under the consistent guiding of Mr. Nochi Dankner, the Chairman of IDB Group and a director in Koor, and with supervision and monitoring of Mr. Nochi Dankner and Mr. Ami Erel, Chairman of Koor's Board of Directors.

As aforesaid, the actual buying and selling was carried out on the basis of Koor's assessments concerning the development of the global economy and the trends in the financial markets, Credit Suisse's status, share price and market terms. To date, Koor has carried out buy and sell transactions of Credit Suisse shares trading on the Swiss Stock Exchange SIX and no transactions were carried out on the NYSE. Koor carries out buy and sell transactions through the commercial divisions of banks in stock exchange transactions and in block buy or sell transactions. Subsequent to the aforesaid decisions of Koor's Board of Directors, Koor acquired, from time to time during the course of 2008, 2009 and 2010 Credit Suisse shares and sold part of the Credit Suisse shares, from time to time. In October 2008, Koor signed a contract with Credit Suisse in Zurich according to which Koor will invest in Credit Suisse an overall amount of CHF 1.2 billion (the "October 2008 Transaction") The October 2008 transaction was carried out by way of the purchase from Credit Suisse of 34 million ordinary shares in Credit Suisse, which constituted, immediately subsequent to the acquisition, approximately 3% of Credit Suisse share capital (see Koor's immediate report issued on October 16, 2008, Ref. No. 2008-01-286776).

As of the report date, Koor holds about 38.60 million Credit Suisse shares, constituting 3.25% of Credit Suisse share capital, at a cumulative investment of NIS 6.97 billion.

By the reporting date Koor has recorded an overall profit after tax of NIS 3.4 billion for the sale of Credit Suisse shares and from dividends received for the investment in Credit Suisse shares, of which NIS 2.6 billion was in 2009 and NIS 0.2 billion in 2010.

As at the reporting date, the difference in the value of Credit Suisse shares held by Koor at their price on the stock exchange which is NIS 5.67 billion, and the original cost of these shares is NIS (1.3) million.

On April 30, 2010, the Credit Suisse general meeting approved distribution of dividend of CHF 2 per share. The dividend was distributed on May 7, 2010. Koor's share in this dividend (pretax) amounted to NIS 262 million. For this dividend Koor recorded profit after tax of NIS 223 million in the second quarter of 2010. In addition, on February 10, 2011 Credit Suisse announced that its board of directors will propose, at the general meeting of its shareholders to be convened on April 29, 2011 a cash dividend distribution in the amount of CHF 1.3 per share. For further information see section 10.3 [A] to this part.

Most of the financing for said acquisition of Credit Suisse shares came from Koor's own resources. Nonetheless, Koor has lines of credit extended by Morgan Stanley and Citi, (and until May 2009, it had a standing line of credit from Goldman Sachs, for financing the acquisition of Credit Suisse shares), as follows:

[A] Financing arrangement with Morgan Stanley

For further information pertaining to the non-recourse line of credit agreement, which is secured by the Credit Suisse shares, between Koor and its wholly owned companies and Morgan Stanley (the "Morgan Stanley Credit"), and for information pertaining to the extension of the Morgan Stanley credit period and Morgan Stanley's agreement to improve the loan terms of December 2010, see Note 17.C(2) to the financial statements.

⁵⁴ Raanan Cohen, Oren Hillinger, Haim Gavrieli and Lior Hannes were all authorized by the Company's board of directors to carry out buy and sell transactions in Credit Suisse shares.

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[B] Financing arrangement with Citi

For information pertaining to the agreement of July 2009 (and updated in January and in December 2010), between Koor and its wholly owned subsidiary and Citi concerning non-recourse lines of credit, guaranteed by Credit Suisse shares, see Note 17C(3) to the financial statements.

For further information pertaining to transaction in Credit Suisse shares see Note 10F to the financial statements and section 1.4.1 to the Directors' Report.

10.3 **Principal particulars relating to Credit Suisse**

[A] Credit Suisse annual report (Form 20-F) for 2009 as reported to the Securities and Exchange Commission ("SEC"), can be seen on the website –

<http://www.sec.gov/Archives/edgar/data/1053092/000137036810000015/a100326ar20f.htm>
("Credit Suisse 2009 Annual Report").

The reference is to Credit Suisse's annual report for 2009 as reported to SEC, attached to Koor's immediate report dated March 26, 2010 (Ref. No.: 2010-01-432396).

It is noted that as at the reporting date, Credit Suisse's annual report for 2010 (Form 20-F) has not yet been filed. Accordingly, the information and figures presented in this section 10.3 are based on Credit Suisse reports as published as at the reporting date (as described in this section 10.3).

The press release published by Credit Suisse on April 22, 2010 relating to its business outcomes for Q1 2010, as reported to SEC, can be seen on the website –

<http://www.sec.gov/Archives/edgar/data/1053092/000137036810000018/a100422-6k.htm>

Credit Suisse quarterly report (Form 6-F) for Q1 2010, as reported to SEC, can be seen on the website –

http://www.sec.gov/Archives/edgar/data/1159510/000137036810000019/a100423g1q-ex99_1.htm

The complete text of this press release and its translation are attached to Koor's immediate report dated April 23, 2010 (Ref. No. 2010-01-456885). The full wording of the foregoing quarterly report is attached to Koor's immediate report dated April 23, 2010 (Ref. No. 2010-01-456903).

On May 7, 2010 Credit Suisse republished its report for the first quarter of 2010, with the inclusion of supplementary information. This report, as reported to SEC, can be found on the website –

<http://www.sec.gov/Archives/edgar/data/1159510/000137036810000023/a100507g1q.htm>

The updated version of the foregoing quarterly report is attached to Koor's immediate report dated May 10, 2010 (Ref. No. 2010-01-474948).

The press release published by Credit Suisse on July 22, 2010 relating to its business outcomes for Q2 2010, as reported to SEC, can be seen on the website –

<http://www.sec.gov/Archives/edgar/data/1053092/000137036810000028/a100722-k6.htm>

Credit Suisse quarterly report (Form 6-F) for Q1 2010, as reported to SEC, can be seen on the website –

<http://www.sec.gov/Archives/edgar/data/1159510/000137036810000029/a100723g2q.htm>

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The complete text of the foregoing press release and its translation as well as the full wording of the foregoing quarterly report are attached to Koor's immediate report dated July 25, 2010 (Ref. No. 2010-01-563295).

On Thursday, August 05, 2010 Credit Suisse republished its report for the second quarter of 2010, with the inclusion of supplementary information. This report, as reported to SEC, can be found on the website –

<http://www.sec.gov/Archives/edgar/data/1159510/000137036810000031/a100805g2q.htm>

The updated version of the foregoing quarterly report is attached to Koor's immediate report dated August 08, 2010 (Ref. No. 2010-01-577935).

The report published by Credit Suisse on August 06, 2010 relating to its business outcomes for the first six months of 2010, compared with its business outcomes for the first six months of 2009, as reported to SEC, can be seen on the website –

<http://www.sec.gov/Archives/edgar/data/1159510/000137036810000033/a100806gt.htm>

The complete text of the foregoing report is attached to Koor's immediate report dated August 08, 2010 (Ref. No. 2010-01-577938). The translation of the foregoing report is attached to Koor's immediate report dated August 09, 2009 (Ref. No. 2010-01-579306).

The press release published by Credit Suisse on October 21, 2010 relating to its business outcomes for Q3 2010, as reported to SEC, can be seen on the website –

<http://www.sec.gov/Archives/edgar/data/1053092/000137036810000042/a101021-6k.htm>

Credit Suisse quarterly report (Form 6-K) for the third quarter of 2010, as reported to SEC, can be seen on the website –

<http://www.sec.gov/Archives/edgar/data/1159510/000137036810000043/a101022g3q.htm>

The complete text of the foregoing press release together with its translation as well as the full wording of the foregoing quarterly report are attached to Koor's immediate report dated October 24, 2010 (Ref. No. 2010-01-655641).

On November 4, 2010 Credit Suisse republished its report for the third quarter of 2010, with the inclusion of supplementary information. This report, as reported to SEC, can be found on the website–

<http://www.sec.gov/Archives/edgar/data/1159510/000137036810000045/a101104g3q.htm>

The updated version of the foregoing quarterly report is attached to the Company's immediate report dated November 07, 2010 (Ref. No. 2010-01-671901).

The press release published by Credit Suisse on February 10, 2011 relating to its business outcomes for the fourth quarter and the year 2010, as reported to SEC, can be seen on the website –

<http://www.sec.gov/Archives/edgar/data/1053092/000137036810000006/a110210-k6.htm>

Credit Suisse quarterly report (Form 6-K) for the fourth quarter of 2010, as reported to SEC, can be seen on the website –

<http://www.sec.gov/Archives/edgar/data/1159510/000137036810000004/a110210g4q.htm>

The complete text of the foregoing press release together with its translation as well as the full wording of the foregoing quarterly report are attached to Koor's immediate report dated February 11, 2011 (Ref. No. 2011-01-046071).

In addition, on February 10, 2011 the Company published an immediate report (Ref. No.: 2011-01-045198) with respect to Credit Suisse's announcement (which was included in the press

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release issued by Credit Suisse with respect to the results of the fourth quarter and the year 2010, as aforesaid), according to which Credit Suisse's Board of Directors will propose, at the general meeting of its shareholders which will convene on April 29, 2011, the distribution of a cash dividend of CHF 1.3 per share. Subject to the approval of such distribution, the amount that Koor will receive will be fixed based on the number of shares that Koor holds on the date set for its distribution and according to the accounting principles, it will be attributed as profit less applicable tax (if any) in Koor's statement of income for the second quarter of 2011. The distribution will be subject to tax according to the tax laws in Switzerland and in Israel and Koor's applicable tax for this distribution, if any, is currently being examined.

(The foregoing reports and press releases, together: "Credit Suisse quarterly reports for 2010").

- [B] The figures and information included in the Credit Suisse 2009 annual statements, the Credit Suisse statements for 2010 and 2010 and additional Credit Suisse reports as specified in 10.3[F] of this part ("Additional Credit Suisse Reports") and all the other information that appears in this section 10.3, are based on Credit Suisse reports to SEC, and Koor bears no responsibility for the accuracy of their content.
- [C] For the sake of convenience, hereunder certain particulars relating to Credit Suisse. The information and data set forth in this section 10.3 of this part should be read together with the full version of the reports mentioned in section 10.3[A] to this part.
- [D] Credit Suisse is one of the leading financial service providers in the world, providing services via its subsidiary Credit Suisse AG, a range of customer services to: corporate, institutional and government clients, high net-worth individuals worldwide, and Swiss retail clients. Credit Suisse provides services through its three divisions: Private Banking, Investment Banking and Asset Management. Credit Suisse was founded in 1856, it operates in over 50 countries and employs 50,100 employees worldwide. The Credit Suisse head office is located in Zurich, Switzerland.

Credit Suisse shares are listed for trade on the SIX Exchange, and Credit Suisse American Depository Shares (ADS) are listed on the NYSE.

According to information published by Credit Suisse regarding its shareholders reports, the principal shareholders in Credit Suisse, excluding Koor, are Qatar Holding LLC 6.19%; Crescent Holding GmbH Group 6.6% and BlackRock Inc. 3.75%, and Capital Group Companies Inc. 3.08%.⁵⁵

Credit Suisse applies US GAAP for its consolidated statements and the figures are presented in Swiss Francs.

To the best of Koor's knowledge, Credit Suisse has not adopted an official policy regarding the distribution of dividends.

The Swiss Franc to New Israeli Shekel exchange rate on December 31, 2010 was NIS 3.788 per CHF and on March 16, 2010 it was NIS 3,8856 per CHF.

Hereunder, particulars relating to Credit Suisse credit rating (as they appear in the Credit Suisse website):⁵⁶

⁵⁵ The foregoing information refers only to holdings of registered shares, it does not include holdings of convertible securities and rights to acquire shares and is based on Credit Suisse shareholders equity information as registered in the Swiss Commercial Register (see footnotes in section 10.1 of this part). The aforesaid information is based on the last shareholders reports of Credit Suisse, subject to the provisions of the Swiss law, and do not necessarily reflect the rate of holdings as at the report date.

⁵⁶ Standard & Poor's rating agency makes use, for the purpose of long-term credit rating, a scale that begins with AAA (the best rating) and continues with AA, A, BBB, BB and so on until D (the lowest rating, while +/- signs are used for intermediate ratings. A credit rating below BBB is considered a Non-Investment Grade, which is the junk bond rating. For the purpose of short term credit rating, this agency used a scale that begins from A-1 (the highest rating) through A-2, A-3, B, C, RD and D (the lowest rating).

Moody's rating agency makes use, for the purpose of long-term credit rating, of a scale that begins with Aaa (the best rating) and continues with Aa, A, Baa, Ba and so on through to C (the lowest rating), while the digits 1, 2, 3 are used for intermediate

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	Fitch Ratings	Standard & Poor's	Moody's
Short term	F1+	A-1	P-1
Long term	AA-	A	Aa2
Rating forecast	Stable	Stable	Negative
Rating date ⁵⁷	December 15, 2010	April 28, 2010	February 28, 2011

Hereunder, particulars relating to Credit Suisse credit rating (as they appear in the Credit Suisse website):

	Fitch Ratings	Standard & Poor's	Moody's
Short term	F1+	A-1	P-1
Long term	AA-	A+	Aa1
Rating forecast	Stable	Stable	Negative
Rating date ⁵⁷	December 15, 2010	April 28, 2010	February 28, 2011

As part of its Private Banking Division's operations, Credit Suisse offers a wide range of banking solutions and comprehensive counseling for the Company's private clients and institutional organizations. The Private Banking Division consists of two main business sectors: Wealth Management and Retail and Commercial Banking. The Wealth Management sector operates worldwide and serves approximately 700,000 affluent clients. The Retail and Commercial Banking sector serves approximately 1.7 million retail customers, corporations and institutional organizations in Switzerland.

Under its Investment Banking Division, Credit Suisse provides diverse financial products and services including the global sale of securities, trading and execution services, brokerage and capital raising services as well as consultation and survey services. This division's clients include corporations, governments and institutions around the world.

The Asset Management division offers diverse integrated investment solutions and products for various types of assets. This division manages investment portfolios, trust funds and other investment instruments, based regionally or globally, for governments, institutions, corporations and individuals worldwide.

In addition to the split into three professional divisions, Credit Suisse operations are divided into four basic geographic regions: (a) Americas (North and South) – with operations in U.S.A, Canada, Latin America and the Caribbeans; (b) Asia Pacific – primarily with operations in Australia, China, Hong Kong, India, Indonesia, Japan, Korea, Malaysia, the Philippines, Pakistan, Singapore, Taiwan and Thailand; (c) Europe, Middle East and Africa (EMEA) – including 28 countries, primarily managed in the UK; and (d) Switzerland. The management teams of each region are headed by a regional CEO who oversees the operations of the three divisions in their region.

Each regional management team includes several essential positions for providing corporate services and business support for the international operations of the three divisions. Strategically, the regional management teams are responsible for corporate development and business planning, regional-based projects and initiatives. They also monitor the financial performance in the area and are responsible for regulatory relationships within their

ratings. A credit rating below Baa is considered speculative. For the purpose of short term credit rating, this agency uses a scale from P-1 (the best rating) through P-2, P-3 and NP (the lowest rating).

The Fitch Rating agency uses, for the purpose of long-term credit rating, a scale similar to that of Standard & Poor's. For the purpose of short term credit rating, this agency uses a scale that begins from 1F, 2F, 3F, B, C, RD and D (the lowest rating).

⁵⁷ The rating date refers to the last date on which a rating was published by a rating agency. Publication does not necessarily constitute a full rating opinion.

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boundaries, regulatory risk management and resolution of significant issues in the region as a whole and the countries within the region.

The following table contains key data (as set out by Credit Suisse) from Credit Suisse's financial statements for Q4 2010 reported by Credit Suisse as noted in section 10.3[A] of this part:

	As at/ended			Change (%)	Change (%)	As at/ended		Change (%) Annual
	Q4 2010	Q3 2010	Q4 2009			2010	2009	
Net profit (CHF millions)								
Net profit / (loss) attributed to shareholders	841	609	793	38	6	5,098	6,724	(24)
Of which, from continuing operations	841	609	793	38	6	5,117	6,555	(22)
Earnings per share (in CHF)								
Basic earnings/(loss) per share from continuing operations	0.59	0.48	0.59	23	-	3.93	5.14	(24)
Basic earnings/(loss) per share	0.59	0.48	0.59	23	-	3.91	5.28	(26)
Earnings/(loss) per share from continuing operations – diluted	0.59	0.48	0.56	23	5	3.91	5.01	(22)
Earnings/(loss) per share – diluted	0.59	0.48	0.56	23	5	3.89	5.14	(24)
Return on equity (%)								
Return on equity attributed to shareholders (annually)	9.8	7	8.3	-	-	14.4	18.3	-
Principal results (in CHF millions)								
Income, net	6,960	6,284	6,533	11	7	30,625	33,617	(9)
Provision for credit losses	(23)	(26)	(40)	(12)	(43)	(79)	506	-
Total operational costs	5,676	5,557	5,228	2	9	23,904	24,528	(3)
Profit/(loss) from continuing operations before taxes	1,307	753	1,345	74	(3)	6,800	8,583	(21)
Data for measuring principal results from statement of income (%)								
Cost/income ratio	81.6	88.4	80.0	-	-	78.1	73.0	-
Pre-tax income margin	18.8	12	20.6	-	-	22.2	25.5	-
Effective tax rates	31	15.5	34.3	-	-	22.8	21.4	-
Net income margin ⁵⁸	12.1	9.7	12.1	-	-	16.6	20.0	-
Assets under management and net new assets (CHF millions)								
Managed assets from continuing operations	1,253.0	1,251.2	1,229.0	0.1	2	1,253.0	1,129.0	2
Net new assets	13.9	14.6	12.5	(4.8)	11.2	69	44.2	56.1
Balance sheet data (in CHF millions)								
Total assets	1,032,005	1,067,388	1,031,427	(3)	0	1,032,005	1,031,427	0
Net loans	218,842	222,660	237,180	(2)	(8)	218,842	237,180	(8)
Total shareholders' equity	33,282	34,088	37,517	(2)	(11)	33,282	37,517	(11)
Tangible equity ⁵⁹	24,385	24,874	27,922	(2)	(13)	24,385	27,922	(13)
Offered share value in books (in CHF)								
Total share value in books ⁶⁰	28.35	28.78	32.09	(1)	(12)	28.35	32.09	(12)

⁵⁸ Based on the amounts attributed to the shareholders.

⁵⁹ To the best of Koor's knowledge, this term refers to the equity attributed to the shareholders, net of the impaired goodwill and other intangible assets.

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	As at/ended			Change (%)	Change (%)	As at/ended		Change (%) Annual
	Q4 2010	Q3 2010	Q4 2009			2010	2009	
Offered shares (millions)								
Ordinary shares issued	1,186.1	1,186.1	1,185.4	0	0	1,186.1	1,185.4	0
Treasury shares	(12.2)	(1.8)	(16.2)	-	(25)	(12.2)	(16.2)	(25)
Offered shares	1,173.9	1,184.3	1,169.2	(1)	0	1,173.9	1,169.2	0
Market value								
Market value (CHF millions)	44,683	49,818	60,691	(10)	(26)	44,683	60,691	(26)
Market value (USD millions)	47,933	50,483	58,273	(5)	(18)	47,933	58,273	(18)
BIS⁶¹ data								
Risk-weighted assets (CHF millions)	218,702	227,683	221,609	(4)	(1)	218,702	221,609	(1)
Tier 1 ratio (percentage)	17.2	16.7	16.3	-	-	17.2	16.3	-
Total capital ratio (%)	21.9	21.9	20.6	-	-	21.9	20.6	-
Number of employees (full-time basis)								
Number of employees	50,100	50,500	47,600	(1)	5	50,100	47,600	5

Below is information published by Credit Suisse under its Fourth Quarter Outcome for 2010 report, as noted in section 10.3[A] to this part, relating to the annual income and profits of each of Credit Suisse's three divisions in 2009 and 2010:

(CHF millions)		2010	2009
Private banking	Income, net	11,631	11,662
	Pre-tax profit	3,426	3,651
Investment banking	Income, net	16,214	20,537
	Pre-tax profit	3,531	6,845
Asset management	Income, net	2,332	1,842
	Pre-tax profit	503	35

- [E] As Credit Suisse Annual Financial Statements (Form 20F) for 2010 have not yet been published, as aforesaid, below is a Hebrew translation of the chapter dealing with Risk Factors as it was included in Credit Suisse Annual Financial Statements for 2009 (it should be noted that the first person references refer to Credit Suisse). This translation should be read together with the full version of the reports mentioned in section 10.3[B] above:

"Our businesses are exposed to a variety of risks that could adversely affect our results of operations or financial condition, including, among others, those described below.

Liquidity risk

⁶⁰ To the best of Koor's knowledge, the significance of this term is the equity divided into the number of offered shares.

⁶¹ BIS (Bank for International Settlements) is an international organization that is controlled by the central banks and its function is to support international financial and monetary coordination. The BIS prescribes provisions for examining capital adequacy of banks, which is adopted by most central banks. Tier 1 ratio is the ratio between the initial capital tier which primarily includes paid-up share capital and undivided profits (subsequent to certain adjustments required by the provision) between the risk assets (see risk-weighted assets below), while the total capital ratio is the ratio between the capital components included in tier 1 and tier 2 (the secondary capital tier that also includes additional elements such as subordinated deeds, amounts invested by investors against the issue of certain hybrid securities and more) and the risk assets, which the banks are required to place at minimal ratio set. The risk assets (including ex-balance sheet exposures) are calculated in accordance with mechanisms fixed by BIS, as the amount of each of the bank's assets multiplied by a certain set multiple based on its latent risk. Notwithstanding the fact that Credit Suisse itself is not a bank under the Swiss federal law, it is obliged to comply with certain regulations applicable to banks, as aforesaid, inter alia, in the matter of capital adequacy, repayment capacity and risk centralization. On October 16, 2008, Credit Suisse reported that it had reached agreement with the Swiss Banking Authority with respect to certain capital adequacy goals and leverage requirements, whereby the goals must be met by 2013

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Liquidity, or ready access to funds, is essential to our businesses, particularly our investment banking business. We maintain available liquidity to meet our obligations in a stressed liquidity environment. For information on our solvency management, see Credit Suisse 2008 annual report, Chapter III, Treasury, Risks, Balance Sheet and Off-balance sheet - Treasury management.

Our liquidity could be impaired if we were unable to access the capital markets or sell our assets and we expect our solvency costs to rise.

Our ability to borrow on a secured or unsecured basis can be affected by increases in interest rates or credit spreads, the availability of credit or the perception among market participants that we are experiencing greater liquidity risk. An inability to obtain financing in the unsecured long-term or short-term debt capital markets, or to access the secured lending markets, could have substantial adverse effect on our liquidity. In challenging credit markets, our funding costs may increase or we may be unable to raise funds to support or expand our businesses, adversely affecting our results of operations. In 2009, access to debt markets stabilized and the financial institutions loans market, such as Credit Suisse, which survived the financial crisis while maintaining a relatively robust position. Nonetheless, the costs of increased liquidity have increased, and we expect to incur additional costs as a result of regulatory requirements for increased liquidity

If we are unable to raise needed funds in the capital markets, we may need to liquidate unencumbered assets to meet our liabilities. In a time of reduced liquidity, we may be unable to sell some of our assets, or we may need to sell assets at depressed prices, which in either case could adversely affect our results of operations and financial condition.

Our businesses rely significantly on our deposit base for funding

Our businesses benefit from short-term funding sources, including primarily demand deposits, inter-bank loans, time deposits and cash bonds. Although deposits have been, over time, a stable source of funding, this may not continue. In that case, our liquidity position could be adversely affected and we might be unable to meet deposit withdrawals on demand or at their contractual maturity, to repay borrowings as they mature or to fund new loans, investments and businesses.

Changes in our ratings may adversely affect our business

Reductions in our assigned ratings, including in particular our credit ratings, could increase our borrowing costs, limit our access to capital markets, increase our cost of capital and adversely affect the ability of our businesses to sell or market their products, engage in business transactions – particularly longer-term and derivatives transactions – and retain our customers. Ratings are assigned by rating agencies, which may reduce, indicate their intention to reduce or withdraw the ratings at any time. The major rating agencies remain focused on the financial services industry, particularly on uncertainties as to whether firms that pose systemic risk would receive government or central bank support in a financial or credit crisis.

Market risks

We may incur significant losses on our trading and investment activities due to market fluctuations and volatility

Although we reduced our balance sheet and accelerated the implementation of our client-focused, capital-efficient strategy in 2009, we continue to maintain large trading and investment positions and hedges in the debt, currency and equity markets, and in private equity, hedge funds, real estate and other assets. These positions could be adversely affected by volatility in financial and other markets, that is, the degree to which prices fluctuate over a particular period in a particular market, regardless of market levels. To the extent that we own assets, or have net long positions, in any of those markets, a down-turn in those markets could result in losses from a decline in the value of our net long positions. Conversely, to the extent that we have sold assets that we do not own, or have net short positions, in any of those markets, an upturn in those markets could expose us to potentially significant losses as we

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attempt to cover our net short positions by acquiring assets in a rising market. Market fluctuations, downturns and volatility can adversely affect the fair value of our positions and our results of operations. Adverse market or economic conditions or trends have caused, and may continue to cause, a significant decline in net revenue.

As a global financial services company, our businesses are materially affected by conditions in the financial markets and economic conditions generally in Europe, the US and elsewhere around the world. Although global economic conditions improved significantly in 2009, our financial condition and results of operations could be materially adversely affected if these conditions stagnate or worsen.

Adverse market and economic conditions have created a challenging operating environment for financial services companies. In particular, the impact of interest and foreign currency exchange rates, the risk of geopolitical events and fluctuations in commodity prices have affected financial markets and the economy. In recent years, movements in interest rates have affected our net interest income and the value of our trading and non-trading fixed income portfolios, and movements in equity markets have affected the value of our trading and non-trading equity portfolios.

Adverse market or economic conditions, including the inability to obtain credit or its cost, could reduce the number and size of investment banking transactions in which we provide underwriting, mergers and acquisitions advice or other services and, therefore, adversely affect our financial advisory and underwriting fees. Such conditions have affected the types and volumes of securities trades that we execute for customers and have adversely affected the net revenues we receive from commissions and spreads.

Unfavorable market or economic conditions affected our Private Banking and Asset Management businesses in 2009 by reducing sales of our investment products and the volume of our Asset Management activities and the commission and fee income that is based on the value of our clients' portfolios. Investment performance that is below that of competitors or asset management benchmarks could result in a decline in assets under management and related fees and make it harder to attract new clients. In light of the recent dislocation in the financial and credit markets, there has been a fundamental shift in client demand away from more complex products and significant client deleveraging, and our Asset Management and Wealth Management Clients results of operations have been and could continue to be adversely affected as long as this continues.

Adverse market or economic conditions could negatively affect our private equity investments since, if a private equity investment substantially declines in value, we may not receive any increased share of the income and gains from such investment (to which we are entitled in certain cases when the return on such investment exceeds certain threshold returns), may be obligated to return to investors previously received excess carried interest payments and may lose our pro rata share of the capital invested. In addition, it could become more difficult to dispose of the investment, as even investments that are performing well may prove difficult to exit in weak initial public offering markets.

Future terrorist attacks, military conflicts, economic or political sanctions, disease pandemics or natural disasters could have a material adverse effect on economic and market conditions, market volatility and financial activity, with a potential related effect on our businesses and results.

We may incur significant losses in the real estate sector

We finance and acquire principal positions in a number of real estate and real estate-related products, primarily for clients, and originate loans secured by commercial properties. We also securitize and trade in a wide range of commercial and residential real estate and real estate-related whole loans, mortgages, and other real estate and commercial assets and products, including residential and commercial mortgage-backed securities. In light of the dislocation in the credit and financial markets and deteriorating economic conditions in 2008, we ceased originating commercial and residential mortgage loans and reduced our origination capacity in complex real estate-related structured products in Investment Banking.

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Our ongoing real estate businesses and risk exposures in businesses we have exited could continue to be adversely affected by the downturn in real estate markets, other sectors and the economy as a whole.

Holding large and concentrated positions may expose us to large losses

Concentrations of risk could increase losses in our Private Banking and Investment Banking businesses, which may have sizeable loans to and securities holdings in certain customers or industries. Decreasing economic growth in a sector in which we make significant commitments, for example, through underwriting, lending or advisory services, could negatively affect our net revenues.

We have significant risk concentration in the financial services industry as a result of the large volume of transactions we routinely conduct with broker-dealers, banks, funds and other financial institutions, and in the ordinary conduct of our business we may be subject to risk concentration with a particular counterparty. Following the historic dislocation in the credit and financial markets and crisis in confidence in 2008, we, like other financial institutions, continue to adapt our practices and operations in consultation with our regulators to better address an evolving understanding of our exposure to, and management of, systemic risk and risk concentration to financial institutions. Regulators continue to focus on these risks, and there are numerous regulatory and government proposals, and significant ongoing regulatory uncertainty, about how best to address them. There can be no assurance that the changes in our and industry operations, practices and regulation will be effective in managing this risk. There can be no assurance that the changes in our and industry operations, practices and regulation will be effective in managing this risk. For further information, refer to I – Information on the company – Regulation and supervision.

Risk concentration may cause us to suffer losses even when economic and market conditions are generally favorable for others in our industry.

Our hedging strategies may not prevent losses

If any of the variety of instruments and strategies we use to hedge our exposure to various types of risk in our businesses is not effective, we may incur losses. We may be unable to purchase hedges or be only partially hedged, or our hedging strategies may not be fully effective in mitigating our risk exposure in all market environments or against all types of risk.

Market risk may increase the other risks that we face

In addition to the potentially adverse effects on our businesses described above, market risk could exacerbate the other risks that we face. For example, if we were to incur substantial trading losses, our need for liquidity could rise sharply while access to liquidity could be impaired. In conjunction with a market downturn, our customers and counterparties could also incur substantial losses of their own, thereby weakening their financial condition and increasing our credit and counterparty risk exposure to them.

Credit risks

We may incur significant losses from our credit exposures

Our businesses are subject to the risk that borrowers and other counterparties will be unable to perform their obligations. Credit exposures exist within lending relationships, commitments and letters of credit, as well as derivative, foreign exchange and other transactions. For information on management of credit risk, refer to III – Treasury, Risk, Balance sheet and Off-balance sheet – Risk management.

Management's determination of the provision for loan losses is subject to significant judgment, and our banking businesses may need to increase their provisions for loan losses or may record losses in excess of the previously determined provisions if our original estimates of loss prove inadequate and this could have a material adverse effect on our results of operations. For information on provisions for loan losses and related risk mitigation, refer to Credit Suisse 2009 annual report, Chapter III – Treasury, Risk, Balance sheet and Off-balance sheet – Risk management and Note 1 – Summary of significant accounting policies in

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V – Consolidated financial statements – Credit Suisse Group in Credit Suisse annual report for 2009.

Our regular review of the creditworthiness of clients and counterparties for credit losses does not depend on the accounting treatment of the asset or commitment. Changes in creditworthiness of loans and loan commitments that are fair valued are reflected in trading revenues.

As a result of our use of swaps and other derivatives, our credit exposures have increased, and may continue to increase, in amount and duration. In addition, we have experienced in the past, and may in the future experience, pressure to assume longer-term credit risk, extend credit against less liquid collateral and price derivative instruments more aggressively based on the credit risks that we take due to competitive factors. Our investments in, or loans to, hedge funds are an additional source of credit exposure. We expect our capital and liquidity requirements, and those of the financial services industry, to increase as a result of these risks.

Defaults by a large financial institution could adversely affect financial markets generally and us specifically

Concerns, or even rumors, about, or a default by, one institution could lead to significant liquidity problems, losses or defaults by other institutions because the commercial soundness of many financial institutions may be closely related as a result of credit, trading, clearing or other relationships between institutions. This risk is sometimes referred to as systemic risk. Concerns about, defaults by and failures of many financial institutions continued in 2009 and could continue to lead to losses or defaults by financial institutions and financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges, with which we interact on a daily basis. Our credit risk exposure will also increase if the collateral we hold cannot be realized upon or can only be liquidated at prices insufficient to cover the full amount of exposure.

The information that we use to manage our credit risk may be inaccurate or incomplete

Although we regularly review our credit exposure to specific clients and counterparties and to specific industries, countries and regions that we believe may present credit concerns, default risk may arise from events or circumstances that are difficult to foresee or detect, such as fraud. We may also fail to receive full information with respect to the credit or trading risks of a counterparty.

Risks from estimates and valuations

We make estimates and valuations that affect our reported results, including measuring the fair value of certain assets and liabilities, establishing provisions for contingencies and losses for loans, litigation and regulatory proceedings, accounting for goodwill and intangible asset impairments, evaluating our ability to realize deferred tax assets, valuing equity-based compensation awards and the calculation of expenses and liabilities associated with our pension plans. These estimates are based upon judgment and available information, and our actual results may differ materially from these estimates. For information on these estimates and valuations, refer to Credit Suisse annual report for 2009, Chapter II – Operating and financial review – Critical accounting estimates and Note 1 – Summary of significant accounting policies in V – Consolidated financial statements – Credit Suisse Group, in Credit Suisse annual report for 2009.

Our estimates and valuations rely on models and processes to predict economic conditions and market or other events that might affect the ability of counterparties to perform their obligations to us or impact the value of assets. To the extent our models and processes become less predictive due to unforeseen market conditions, illiquidity or volatility, our ability to make accurate estimates and valuations could be adversely affected.

Risks relating to off-balance sheet entities

We enter into transactions with special purpose entities (SPEs) in our normal course of business, and certain SPEs with which we transact business are not consolidated and their

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assets and liabilities are off-balance sheet. The accounting requirements for consolidation, initially and if certain events occur that require us to reassess whether consolidation is required, can require the exercise of significant management judgment. Accounting standards relating to consolidation, or their interpretation, have changed and may continue to change. If we are required to consolidate an SPE, its assets and liabilities would be recorded on our consolidated balance sheets and we would recognize e related gains and losses in our consolidated statements of operations. This could have an adverse impact on our results of operations and capital and leverage ratios. For information on our transactions with and commitments to SPEs, refer to Credit Suisse annual report for 2009, Chapter III – Treasury, Risk, Balance sheet and Off-balance sheet – Balance sheet, off-balance sheet and contractual obligations – Off-balance sheet and Note 2 – Recently issued accounting standards in V – Consolidated financial statements – Credit Suisse Group, in Credit Suisse annual report for 2009.

Cross-border and foreign exchange risk

Cross-border risks may increase market and credit risks we face

Country, regional and political risks are components of market and credit risk. Financial markets and economic conditions generally have been and may be materially affected by such risks. Economic or political pressures in a country or region, including those arising from local market disruptions, currency crises, monetary controls or other factors, may adversely affect the ability of clients or counterparties located in that country or region to obtain foreign currency or credit and, therefore, to perform their obligations to us, which in turn may have an adverse impact on our results of operations.

We may face significant losses in emerging markets

As a global financial services company and industry leader in emerging markets, we are exposed to economic instability in emerging market countries. We monitor these risks, seek diversity in the sectors in which we invest and emphasize customer- driven business. Our efforts at containing emerging market risk, however, may not always succeed. Nonetheless, our efforts at containing emerging market risk, however, may not always succeed.

Currency fluctuations may adversely affect our results of operations

We are exposed to risk from fluctuations in exchange rates for currencies, particularly the US dollar. In particular, a substantial portion of our assets and liabilities in our investment banking and asset management businesses are denominated in currencies other than the Swiss franc, which is the primary currency of our financial reporting. Our capital is also stated in Swiss francs and we do not fully hedge our capital position against changes in currency exchange rates. Exchange rate volatility may have an adverse impact on our results of operations and capital position.

Operating risks

We are exposed to a wide variety of operational risks, particularly information technology risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. In general, although we have business continuity plans, our businesses face a wide variety of operational risks, including technology risk that stems from dependencies on information technology and the telecommunications infrastructure, including the infrastructure supporting our businesses and/or the areas where our businesses or third-party suppliers are situated. As a global financial services company, we rely heavily on our financial, accounting and other data processing systems, which are varied and complex. If any of these systems does not operate properly or is disabled, including as a result of terrorist attacks or other unforeseeable events, we could suffer financial loss, a disruption of our businesses, liability to our clients, regulatory intervention or reputational damage.

We are exposed to operational risk arising from errors made in the execution, confirmation or settlement of transactions or in transactions not being properly recorded or accounted for.

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Our business depends on our ability to process a large volume of diverse and complex transactions, including derivatives transactions, which have increased in volume and complexity and which are not always confirmed on a timely basis. Our businesses also rely on the secure processing, storage and transmission of confidential and other information.

We may suffer losses due to employee misconduct

Our businesses are exposed to risk from potential non-compliance with policies, employee misconduct or negligence and fraud, which could result in regulatory sanctions and serious reputational or financial harm. It is not always possible to deter employee misconduct and the precautions we take to prevent and detect this activity may not always be effective.

Risk management

We have risk management procedures and policies designed to manage our risk. These techniques and policies, however, may not always be effective, particularly in highly volatile markets. We continue to adapt our risk management techniques, in particular value-at-risk, which relies on historical data, to reflect changes in the financial and credit markets. No risk management procedures can anticipate every market development or event, and our risk management procedures and hedging strategies, and the judgments behind them, may not fully mitigate our exposure in all markets or against all types of risk. For information on our risk management, refer to III – Treasury, Risk, Balance sheet and Off-balance sheet – Risk management.

Legal and regulatory risks

Our exposure to legal liability is significant

We face significant legal risks in our businesses, and the volume and amount of damages claimed in litigation, regulatory proceedings and other adversarial proceedings against financial services firms are increasing.

We and our subsidiaries are subject to a number of material legal proceedings, regulatory actions and investigations, and an adverse effect on our operating results for any particular period, depending, in part, upon our results for such period. For information relating to these and other legal and regulatory proceedings involving our Investment Banking and other businesses, refer to IX – Additional information – Legal proceedings.

It is inherently difficult to predict the outcome of many of the legal, regulatory and other adversarial proceedings involving our businesses, particularly those cases in which the matters are brought on behalf of various classes of claimants, seek damages of unspecified or indeterminate amounts or involve novel legal claims. Management is required to establish, increase or release reserves for losses that are probable and reasonably estimable in connection with these matters. For information on these estimates and valuations, refer to Credit Suisse annual report for 2009, Chapter II – Operating and financial review – Critical accounting estimates and Note 1 – Summary of significant accounting policies in V – Consolidated financial statements – Credit Suisse Group, in Credit Suisse annual report for 2009.

Failure to comply with extensive regulation of our businesses may subject us to significant penalties and may seriously harm our reputation.

As a participant in the financial services industry, we are subject to extensive regulation by governmental agencies, supervisory authorities, and self-regulatory organizations in Switzerland, Europe, the US and virtually all other jurisdictions in which we operate around the world. Such regulation is becoming increasingly more extensive and complex and, in recent years, penalties and fines sought and imposed on the financial services industry by regulatory authorities have increased significantly. These regulations often serve to limit our activities, including through net capital, customer protection and market conduct requirements, and restrictions on the businesses in which we may operate or invest. In recent years, a major focus of international policy and regulation has been on the Foreign Corrupt Practices Act (FCPA) and on combating money laundering and terrorist financing.

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In 2009, regulators and governments continued their focus on the reform of the financial services industry, including enhanced capital, leverage and liquidity requirements, changes in compensation practices (including tax levies) and measures to address systemic risk. We expect to face increased regulation and regulatory scrutiny and enforcement in the financial services industry, and we expect such increased regulation to increase our costs and affect our ability to conduct certain businesses. Our primary regulator in Switzerland, the Swiss Financial Market Supervisory Authority (FINMA), has imposed additional capital requirements and capital adequacy ratios and leverage capital requirements that we must comply with by the year 2013. We expect the financial services industry, including Credit Suisse, to continue to be affected by the significant uncertainty over the scope and content of regulatory reform in 2010.

Despite our best efforts to comply with applicable regulations, a number of risks remain, particularly in areas where applicable regulations may be unclear or where regulators revise their previous guidance or courts overturn previous rulings. Authorities in many jurisdictions have the power to bring administrative or judicial proceedings against us, which could result in, among other things, suspension or revocation of our licenses, cease and desist orders, fines, civil penalties, criminal penalties or other disciplinary action which could materially adversely affect our results of operations and seriously harm our reputation.

Changes in laws, rules or regulations, or in their interpretation or enforcement, may adversely affect our results of operations, and regulators may impose additional capital requirements on our regulated subsidiaries.

For a description of our regulatory regime and capital requirements and a summary of some of the significant regulatory and government reform proposals affecting the financial services industry, refer to Credit Suisse annual report for 2009, Chapter I – Information on the company – Regulation and supervision.

Changes in monetary policy are beyond our control and difficult to predict

We are affected by the monetary policies adopted by the central banks and regulatory authorities of Switzerland, the US and other countries. The actions of the US Federal Bank and other central banking authorities directly impact our cost of funds for lending, capital raising and investment activities and may impact the value of financial instruments we hold and the competitive and operating environment for the financial services industry. In addition, changes in monetary policy may affect the credit quality of our customers. Any changes in monetary policy are beyond our control and difficult to predict.

Legal restrictions on our clients may reduce the demand for our services

We may be materially affected not only by regulations applicable to us as a ut also by regulations of general application. For example, the volume of our businesses in any one year could be affected by, among other things, existing and proposed tax legislation, antitrust and competition policies, corporate governance initiatives and other government regulations and policies and changes in the interpretation or enforcement of existing laws and rules that affect business and the financial markets.

Competition

We face intense competition.

We face intense competition in all financial services markets and for the products and services we offer. Consolidation, through mergers and acquisitions, alliances and cooperation, is increasing competition. Competition is based on many factors, including the products and services offered, pricing, brand recognition, perceived financial strength and the willingness to use capital to serve client needs. Consolidation has created a number of firms that, like us, have the ability to offer a wide range of products, from loans and deposit-taking to brokerage, investment banking and asset management services. Some of these firms may be able to offer a broader range of products than we do, or offer such products at more competitive prices. Current market conditions have resulted in significant changes in the competitive landscape in our industry as many institutions have merged, declared bankruptcy, received government

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assistance or changed their regulatory status, which will affect how they conduct their businesses. In addition, current market conditions have had a fundamental impact on client demand for products and services. Although we expect the increasing consolidation and changes in our industry to offer opportunities, we can give no assurance that our results of operations will not be adversely affected.

Our competitive position could be harmed if our reputation is damaged

In the highly competitive environment arising from globalization and convergence in the financial services industry, a reputation for financial strength and integrity is critical to our performance, including our ability to attract and maintain clients and employees. Our reputation could be harmed if our comprehensive procedures and controls fail, or appear to fail, to address conflicts of interest as we increase our client base and the scale of our businesses, prevent employee misconduct, produce materially accurate and complete financial and other information or prevent adverse legal or regulatory actions. For further information refer to Credit Suisse annual report for 2009, Chapter III – Treasury, Risk, Balance sheet and Off-balance sheet – Risk management – Reputational risk.

We must recruit and retain highly skilled employees

Our performance is largely dependent on the talents and efforts of highly skilled individuals. Competition for qualified employees is intense. We have devoted considerable resources to recruiting, training and compensating employees. Our continued ability to compete effectively in our businesses depends on our ability to attract new employees and to retain and motivate our existing employees. We implemented a new compensation structure for senior employees for 2009. The continued public focus on compensation practices in the financial services industry, and related regulatory changes, may have an adverse impact on our ability to attract and retain highly skilled employees.

We face competition from new trading technologies

Our Private Banking, Investment Banking and Asset Management businesses face competitive challenges from new trading technologies, which may adversely affect our commission and trading revenues, exclude our businesses from certain transaction flows, reduce our participation in the trading markets and the associated access to market information and lead to the creation of new and stronger competitors. We have made, and may continue to be required to make, significant additional expenditures to develop and support new trading systems or otherwise invest in technology to maintain our competitive position.

Risks relating to our strategy

Risk from financial services businesses that we acquire or joint ventures we undertake

Even though we review the records of companies we plan to acquire, it is generally not feasible for us to review in detail all such records. Even an in-depth review of records may not reveal existing or potential problems or permit us to become familiar enough with a business to assess fully its capabilities and deficiencies. As a result, we may assume unanticipated liabilities (including legal and compliance issues), or an acquisition may not perform as well as expected. We also face the risk that we will not be able to integrate acquisitions into our existing operations effectively as a result of, among other things, differing procedures, business practices and technology systems, as well as difficulties in adapting an acquired company into our organizational structure. We face the risk that the returns on acquisitions will not support the expenditures or indebtedness incurred to acquire such businesses or the capital expenditures needed to develop such businesses.

In addition, in recent years we have undertaken a number of new joint ventures and strategic alliances. Although we endeavor to identify appropriate partners, our joint venture efforts may prove unsuccessful or may not justify our investment in other commitments."

- [F] Below is a breakdown of key issues from Credit Suisse reports to SEC since the date of publication of Koor's periodic report for 2009 through the date of this report, reported by Koor (in addition to those mentioned in section 10.3[A] of this Part):

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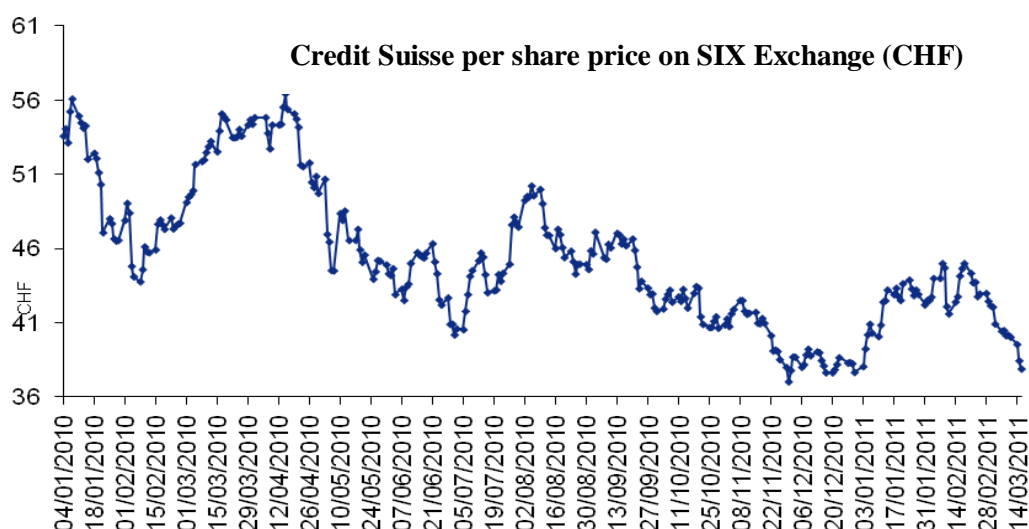
- [1] On March 26, 2010 Credit Suisse reported the required disclosures under Basel II Pillar 3 to SEC pertaining to the application of risk assessment and the Basel II guidelines for 2009. This report was attached to Koor's immediate report dated March 26, 2010 (Ref. No.: 2010-01-432402).
- [2] On August 27, 2010 Credit Suisse reported the required disclosures under Basel II Pillar 3 to SEC pertaining to the application of risk assessment and the Basel II guidelines for the first six months of 2010. This report was attached to Koor's immediate report dated August 29, 2010 (Ref. No.: 2010-01-603120).
- [3] On October 4, 2010 Credit Suisse reported to SEC regarding its position with respect to the recommendations of the Swiss Federal Council concerning reduction of financial risks from large-scale companies. This report was attached to Koor's immediate report dated October 5, 2010 (Ref. No.: 2010-01-636141).
- [4] On February 14, 2011 Credit Suisse reported to SEC regarding the issue of Tier 1 Buffer Capital Notes in the cumulative amount of CHF 5.9 billion. This report was attached to Koor's immediate report dated February 15, 2011 (Ref. No.: 2011-01-050262).
- [5] On February 18, 2011 Credit Suisse reported to SEC regarding the issue of Tier 2 Buffer Capital Notes in the cumulative amount of CHF 2 billion. This report was attached to Koor's immediate reports dated February 20, 2011 (Ref. No.: 2011-01-053742 and 2011-01-054519, respectively).

[G] Below is information relating to the trade of Credit Suisse shares on the SIX Exchange as published by Reuters, as at March 18, 2011:

Price range on the SIX Exchange

	Highest price		Lowest price	
	Date	Price (CHF millions)	Date	Price (CHF millions)
2010	April 15, 2010	56.40	November 30, 2010	37.04
2011 (until reporting date)	February 18, 2011	44.99	March 16, 2011	37.90

[H] The following graph presents figures with respect to the price of Credit Suisse share on the SIX Exchange during the course of 2010 and 2011 (through to March 16, 2011) (in CHF):]



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- [I] Below is information relating to the trade of Credit Suisse shares on the NYSE as published by Reuters, as at March 16, 2011:

Price range on the NYSE

	Highest price		Lowest price	
	Date	Price (in USD)	Date	Price (in USD)
2010	January 08, 2010	54.57	June 04, 2010	36.54
2011 (until reporting date)	February 18, 2011	47.63	January 3, 2011	40.9

- [J] The following graph presents figures with respect to the price of Credit Suisse share on the NYSE during the course of 2010 and 2011 (through to March 16, 2011) (in USD):



- [K] It should also be noted that, to the best of Koor's knowledge, the price range for Credit Suisse shares on the SIX Exchange during the periods described above, do not deviate, materially and essentially, from the price range reflected in NYSE trading.

On March 16, 2011, the closing price per Credit Suisse share on the SIX Exchange was CHF 37.90 and USD 41.24 on the NYSE. The prices of Credit Suisse shares on the stock exchange have recently become volatile. According to the closing price for Credit Suisse shares on the NYSE on March 16, 2011, the value of Koor's investment in Credit Suisse is higher/lower, by NIS 1.3 billion, than its market value.

- [L] Trading volume range on the SIX Exchange

	Highest volume		Lowest volume		Average volume
	Date	Volume (Nr. of shares in millions)	Date	Volume (Nr. of shares in millions)	
2010	January 22, 2010	23.9	December 28, 2010	1.3	7.7
2011 (until reporting date)	February 10, 2011	23.6	January 3, 2011	3.1	8

- [M] Hereunder information pertaining to the standard deviation of Credit Suisse shares on the SIX Exchange:

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In the month preceding 16 March 2011	In the three months preceding 16 March 2011	In the ten months preceding 16 March 2011	Standard deviation in 2010
2.06	2.19	4.44	4.85

- [N] Hereunder information pertaining to the standard deviation of Credit Suisse shares on the NYSE:

In the month preceding 16 March 2011	In the three months preceding 16 March 2011	In the ten months preceding 16 March 2011	Standard deviation in 2010
1.83	2.32	3.67	4.21

- [O] Hereunder information pertaining to the maximum and minimum number of Credit Suisse shares held by Koor in 2010 and 2011 (through to March 16, 2011), by month (in millions of shares):

Month	Year	Maximum balance of shares	Minimum balance of shares
January	2010	35.39	27.54
February		36.96	35.39
March		36.96	36.96
April		38.46	36.96
May		38.46	38.46
June		38.46	38.46
July		38.46	38.46
August		38.46	38.46
September		38.46	38.46
October		38.46	38.46
November		38.60	38.46
December		38.60	38.60
January	2011	38.60	38.60
February		38.60	38.60
March		38.60	38.60

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11. 452 Owners

- 11.1 Breakdown as at December 31, 2010 of 452 Owners, a company in which Koor's holdings constitute a separate operating segment of Koor (pursuant to IFRS 8) and which is stated in the financial statements as an available-for-sale asset.⁶²

% holding as of 31 December 2010	Investment recorded in Koor's books (in NIS million)	Investment out of Koor's total equity (%)	Contribution to Koor's net loss (in NIS millions) Profit / (loss)	See further details in the section
50%	350	12%	41	11.2

11.2 General Information on the Segments of Operations

In April 2010 Koor completed a transaction under which it acquired, together with Property and Building, a company controlled by the controlling shareholder in Koor, the HSBC Building. The acquisition of the HSBC Building was made through 452 Owners. The consideration paid for the HSBC Building amounted to USD 330 million, of which Koor's share amounted to USD 165 million. For further information pertaining to the acquisition of the HSBC Building see Note 9(B) to the financial statements. Other than the HSBC Building, 452 Owners operations do not include other real estate investments.

For financing the acquisition of HSBC Building, Bank Leumi and Leumi USA extended loans in the amount of USD 210 million to 452 Owners for a period of ten (10) years. To secure the loans, 452 Owners put up the HSBC Building and additional collateral, as generally accepted, and various guarantees were provided by Koor and Property and Building, as generally accepted for this type of loan. For further information pertaining to the loans for financing the acquisition of HSBC Building and concerning the guarantees that Koor was required to provide under this agreement, see Note 9(B) to the financial statements.

In view of the foregoing, the data presented below is for the reporting period beginning April 1, 2010 and ending December 31, 2010 (in this section 10 - "**The Relevant Period in 2010**") and are presented (unless stated otherwise) according to the Company's share (50%) in 452 Owners, through which Koor holds HSBC Building.⁶³

- 11.3 **The geographic area in with this operating segment operates:** New York, USA

11.4 Details of the revenue generating properties

HSBC Building is located on Fifth Avenue in New York City, USA and serves mainly as an office building and commercial space which is not significant. HSBC Building includes two buildings of 12 and 29 floors with overall built up area of 865,000 sq.ft (approximately 80,000 sq.m.).

11.5 Tenant mix

HSBC building serves as the headquarters of Bank HSBC management. Based on existing rental contracts, almost all the building space is rented to HSBC. Most of the office space is on the first through to eleventh floors, 478,000 sq.ft. (51,000 sq. m), are rented to HSBC for a rental period of ten years beginning April 2010, and HSBC has an option to extend the rental period by an additional two periods of ten years each. Part of the space on the 12th through to 29th floors, 289,000 sq.ft. (27,000 sq. m) are rented to HSBC for a period of 12 months which ends in April 2011, and part of these floors (and area of 6,000 sq. m) have been extended for an additional rental period of 6 to 12 months, under the rental contract signed between the parties in January 2011. The rental for the

⁶² As of Koor's financial statements for 2010, 452 Owners is reported for the first time as a reporting operating segment. The assets in the financial statements include the investment in 452 Owners, based on Koor's share in the equity and the statement of comprehensive income includes Koor's share in the net profit of 452 Owners. The assets and results of 452 Owners are not consolidated in the financial statements.

⁶³ For further information pertaining to Koor's holding in other real estate properties, see section 14.1[E] of this part.

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rented space which was extended as aforesaid amounts to USD 4 million per year. Koor acts (through 452 Owners) to find tenants for the space that will become vacant in the HSBC Building at the end of the rental period under the said rental contracts. HSBC has first refusal rights to rent the vacant space (or space that may become vacant in the future).

The total rental paid to 452 Owners for renting spaces in the HSBC Building in the first year of activities as of the date of completion of the acquisition of the property will amount to USD 45 million, of which USD 19, million is rent for the upper floors. The operating expenses incurred by 452 Owners is estimated to be USD 19 million for the first year. In addition, in February 2011, 1,600 sq.m. of commercial space was rented in the building for a period of 15 years at average annual rental of USD 2 million.

11.6 Policy of buying and selling of property

Koor does not have a policy of buying and selling yield generating real estate properties.

11.7 Material changes in the basis of the business operations in this operating segment in the past three years

During this period, until the acquisition of the HSBC building, Koor did not have operations in investment real estate, which rose to become an operating segment.

11.8 Special tax implications applicable to this operating segment

The following tax implications, inter alia, are applicable to the operations of 452 Owners:

A partnership defined as a Company for US tax purposes are taxable in the United States under the US tax laws. The tax is for capital gains and/or income from the sale of properties and/or from rentals and/or income from interest, less expenses directly incurred regarding the property, such as maintenance expenses, interest expenses, renovations and property management, permitted deductible amortization on part of the property costs (at varying rates for each property) and expenses for expendable systems in accordance with applicable U.S. tax laws

Tax rates applicable to income: Federal corporate tax of 35%, State tax (in New York State) at 7.1% and municipal tax (in New York City) of 8.85%. The State and municipal taxes can be deducted when calculating the Federal tax liability and the municipal tax can be deducted when calculating the State tax, so that the weighted tax rate in the United States is 45%; tax deducted at source when distributing dividend from a company in the U.S. to a company in Israel (for dividend distribution from a partnership defined as a company for US tax purposes to a company resident in Israel, tax deductible at source of 12.5% is required, subject to compliance with all the terms prescribed in the tax treaty between Israel and the U.S. (mainly a minimum 10% holding in the voting shares of a US company); tax at source when paying interest from a US company to a company in Israel - such interest payment requires tax at source of 17.5%.

Direct credit in Israel: As a rule tax at source can be given as a credit in Israel in accordance with the income tax guidelines in Israel. A credit can be received in Israel for corporate tax paid in the U.S. by a partnership defined as a company for US tax purposes. Nonetheless, in view of the high applicable tax rates in the U.S., no additional tax is expected to be paid in Israel for the partnership's income from these operations. Distribution of dividend by a partnership defined as a company for U.S. tax purposes will not be reported in Israel as dividend received and no additional tax will be applicable in Israel. In this situation the amount of tax deducted at source cannot be received as a credit in Israel and the effective tax rate is 51.88%. According to the income tax ordinance, income from interest from a foreign source received by an Israeli company is taxable with corporate tax. Nonetheless, a credit can be received for the foreign tax paid, up to the corporate tax rate in Israel. As a rule, excess credit, if any, can be used over a period of 5 years.

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11.9 Summary of results

Below is a summary of the results of this operating segment - for the relevant period in 2010 (in USD thousand).⁶⁴

Parameter	Relevant period in 2010
Total segment revenues	16,854
Revalued profit / loss)	18,470
Segment profits	28,544
Total NOI	10,074

11.10 Economic indicators of the geographic region

The following table presents the economic indicators of the U.S.:

	For the year ended December 31, 2010
Macroeconomic indicators:	
Gross Domestic Product (PPP)*	USD 14,624
Per capita GDP (PPP)*	USD 47,132
GDP growth rate (PPP)*	3.6%
Per capita GDP growth rate (PPP)*	2.6%
Inflation rate*	1.4%
Return on long-term domestic government debt**	3%
Long term government debt rating***	AAA/Stable
NIS-USD exchange rat on the last day of the year	3.549

Source: * Source: International Monetary Fund website - <http://www.imf.org>

** Source: US Treasury website - <http://www.treasury.gov>

*** Source: S&P website - <http://www.standardandpoors.gov>

11.11 HSBC Building

11.11.1 General

Property location:	New York City, USA
Property area – divided according to use at December 31, 2010:	Office space - 72,258 Commercial space - 5,225 Storage space - 2,889
Holdings structure in property:	Held (indirectly) through a US company jointly owned by Koor and Property and Building
Effective share in property:	50%
Names of the partners in the property:	Property and Building, a company owned by DIC, the controlling shareholder in Koor
Date of closing of acquisition of property:	April 13, 2010
Legal rights in property:	Ownership
Status of registration of legal rights:	The property rights are registered in the name of 452 Owners
Special issues:	--
Method of statement in financial statements:	Equity value

⁶⁴ Per Koor's proportionate share in 452 Owners.

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11.11.2 Main details

Below are the main details of the HSBC Building:

Based on 100%. Company's share in the property: 50%	Relevant period in 2010		On date of acquisition of property*
Fair value at end of period (in USD thousands)	390,000	Cost of purchase (in USD thousands)	330,000 (plus purchase costs of 23,000)
Average occupancy (%)	97%	Transaction closing date	April 13, 2010
Rented space (sq. m)	77,700	Occupancy (%)	97%
Revenues (in USD thousands)	33,708	NOI (USD thousands)	20,148
Average rental per meter (monthly) (in USD)	49		
Average rental per month in contracts signed in the period (in USD)	*		
NOI (USD thousands)	20,148		
Adjusted NOI (USD thousands)	31,244		
Actual return (%)	5.1		
Adjusted return (%)	7.2		
Number of tenants at end of reporting year	1		
Exchange rate	3.549		

* Not relevant

11.11.3 Breakdown of revenue and cost structure

Below are details of revenue and costs connected with the HSBC Building:

Based on 100%. Company's share in property: 50%	Relevant period in 2010 (USD thousands)
Revenue:	
From rental - fixed	33,708
Evaluation of investment property	36,940
Total revenues:	70,648
Cost:	
Management, maintenance and operation	14,018
Financing	14,992
Other expenses	2,402
Total Expenses:	31,412
Profit:	39,236
NOI:	20,148

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11.11.4 Key tenant

452 Owners is dependent upon HSBC Bank as its main tenant in the property. 452 Owners total income from HSBC bank constitutes 100% of 452 Owners revenue for the relevant period in 2010. Additional details of the rental terms of HSBC Bank:

Based on 100%. Company's share in property: 50%	Revenue in the relevant period in 2010 (in USD thousands)	Rental updating or linkage mechanism	Segment classification of key tenant	Collateral	Remaining contractual period from end of reporting year (and extension options) (by revenue tiers)	Special dependence or any other material terms
HSBC	33,708	With regard to space rented for a period of ten years, the rental is fixed for a period of five years and the rent for the subsequent five years will increase by 10% ⁶⁵	Banking	-	See also Section 11.2.3 of this Part.	Bank HSBC is the primary tenant in the property

11.11.5 Expected income from signed rental contracts

Breakdown of the expected income of 452 Owners segment and the number of rental contracts that are due to expire (assuming exercise and failure to exercise rental period options):

Recognition period of income (data for 100%, Company's share in property:50%)	Assuming rental period option is not exercised			Assuming exercise of rental period option		
	Income from fixed items (USD thousands)	Number of expired contracts	Area of expired contracts (in USD thousands)	Income from fixed items (USD thousands)	Number of expired contracts	Area of expired contracts (in USD thousands)
2011	Q1	10,868	21,000	10,868		21,000
	Q2	8,102	--	8,102		--
	Q3	6,768	--	6,768		--
	Q4	6,614	--	6,614		--
2012	25,448		6,000	25,448		6,000
2013	25,396		--	25,396		--
2014	25,438		--	25,438		--
2015 onwards	<u>174,186</u>	<u>1</u>	<u>50,700</u>	<u>727,314</u>		<u>50,700</u>
Total	282,820	1	77,700	835,948		77,700

It is noted that Koor's estimates concerning the expected income of the 452 Owners segment are forward-looking statements as defined in the Securities Law, based on the signed rental contracts which Koor has as at the reporting date. These expectations may not be realized, wholly or in part, or may be realized in a manner different to that expected, including in a significantly different manner than expected, for various reasons including early cancellation and/or breach of rental contract, business crisis of any of the tenants and/or as a result of the occurrence of other events that are not in Koor's control.

⁶⁵ In addition, it is stipulated that if HSBC exercises its option to extend the rental period by another ten years, the rent will be fixed according to the market value at that time, in accordance with a mechanism that was decided between the parties and which also includes a mechanism for arbitration in the event that the parties do not agree to the rent.

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11.11.6 Specific financing

Information of specific financing connected with the HSBC Building:

Balance in Statement of Financial Position:	December 31, 2010 (in NIS thousands)	Presented as long term liabilities	201,776
Fair value as at December 31, 2010 (in USD thousands)			215,964
Date original loan received			April 13, 2010
Amount of original loan (USD thousands)			210,000
Effective occupancy as at December 31, 2010			4.134%
Dates for repayment of principal and interest			⁶⁶
Key financial covenants			The loan agreement does not include financial criteria. ⁶⁷
Other key covenants			Restrictions on the transfer of ownership in the building or changes in the control of the property company without the agreement of Leumi USA; prohibition to engage in material agreements (as defined in the loan agreement); receipt of Leumi USA's consent to engage in new rental contracts and/or changes or amendments to existing rental contracts (under the terms fixed in the loan agreement); and 452 Owners undertaking to indemnify Leumi USA with regard to lawsuits and/or damages that may be caused to Leumi USA with regard to providing the loan (under the terms and in the events as specified in the agreement).
Note if any of the key covenants or financial criteria been breached at the end of the reporting year			No
Is the loan non-recourse			Yes

⁶⁶ The loan bears interest of 5% for the first four years commencing on the date that the loan is received and thereafter, the for balance of the loan period, the loan will bear interest of Libor + 2.75 The principal of the loan will be repaid commencing the fourth year, according to a repayment table for 25 years (Annual interest of 4%) and the balance of the loan principal will be repaid in a lump sum at the end of the loan period.

⁶⁷ Nonetheless, in order to complete the picture, it is noted that the loan agreement includes, inter alia, provisions concerning cash deposits made by 452 Owners in special accounts for securing the minimum ratio between the surplus operation revenue (as defined in the agreement) from the building and the loan repayments.

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11.11.7 Liens and material legal restrictions on the property

Information of specific liens and material restrictions connected with the HSBC Building:

Class	Breakdown	The amount assured by the lien as at December 31, 2010 (USD thousands)
First ranking lien	A first ranking lien on the property, a first ranking lien on equipment (fixed) in the property; lien and assignment of rights on all rent contracts and rentals or other payments that will be paid with respect to the property or the use thereof; lien on 452 Owners' bank accounts that will be opened and managed at Leumi USA and in which the receipts from the property will be deposited (including collateral that will be provided by the tenants); and lien on all 452 Owners rights (interests).	210,000
Guarantees	<p>Specific guarantees each of Koor and Property and Building to secure repayment of the loan principal in the amount of USD 52.5 million (each)</p> <p>The guarantees of Koor and Property and Building for the payment, each, of half of the liabilities secured under the guarantee agreement include: Types of losses as defined and including for misrepresentation, misuse of moneys and/or insurance receipts and prohibited transfer of rights in the building or in 452 Owners, and the amount of the debt, and all so long as the amount of the debt has not been fully paid up.</p> <p>Undertaking of Koor, Property and Building and 452 Owners, individually, to indemnify the lender for any actual loss caused to it for cases as defined in the indemnification agreement concerning hazardous substances and the quality of the environment (the share of Koor and Property and Building, separately or together is limited to 50% of the total losses included in said indemnification agreement)</p> <p>Koor and Property and Building guarantees (separately or jointly) half of 452 Owner's liabilities towards a company of the HSBC Group (seller of the building) to pay half of the net profits (as defined in the agreement) accrued if during the two years from the date of the acquisition transaction 452 Owners will sell the building or more than 50% of 452 Owners' rights</p>	

11.11.8 Details of evaluation

Information of evaluation connected with the HSBC Building:

Based on 100%. Company's share in property 50%	2010
Market value (USD millions)	390
Assessors name	CB RICHARD ELLIS INC.
Is the assessor independent?	Yes ⁶⁸
Is there an indemnification agreement?	Yes
Date of validity of the evaluation	June 30, 2010
Evaluation model	Discounting cash flow

⁶⁸ It is noted that the assessor, who provides maintenance services to the HSBC building, gave 452 Owners his declaration that it is independent.

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Key parameters taken into account in the evaluation:		
Discounting cash flow method (DCF)	Gross leasable area (sq.m)	80,156
	Occupancy in second lease year +1 (%)	60%
	Occupancy in third lease year +2 (%)	83%
	Representative occupancy of the leasable space for purpose of evaluation (%)	97%
	Average rent per sq. m for purpose of evaluations in year 1+	USD 49/m/month
	Average rent per sq. m for purpose of evaluations in year +2+	USD 50/m/month
	Average rent (average two months representation per per sq. m for purpose of evaluations in year (in USD millions)	USD 68/m/month
	Representative cash flow / NOI represented for purpose of evaluation (in USD millions)	38.7
	Average periodic expenses for maintaining status quo (in USD millions)	1
	Capitalization rate (%)	8.25
		Time until conceptual exercise
	Rate of return until conceptual exercise	6.25
Sensitivity analysis for value:		Change in value (USD million)
Discount rate	Increase of 0.25%	Decrease of USD 19 million.
	Decrease of 0.25%	Increase of USD 20 million.

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12. Epsilon

12.1 Below is information about Epsilon, a separate operating segment of Koor, as at December 31, 2010 (according to the criteria for operating segments in IFRS 8):

Holding as at December 31, 2010 (%)	Investment stated in Koor's financial statements (NIS million)	Investment out of Koor's total equity (%)	Contribution to Koor's net loss (NIS millions) Profit / (loss)
50%*	74.2	2.5%	7.5

* As at December 31, 2010, Epsilon is an associate of Koor. For further information about Koor's accounting treatment of its investment in Epsilon, see Note 9C to the financial statements. At the reporting date, Koor holds 68.75% of Epsilon's share capital (see section 12.4 in the section below).

Below is information from Epsilon's financial statements as at December 31, 2010 (NIS millions):

Revenue in 2010	Net profit in 2010	Equity as at December 31, 2010	Total assets as at December 31, 2010
61.3	11.4	50	63.2

For further information, see section 1.2.2.5 to the Directors' Report.

12.2 Epsilon is a private company incorporated in Israel in 1988. At December 31, 2010, Epsilon's assets under management amount to NIS 6.3 billion (NIS 6.8 billion at the reporting date⁶⁹).

12.3 At the reporting date, Epsilon operates in the following segments:

- [1] **Investment portfolio and provident fund management** (together – "Current Savings Management"), At the reporting date, Epsilon manages assets in this segment with a total value of NIS 6.2 billion.
- [2] **Provident funds management** – At the reporting date, Epsilon manages assets in this segment with a total gross value of NIS 0.57 billion.
- [3] **Underwriting services and distribution of securities and investment banking**⁷⁰ – For further information, see section 12.8 in this section.

12.4 Increase of Koor's holdings in Epsilon

In January 2011, Koor completed a transaction from March 2010 for acquisition of all the holdings of a former Epsilon shareholder (18.75%) for NIS 28 million. Subsequent to the transaction, Koor holds 68.75% of the issued and paid up share capital of Epsilon and the right to appoint the majority of its board members. Subsequent to the transaction, the agreement between Koor and another shareholder in Epsilon came into effect, as holders of the remaining shares in Epsilon ("the Epsilon Shareholders Agreement"). According to the agreement, each party to the agreement may inform the other party of its intent to acquire all of the shares of the other party (BMBY), under the terms stipulated in the agreement; that the Epsilon's articles of association will be amended to include provisions that restrict the transfer of Epsilon shares (including the right of first refusal and the right to join); and decisions in certain matters (such as merger, dissolution and revisions to the articles of association) require a majority of 75% at the general meeting. The agreement also stipulated certain restrictions for sale of the other shareholder's holdings in Epsilon. It was further decided to continue the policy for distribution of profits that was in place before the Epsilon Shareholders Agreement was signed (subject to Epsilon's requirements as decided by Epsilon's board of directors from time

⁶⁹ Epsilon also provides management services, including investment management services, to a wholly-owned company of Koor, which is a management company (as defined in the Supervision of Financial Services Law (Provident Funds), 5765-2005 ("the Provident Funds Law")), which owns two industry provident funds, which have NIS 340 million under management.

⁷⁰ Epsilon also has nostro activities.

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to time) and the restrictions that applied to Koor regarding acquisition of another investment house that competes with Epsilon's business were cancelled.

12.5 Dividends

12.5.1 Details of dividends distributed by Epsilon in 2009, 2010 and during 2011 (up to the reporting date):

Distribution year	Total dividend (NIS millions)	Koor's share in the dividend (NIS millions)
2009	7.1	3.6
2010 ⁷¹	23.7	11.9
2011	2.7	1.9

At December 31, 2010, the balance of Epsilon's "profits", as defined in section 302 of the Companies Law, amounted to NIS 2.8 million. At the reporting date, and subject to the aforesaid in section 12.4, Epsilon did not adopt a fixed dividend distribution policy.

12.5.2 Main characteristics of the operating environment

Trends in the capital market Epsilon's operations are affected directly by fluctuations in Israel's capital market. These fluctuations are also affected by the political-security situation in Israel and the Middle East, and the economic situation in Israel and other countries, and they could also have a material impact on the value of securities portfolios managed by Epsilon (customer and nostro portfolios), its yields and the volume of public activity in the capital market.

Regulation and legislative changes Epsilon's operating environment is affected by extensive regulations. Epsilon's operations are regulated by various entities that supervise the capital market in Israel, including the Securities Authority, the Prohibition of Money Laundering Authority and the Commissioner of the Capital Market. These authorities direct and regulate supervision through different means, including circulars, position papers, written and oral directives and legislation.

For further information, see sections 12.6.1 and 12.7.2 of this section.

Licensing Epsilon, and many of its employees, are subject to licensing requirements as a condition for their activities (according to the relevant segment) and are required to comply with the conditions in the license. These include: Epsilon's license for investment portfolio management from the Securities Authority, appropriate licenses for Epsilon employees engaging in investment portfolio management, a license for provident fund management (management company license) and control permit in Epsilon Provident Fund Management Ltd. ("Epsilon Provident Fund Management") from the Commissioner of the Capital Market⁷², and a brokers license to market pension funds for Epsilon's employees who are pension fund brokers.

Changes in these factors could have a significant effect on Epsilon's operations and results.

12.6 Current savings management

12.6.1 In this segment, Epsilon manages investment portfolios for its customers and 26 mutual funds in a range of tracks. This segment is Epsilon's core operation. Segment revenue in 2010 amounted to NIS 50 million, representing 81% of Epsilon's total revenue in the year. Epsilon has one mutual fund with revenue in 2010 (net of distribution fees) that exceeded 10% of Epsilon's revenue in the year (12% of Epsilon's cumulative revenue in that year).

⁷¹ Distribution of NIS 11.1 million of this amount was approved by the Court according to section 303 of the Companies Law, in December 2009 (as part of the Court's approval of the distribution of NIS 29 million).

⁷² The controlling shareholders of Koor were given a control permit for Epsilon Provident Fund Management. The permit includes, inter alia, terms and restrictions with regard to holdings and liens in the control chain in Epsilon Provident Fund Management. IDB Holdings undertook that so long as it controls Epsilon Provident Fund Management, it will supplement (or ensure that companies in its direct or indirect control will supplement) the equity of Epsilon Provident Fund Management to the amount set in the Income Tax (Rules for Approval and Management of Provident Funds) Ordinance, 1964.

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Investment portfolio management services are rendered according to agreements between Epsilon and its customers. Epsilon's revenue from investment portfolio management is from monthly management fees as set out in the management agreements. Epsilon's mutual funds are managed by Epsilon Mutual Fund Management (1991) Ltd. ("the Fund Manager"). The investment policy of each of the funds managed by the Fund Manager is determined by the board of directors and the investment committee of the Fund Manager. Epsilon's revenue from mutual fund management is from management fees as set out in the fund's prospectus and constitute, as a rule, a percentage of the fund's assets.

Restrictions and supervision of current savings management activities

Epsilon's operations in this area are subject to the relevant provisions, laws, regulations and orders, including the following legislative provisions:

Investment Consulting, Investment Marketing and Portfolio Management Law, 1995 and the subsequent regulations, which regulate licensing, the obligations of a portfolio manager, investment broker or investment advisor ("license holder") to the customer, and operations that are prohibited for a license holder, a disciplinary supervising mechanism for the license holder and the obligation to hold insurance coverage and minimum equity.

Prohibition of Money Laundering Law, 2000 and the subsequent orders and regulations, which stipulate provisions applicable to portfolio managers, including provisions in respect of customer identification, verification of customer details, appointment of an officer to enforce provisions of the law, obligation to manage a computerized database, storage of documents and duty to report to the Prohibition of Money Laundering Authority.

Joint Investment Trust Law, 1994 and the subsequent regulations, which stipulate provisions for the approvals required to establish a mutual fund, the composition of the Fund Manager's board of directors, the appointment of an investment committee, the obligation to publish a prospectus, the obligations of the fund manager and trustee, significant transactions or transactions that constitute a conflict of interest and approval methods.

In addition, Epsilon's current savings management operations are subject to the provisions and regulations of the Securities Authority that are published in directives and circulars.

12.7 Provident fund management

12.7.1 Epsilon's provident fund management activities are performed through Epsilon Provident Fund Management Ltd., a wholly-owned subsidiary of Epsilon, which is a management company, as defined in the Provident Funds Law, and which was approved as a management company by the Commissioner of the Capital Market. In this segment, Epsilon Provident Fund Management manages assets of NIS 0.57 billion⁷³ and its revenue is derived from monthly management fees from the total fund assets under its management.

Epsilon products in this segment include provident funds for pension and severance compensation funds, study funds and a central compensation fund.

Revenue of Epsilon Provident Fund Management in 2010 amounted to NIS 4.5 million, representing 7% of Epsilon's total revenue in the year.

12.7.2 As part of Epsilon's activities in the segment, Epsilon is subject to the provisions of the law regulating provident fund management, including the Supervision of Financial Services Law (Provident Funds), 5765-2005 and the subsequent regulations, the Income Tax Regulations (Regulations for Approval and Management of Provident Funds), 5724-1964 and the Supervision of Financial Services Law (Activity in Pension Consultancy and Pension Marketing), 5765-2005.

⁷³ See footnote in section 12.3 in this section.

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12.8 Underwriting and distribution of securities and investment banking

- 12.8.1 Epsilon's operations in this segment are performed through Epsilon Underwriting and Issuing Ltd. ("Epsilon Underwriting"), a wholly-owned subsidiary of Epsilon.⁷⁴ In this segment, Epsilon provides distribution services for securities and investment banking services. In March 2011, Epsilon renewed its status and listing as an active underwriter pursuant to the Securities Regulations (Underwriting), 5767-2007.
- 12.8.2 Epsilon's main revenue in this segment is from securities distribution fees and consultation fees for its investment banking operations, which amounted to NIS 1.6 million in 2010, representing 3% of Epsilon's total revenue in that year.
- 12.8.3 In October 2010, Epsilon Underwriting entered into an agreement with a third party. According to the agreement, the third party will provide management and consultation services to Epsilon Underwriting for underwriting and distribution of securities and financial assets and investment banking. In return for these management services, the third party will be entitled to a percentage of the Epsilon Underwriting's pre-tax comprehensive income.

12.9 Additional information

- 12.9.1 Customers, marketing and distribution. Epsilon's customers include private, corporate and institutional customers. Epsilon distributes its core products and services through several marketing and distribution channels, including: Marketing and distribution through brokers employed by Epsilon, marketing and distribution through pension insurance agents, distribution through investment consultants and pension fund consultants in banks, direct contact with customers through tenders and advertising in the media
- 12.9.2 Competition. Epsilon's operations are subject to intense competition. Epsilon's competitive ability is mainly affected by excess returns generated by its investment operations, marketing ability and service quality provided by Epsilon to its customers, and its ability to retain high-quality human resources and maintain its reputation.
- 12.9.3 Human capital. At December 31, 2010, Epsilon had 74 employees (compared with 66 employees in 2009). Epsilon allocated options exercisable to ordinary shares of Epsilon to some of its officers, if its shares are listed for trading, representing 2.3% of the issued and paid up share capital of Epsilon at the reporting date (fully diluted). These officers are entitled, subject to certain conditions set out in the terms of their employment, to compensation based on a percentage of Epsilon's net profit and the equivalent of a percentage of Epsilon's equity in the event of severance.
- 12.9.4 Financing and indemnity. Epsilon finances its operations mainly from its equity and current revenue. Epsilon has undertaken to indemnify a controlling shareholder for his personal liability, commitment and guarantee to a customer of Epsilon⁷⁵ and Epsilon and its subsidiaries approved a letter of indemnity to directors and officers for their employment and positions.

⁷⁴ In January 2009, Epsilon entered into an agreement for acquisition of all the holdings (49.9%) of the other shareholders in Epsilon Underwriting, for an amount that is not significant

⁷⁵ The undertaking to indemnify will expire if Epsilon lists its shares for trading. A similar undertaking to former shareholders expired on completion of the sale of the shareholder's holdings in Epsilon to Koor in January 2011.

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13. Telecommunications Equipment Segment

13.1 Below is a list of the investees held directly by Koor in the telecommunication equipment segment, as at December 31, 2008 and as at the report date (alphabetized, in NIS millions).

Company	Rate of holding as at December 31, 2010	Contribution to Koor's net loss in 2010 Profit/(loss)	Equity-based investment	Investment market value	See additional details in
Microwave Networks Inc.	97.5%	(5)	-	Non-negotiable	Section [A] below.

Below are additional details relating to the companies listed in the above table:

[A] Microwave Networks Inc.

At the report date, Koor holds about 97.5 % of the issued share capital and voting rights of MNI. The balance of MNI shares are held by Helios Communications Israel Ltd.

MNI was registered in the State of Delaware, USA, in 1998, and is a private company that develops, manufactures, markets, sells and installs point-to-point, broadband, microwave-based wireless communications systems for cellular communications networks, for public emergency service systems and for the private communications networks market. MNI's primary operations in the international markets outside the USA are focused in Latin America and Eastern Europe.

MNI products are designed to provide communications solutions for between buildings and in open spaces as a substitute for fiber networks. In addition, MNI offers project management services, systems planning and integration, installation, support and repair of its products.

MNI's total revenue for 2008 amounted to approximately USD 25 million and it ended 2010 with a net loss of USD 1.5 million.

In 2010 MNI had two key customers – Motorola Corp and Axtel, S.A.B de C.V. MNI sales to Motorola in 2008 constituted about 31% of its total sales and MNI sales to Axtel in 2008 also constituted about 31% of its total sales. It should be mentioned that MNI sales to these customers are carried out on the basis of orders received from time to time, as decided by these customers.

As at the report date, MNI employs 70 employees.

As at the report date, MNI has a line of credit from banks amounting to USD 7.5 million, which is secured by certain MNI assets and Koor guarantees.

[B] In 2008 the telecommunications segment also included Koor's holdings in Harriet Investments (2001) Ltd. In January 2009 the sale transaction of most of its assets to an unrelated third party was completed and in December 2009 it entered voluntary liquidation. See also Note 8 to the financial statements.

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14. Others

14.1 In addition to its holdings in the aforementioned business segments, as at report date Koor holds, by itself and through its subsidiaries, securities of several additional companies.

Breakdown of companies that are active and held by Koor in this segment, as at December 31, 2010 (amounts in NIS millions)

Company	% holding as of 31 December 2010	Koor's investment in investee	Investee's areas of operation
Investment in EMCO Fund	12.5%*	(1)*	See section [A] below.
Koor Venture Capital Partnership	100%	47.2	See section [B] below.
Carrefour SA	Less than 0.1%	23.2	See section [C] below.
Koorshevel Ltd.	55%	19.4	See section [D] below.
Investment in investment funds	See section [F] below.	See section [F] below.	See section [F] below.

* The investment documents in the Foundation were signed in November 2010, and the actual investment was made subsequent to the date of the statement of financial position. For further information pertaining to Koor's investment in th EMCO Fund, see Note 9.D to the financial statements.

** Including loans in the amount of NIS 20 million.

[A] Investment in EMCO Fund.

[1] In November 2010 Koor and Clal Insurance Group engaged in an investment transaction in EMCO Fund as part of Koor and Clal Insurance Group's undertaking to invest in the Fund an amount of USD 250 million (of which USD 25 million would be invested by Koor and USD 125 million would be invested by Clal Insurance Group) out of a total investment in the Fund of USD 1 billion⁷⁶. The Fund is a private investment fund managed by companies of the Credit Suisse Group, which is designated for investments in emerging markets in Latin America, Asia (other than Japan) and emerging markets in Eastern Europe, the Middle East and Africa, mainly through debt products. The life span of the Fund is five years and it may be extended, under certain conditions, for an additional two periods of one year each. The Fund has business links with the EMG Group which is Credit Suisse's emerging markets group.

[2] As at reporting date, Koor invested USD 7 million of its investment undertaking in the Fund. For further information see Note 9D to the financial statements.

[B] Koor Venture Capital Partnership

Koor operates in the venture capital investments business segment through Koor Corporate Venture Capital (Koor CVC), a partnership incorporated in Israel in 2000. Koor CVC is wholly owned by Koor and invests in venture capital funds and start-up companies with growth potential. Most of Koor CVC investments are in companies engaged in the software and life science sectors. As of 2001, and until the report date, Koor and/or Koor CVC no longer make venture capital investments in additional companies, they rather focus mainly on examining further investments only in existing companies, among others, for the purpose of maintaining Koor CVC holdings in the existing companies that have improvement potential.

Below is a list of Koor CVC investees in the venture capital investments business segment as at December 31, 2010 (in order of size of investment in Koor's books, amounts in NIS millions; unless otherwise noted, the companies listed below are all private companies):

⁷⁶ The investment in the Fund may, under certain circumstances, total USD 1.1 billion.

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Company	% holding as of 31 December 2008	Investment in investee as recorded in Koor's books	Investee's areas of operation
Pitango III (Israeli Investors) Limited Partnership	27.34%*	36.9	Venture capital fund investing in various start-up companies
Simbionix USA Corporation	9.28%	6.9	Development of simulators for simulation of invasive medical procedures
Medgenics Inc. ⁷⁷	2.88%	3.5	Development of pumps to administer protein-based medication

* Rate of Koor Venture Capital's holding out of total investments in this fund.

Total investment by Koor Venture Capital in Koor's books as at December 31, 2010 amounted to NIS 48 million, compared with NIS 62 million at December 31, 2009.

Venture capital investments are characterized by high-risk investments.

[C] Carrefour SA

In June 2009, Koor's Board of Directors approved the investment in shares in Carrefour, a French company, which to the best of Koor's knowledge, is the largest retail corporation in Europe and the second largest worldwide, whose shares are traded on the Euronext Stock Exchange in Paris. The framework for the investment approved as aforesaid is a total amount of up to NIS 3.5 billion. As at reporting date, Koor's Board of Directors has not yet taken a decision to cancel this framework. During the course of 2010 Koor conducted purchase and sales transactions in negotiable Carrefour shares, and in respect of which Koor recorded an after-tax profit of NIS 9 million in 2010. During the first quarter of 2011, Koor conducted purchase and sales transactions in Carrefour shares, for which Koor is expected to record, in the first quarter of 2011, profits of NIS 2 million. The total cumulative profit (after tax) from the beginning of its investment in Carrefour shares in 2009, amounted to NIS 6 million. As of the report date, Koor holds 810,000 Carrefour shares, at a total investment of approximately NIS 123 million and its fair value is NIS 120 million. For additional information, see Note 17.(4). For information regarding the credit facilities agreement through which Koor engaged with a corporation in the HSBC Group to purchase Carrefour shares and its cancellation, see section 17.6 to this part.

[D] Investment Real Estate in Israel

As at December 31, 2010, Koor owns or holds on life long leases (accordingly) land and yield generating real estate properties in Israel, which as at reporting date, the income from rental for these properties, and their fair value, are not material (individually and together) for Koor's operations, as set out below:

[1] Land

Location	Fair value at end of period (in NIS Millions)	Koor's share	Area (in sq.m)	Zoning of land	Legal rights in property
Vulcan Junction – Haifa Industrial Zone*	5.6	100%	10,000 sq. m.	Industrial	Life long lease

⁷⁷ Since December 2007 this company's shares have been traded on the Alternative Investment Market (AIM) in London. The investment as appears in Koor's books is the market value of the investment of Koor Venture Capital in the company, based upon the company's closing share price at December 31, 2010.

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Dimona Industrial Zone	1.8	100%	30,000 sq. m	-	49-year lease
North Tel Aviv (through Koorshovel Ltd.)	36.5	55%	10,000 sq. m	-	Life long lease

* Part of the foregoing property has existing buildings used for industry and are rented for an amount that is negligible for Koor.

[2] Income-generating real estate

Koor owns property in the Holon Industrial Zone of 30,000 sq. m that includes, inter alia, several buildings covering a total area of 20,327 sq. m, alongside unbuilt space, which is paved and used for parking.

Most of the compound is active and most of it is rented to third parties.⁷⁸ In 2010 the income from rental for the property amounted to NIS 7 million and its fair value is NIS 63.5 million⁷⁹.

[E] Telrad Networks Ltd.

Telrad is a private company engaged in the development and marketing of telecom products and end-to-end solutions. At the report date, Koor holds about 10% of the issued share capital of Telrad. This, following agreements dated March 31, 2009, according to which Koor transferred part of its shares in Telrad to Fortissimo GP Capital Fund ("Fortissimo") and part of its right to repayment of loans it extended to Telrad, without consideration, such that Koor's holdings in Telrad will drop to 10% (from 61%), and its share in the total shareholders' loans to Telrad declined to 10%. Additionally, Koor undertook to provide a total of up to one million dollars as part of a round of financing, under the terms stipulated in said agreements. As of the date of execution of said agreements, Koor has tag-along rights to the sale of Telrad shares by Fortissimo, and it is not represented on the Telrad Board of Directors. For additional information, see Note 9H to the Financial Statements.

The balance of Koor's investment in Telrad was fully amortized.

[F] Investment funds

From time to time Koor invests in two investment funds: The Indivision India Partners investment fund, which is a private investment fund incorporated in Mauritius, which invests in Indian retail businesses (for further information see Note 10.[K] to the Financial Statements), and Mustang Mezzanine Limited Partnership, a private investment fund incorporated in Israel (for further information see Note 10.[L] to the Financial Statements). As at reporting date, the accumulative scope of Koor's investment in the foregoing funds amounted to USD 23 million and the balance of its obligation to invest in the foregoing funds is USD 12 million.

[G] Material changes in holdings in the operating segment

ECtel Ltd.

Through January 12, 2010, Koor held ECtel shares (approximately 21%). In October 2009, ECtel entered into a merger agreement, which was completed on January 12, 2010, and under which ECtel was acquired by cVidiya Networks Ltd., for cash consideration of USD 21

⁷⁸ In December 2010, the Water Board notified Koor that during groundwater monitoring it conducted adjacent to the complex and the groundwater flow from it, contamination of groundwater was found under the complex and that this information is added to the information from soil gas surveys conducted in the area, which found high concentration of pollutants. As part of this notification, the Water Authority informed Koor that it is preparing to demand that the entities responsible for the pollution of the groundwater to treat the contamination point and it is possible that Koor, together with the rest of the owners of the complex, will be included in this demand. In response to the foregoing notification, Koor informed the Water Authority that it does not and did not in the past operate in the complex and that it is not responsible for the alleged pollution of groundwater in anyway. It should be noted that to the best of Koor's knowledge, the Ministry for Environmental Protection and a third party operating at the complex under a rental contract with Koor, are negotiating to carry out work in connection with the gas survey conducted on the said land.

⁷⁹ It is also noted that during the course of 2009, Koor sold its holdings in two yield generating real estate properties for a total amount of NIS 22.1 million.

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million (less the costs of the transaction over the amount stipulated in the merger agreement). Under the terms of said merger agreement, all ECtel shareholders received approximately USD 1.26 per share upon the closing of the transaction. In consideration for the sale of its shares in ECtel, Koor received approximately USD 4.4 million. For additional information, see Note 8 to the Financial Statements.

14.2 Financial Investments⁸⁰

From time to time and as part of its investment policy (see section 22 to this part), Koor examines and carries out financial investments in certain shares of international companies in various areas of operation (such as its investment in Sanofi – see below) for varying periods and at varying investment volumes, by exploiting buy and sell opportunities based on market conditions. In most cases, due to the high market value of the companies in which it invests, Koor's holdings in these companies are not material (and even negligible) and accordingly, Koor has no influence on their strategies and the way they are conducted. If necessary, the scope of investment in certain shares is brought for the approval of Koor's Board of Directors and this scope is reported by Koor, in such cases that a report is required due to the scope of the investment in relation to the scope of Koor's overall assets. Changes in the fair value of the investments are recognized in profit and loss, with the exception of cases where Koor's Board of Directors decide that such change should be recognized in capital reserves.

As part of these financial activities, on August 2, 2010 Koor's Board of Directors approved a financial investment of up to USD 120 million⁸¹ in shares of Sanofi-Aventis ("Sanofi") which operates in research, development, manufacture and marketing of pharmaceuticals and healthcare products. Sanofi's securities are listed for trading on the Paris stock exchange and on the New York stock exchange. From June through October 2010, Koor conducted buy and sell transactions with Sanofi shares, for which Koor recorded total profits of NIS 40 million. From mid October 2010, Koor no longer holds any Sanofi shares.

⁸⁰ The results of the operations described in this section are included in Note 24 – Segments of Operation – under the adjustments column.

⁸¹ As at reporting date, Koor's Board of Directors decided to cancel the foregoing scope of investment.

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The Company's Business – Additional Information

15. Property, plant and equipment

15.1 Koor is party to an arrangement to share office uses and expenses. The companies in the IDB Group located in the Azrieli Tower in Tel Aviv operate according to this arrangement. For information about said arrangement and its extension and update of February 2011, and regarding Koor's share in the annual cost in respect of rent and office expenses, see Note 29C2(1) to the financial statements.

16. Human capital

16.1 General

As of December 31, 2010, Koor employed (itself, not including subsidiaries or investees) 10 staff members, all in management and administration, under personal employment contracts.

16.2 Appointment and termination of the service of senior officers

In February 2010, Mr. David Paz ceased serving as a VP at Koor.

In May 2010, Mr. Ami Erel gave notice of his intended resignation as Chairman of Koor's Board of Directors. Upon the resignation of Mr. Ami Erel Koor's Board of Directors will recommend to the general meeting of Koor's shareholders to approve the appointment of Mr. Lior Hannes as Chairman of Koor's Board of Directors.

In February 2011, Koor's audit committee and Board of Directors approved the appointment of Mr. Arieh Zeiff as a director in Koor (he complies with the qualifying conditions as an independent director). For further information relating to the telecommunication equipment segment, see section 16 in Part D.

16.3 Indemnification and insurance

Koor issued letters of indemnification to its directors and office holders (including former office holders and office holders that are controlling shareholders). Under the letters of indemnity, Koor undertook to indemnify the office holders for any liability or expense imposed on them and/or which they may incur as a result of their activities as office holders, as set forth in the letters of indemnity. The indemnity is limited to the events determined by Koor's Board of Directors and to a cumulative for all office holders of Koor of no more than 25% of Koor's shareholders' equity according to its most recent annual or quarterly financial statements published prior to the actual payment of the indemnity. The maximum indemnity will be applied in addition to the amounts that will be paid (if paid) as part of insurance and/or indemnity by any party except Koor. For further information, see Note 29.C.3 to the financial statements.

In July 2010, the general meeting of Koor's shareholders approved, in advance, Koor purchasing of a joint insurance policy for Koor and its subsidiaries, to insure officers liabilities and this includes officers who are controlling shareholders in Koor or their relatives, for a few insurance periods that will not exceed five years. For information see also Note 29.c.3 to the Financial Statements.

16.4 Remuneration

Koor adopted a number of stock option plans for the acquisition of Koor shares for its employees and office holders. At the reporting date, all of the allotted options under the said plans have expired. See Note 19[H] to the financial statements.

Koor and DIC have an existing agreement regarding the costs of employing Koor's CEO, Mr. Raanan Cohen, who is also Vice President of DIC and receives his salary from DIC. For further information see Note 29B(1) to the financial statements.

In June 2010, the general meeting of Koor's shareholders approved, subsequent to approval by its Audit Committee and the Board of Directors to pay a bonus to Mr. Rafi Bisker, a senior director (who also serves as Chairman of the board of directors of Properties and Building), by 452 Owners with regard to his handling of the HSBC Building acquisition transaction, which was completed in

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April 2010. Koor's bears half of the payment of this bonus (based on the division in 452 Owners and the said transaction). See also Note 9[B] to the financial statements

17. Financing and guarantees

17.1 The following table provides the average effective interest rates for long- and short-term loans taken by Koor and its wholly owned subsidiaries as of December 31, 2010:

	At December 31, 2010		
	Long term		
	Average interest rate	Effective interest rate	Amount (NIS millions)
Non-bank sources – index linked financing	5.1%	5.26%	1,186
Non-bank sources – nominal shekel-denominated financing	7.2% - 6.7%	7.77% - 7.51%	810
Bank sources – index linked financing	6.76% - 6.72%	6.97%	114
Bank sources – nominal shekel-denominated financing	5%	5.09%	750
Bank sources – financing in Swiss franc	Libor + 1.7% - 2.6%	2.74%	3,606
Total financial liabilities			6,466

Financial Covenants

17.2 For information about the financial covenants to which Koor is subject under the new credit agreement given by one of the banks to a wholly owned subsidiary in December 2009, including adjustments made to the financial covenants in June 2010, see Note 17d to the Financial Statements. Koor complied with said financial covenants in each of the quarters of 2010 and is in compliance with the said financial covenants at reporting date⁸².

Bank credit

17.3 Koor (including wholly owned subsidiaries) has unused binding credit facilities (see Notes 17.C(2) and 17.C(3) to the Financial Statements. Koor (including its wholly owned subsidiaries) has non-binding, informal credit facilities (in other words - credit facilities that the relevant bank can cancel) that as of December 31, 2010 and March 16, 2011 were unused. For further information see Notes 17 and 25.B to the Financial Statements.

The balance of the credit used by Koor (including its wholly owned subsidiaries), as of December 31, 2010 and March 16, 2011 amounted to NIS 6,466 and NIS 6,458 million, respectively. Koor's (including its wholly owned subsidiaries) cash balances as of December 31, 2010 and March 16, 2011 amounted to NIS 1,055 and NIS 900 million, respectively. (including encumbered deposits of NIS 458 million and NIS 393 million, respectively).

17.4 As of December 31, 2009, approximately 56% of Koor's (including its wholly owned subsidiaries) credit balance is credit with variable interest based on Swiss LIBOR monthly. The LIBOR interest rate, as aforementioned in 2009 ranged between 0.06% to 0.15%. As at the report date, the LIBOR interest rate, as aforementioned, is 0.137%.

17.5 Koor engaged in credit arrangements with foreign banks against a lien on its Credit Suisse shares.. For information regarding said credit arrangements, see sections 10.2[A], and [B] to this part as well as Notes 17C(2) and 17C(3) to the Financial Statements.

17.6 In July 2010, after a wholly owned subsidiary of Koor chose not to utilize the recourse line of credit secured by Carrefour shares, which was provided by a company of the HSBC Group, the line of credit was cancelled. For further information, see Note 17(C)4 to the financial statements

⁸² Regarding the updating of certain financial covenants concerning the ChemChina transaction (if closed), see Note 17D4 to the financial statements.

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Debentures

- 17.7 On April 30, 2010, Koor redeemed Debentures Series G entirely, for an amount of NIS 454 million.
- For information pertaining to the holdings of a wholly owned subsidiary of Koor of Debentures (Series H), see Note 17C(1) to the Financial Statements.
- 17.8 In January 2011, the Maalot confirmed a rating of iIA+ for Koor's debentures (Series G-I), while updating Koor's rating outlook from iIA+/Stable to iIA+/Negative. This was part of the updating also of the rating outlook series of debenture of IDB Holdings, IDB Development, CII and DIC. Furthermore, in January 2011, Midroog⁸³ notified Koor of its reconfirmation of the A1 rating of Debentures (Series H-J) of Koor, while removing Koor's stable outlook and instating a negative outlook.⁸⁴

The decrease and fluctuations in the share prices of Koor's investees (in particular, Credit Suisse and Makhteshim Agan), on the one hand, and the increase in Koor's debt on the other, could affect Koor's financial position and its credit rating as well as its compliance with the ratios set for certain financial covenants. Additionally, they may, in certain cases, lead to impairments and recorded losses due to the reduced value of the holdings.

The Maalot and Midroog ratings published in January 2011 as aforesaid, are based on a range of qualitative and quantitative parameters. Maalot's foregoing rating report stated, inter alia, that based on its methodological approach, Maalot refers to and examines IDB's five main companies as a single unit for estimating credit risk, and this is due to the holdings structure, and control and management characteristics of IDB Group, the strategic significance of each main company to the Group and the identity designated to the main company's as part of the "IDB Group". Maalot also noted that the negative outlook reflects the fact that the level of the group's aggregate leverage exceeds the level of 60% which Maalot considers suitable for the current rating, given the Group's business risk level. Furthermore, Maalot noted that it expects that the leverage level at Koor will not exceed the aggregate level measured for the Group. As at December 31, 2010, the Group's aggregate leverage level, to the best of Koor's knowledge, is 64% and the leverage level at Koor is 54%. As at the reporting date, the Group's aggregate leverage level, to the best of Koor's knowledge, is 65% and the leverage level at Koor is 55%.

- 17.9 For further information pertaining to Koor's unpaid debentures and their conditions, including the updated rating reports, see Appendix C to the Directors' Report with respect to specific disclosure for holders of debentures of Koor.

Guarantees

- 17.10 As part of the financing agreement Koor and Properties and Building signed to finance the acquisition of HSBC Building, Koor put up guarantees in the amount of USD 52.5 in favor of Leumi USA and unlimited guarantee to assure special cases as is generally accepted for this type of loan in favor of Leumi USA (and at the same time, Properties and Building put up the same guarantees as Koor, separately]. For further details, see Note 9B to the financial statements.
- 17.11 As of December 31, 2010, Koor (excluding its subsidiaries) has provided, in the course of its ordinary business, guarantees amounting to NIS 155 million. See also Note 26F to the financial statements.

General

- 17.12 For further information pertaining to the "Borrower Group" see section 8 of this Part.
- 17.13 For further information on the financing of Koor's current operations, see also Notes 17 and 21 to the financial statements and section 2 of the Directors' Report.

⁸³ In July and September 2010 Midroog announced placing and removing, respectively, of Koor's Debentures (Series H – J) on its Watch List following Makhteshim Agan's announcement of a material transaction and its cancellation, respectively.

⁸⁴ Based on the foregoing rating report, the negative outlook means that the outlook and the rating depend on the certain developments.

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- 17.14 For information pertaining to the effect of exchange rate fluctuations and the effect of inflation and interest rate changes in the market on Koor in 2010, see section 2.1.3 of the Directors' Report.

18. Taxation

- 18.1 See Note 22 to the Financial Statements.
- 18.2 Koor's foreign investees are taxed pursuant to the tax laws that prevail in their respective location (with respect to the investees of Makhteshim Agan, see section 9.2.15 to this part). Distribution of a dividend from revenue originating in other countries may create a tax liability at the time of distribution. See also Notes 22A8 and 10 to the financial statements and section 11.1.6 of this Part with respect to the taxation provisions applicable concerning 452 Owners.
- 18.3 See also sections 8 and 9.2.15 of this part in the matter of Amendment 169 to the Income Tax Ordinance.

19. Limitations and Regulation of Koor's Operations

- 19.1 As a holding company engaged in the purchase or sale of the means of control in corporations, Koor is subject, inter alia, to the provisions of the Antitrust Law, 5748-1988 ("Antitrust Law"), in particular with respect to transactions that constitute a merger and/or include restrictive trade practices, as these terms are defined in said law. Accordingly, certain transactions entered into by Koor and/or its investees may require approval by the Antitrust Commissioner. Due to the fact that the controlling shareholder in Koor, IDB Development, indirectly holds corporations that are considered monopolies pursuant to the provisions of the aforementioned law, Koor and/or its investees engaging in a transaction that constitutes a merger may require the approval of the Antitrust Commissioner for that transaction, despite the fact that were it not for the holdings of IDB Development in these corporations, the Antitrust Commissioner's approval of the transaction would not have been required.

In November the government published a Antitrust Bill (Amendment 11), 2010, under which it is proposed that the Antitrust Commissioner be able to pronounce a concentrated group in markets with diminished competition and to provide provisions for those belonging to such groups regarding, inter alia, lifting of entry barriers for the relevant market and lifting of transfer barriers between the various competitors in the market. If the bill becomes law, and if subsequently limitations will be imposed on the operations of pronounced concentrated groups, this may also impact Koor.

- 19.2 To the best of Koor's knowledge, under the permits granted in 2003 and 2011 to the controlling shareholders of IDB Holdings to hold shares of Clal Holdings Insurance Enterprises Ltd., a limitation was set for IDB Holdings and its investees prescribing that these companies may not hold control in a banking corporation in Israel at a rate that requires a permit from the Supervisor of Banks, unless prior approval is received from the Commissioner of Capital Markets at the Ministry of Finance.
- 19.3 To the best of Koor's knowledge, under the provisions of the Banking (Licensing) Law 5741-1981 and the Law for Increasing Competition and Reducing Concentration and Conflict of Interest in the Israeli Capital Market (Legislation Amendments) 5765-2005, the controlling shareholders (indirect) in Koor (holding, indirectly, trust and mutual fund management companies and corporations engaging in investment portfolio management, including trust and mutual fund assets or insurer assets recognized in favor of the policy holders), who are also the controlling shareholders in Union Bank of Israel Ltd. ("Union Bank"), will be prevented, effective from August 10, 2011, from controlling and/or holding 10% or more of the means of control in Koor and Union Bank together. As of the report date, this provision is effective for members of the Manor family, who are considered, to the best of Koor's knowledge, as controlling shareholders (indirect) in Koor.
- 19.4 For information about restrictions and regulation of the operations of Makhteshim Agan, see section 9.2.17 of this Part, and also section 8 of this Part.
- 19.5 In November 2008, Koor's Board of Directors approved a procedure for determining materiality with respect to the need to file an immediate report on Credit Suisse. For information regarding said

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procedure, see Koor's quarterly report for the third quarter of 2008, dated November 9, 2008 (reference number 2008-01-311523).

- 19.6 With respect to guidelines and rules for the classification of a transaction between Koor or its subsidiary with an interested party in it as an immaterial transaction, as stipulated in Regulation 41(A)(6)(a) of the Securities Regulations (Annual Financial Statements), 5770-2010, adopted by Koor in March 2009 ("Materiality Procedure"), see Note 29C1(1) to the financial statements.

20. Environmental Risks

In January 2006 the Water Commissioner⁸⁵ issued an order to correct the distortion under section 20 G of the Water Law, 1959 (the "Order" and the "Water Law", respectively), referring to four companies ("Order Recipient Companies), Koor and Tadiran Ltd. (under voluntary liquidation), a wholly owned subsidiary of Koor ("Tadiran"), in connection with water pollution on property located in Holon, where apparently, the Order Recipient Companies operated in the past, with the exception of Koor, which never operated or held the property, (other than transfer of rights, for a minimum period, in its name) ("the Property"). The Order Recipient Companies were required, under the Order, to carry out a series of actions to treat this contamination. In February 2008, the Water Commissioner notified the Order Recipient Companies that it had carried out certain preliminary actions which were specified in the Order and had not been carried out at that date, while charging the Order Recipient Companies, in equal share, for the cost of the work. Following action taken by Koor to cancel this debt did not succeed, Koor paid its relative share which amounted to a negligible amount.

In Koor's assessment, based on the assessment of its legal counsel, apart from the fact that Koor never held nor owned the property (excluding the transfer of title for a negligible amount of time into its name, and as Koor is not the "polluting" entity as defined in the Water Law, the Order from its point of view is null and void and that criminal and/or civilian liability cannot be attributed to Koor or its officers, and furthermore, the opinion of the Authority's director, that it can impose liability for carrying out the order on Koor has no standing in law. Insofar as Koor will be charged in the future for the said property and its position as aforesaid is not accepted by the Water Authority and/or in proceedings that will be taken (if and as required) against such charges, Koor may set aside provisions for expenses imposed on it by the Water Authority with respect to the said contamination, the scope of which (if any) cannot at this stage be estimated. Koor is also liable, under certain circumstances, to set aside provisions with regard to Tadiran for Tadiran's liabilities (if any) with regard to this contamination, based on the arrangements between Koor and Tadiran concerning, *inter alia*, the said property. For further information, see Note 9 5 to the financial statements.

21. Legal Proceedings

- 21.1 For information regarding legal proceedings pending against Koor as at the report date, see Note 28.2.1 to the Financial Statements.
- 21.2 For information regarding legal proceedings related to Makhteshim Agan, see Note 2.28 to the financial statements and section 9.16[I] of this Part. For information regarding additional legal proceedings to which other Koor investees are a party, see Note 16B to the Financial statements.

22. Business Strategy and Objectives

Koor's investment policy is based on identifying and exploiting investment opportunities, while focusing on export-oriented Israeli companies and/or international companies. Koor simultaneously examines its existing investment portfolio with the aim of enhancing it and taking advantage of opportunities to sell holdings, so as to generate value for its shareholders. Koor focuses on investments of a significant size, which, when enhanced, will boost its investment portfolio. Koor examines and invests, *inter alia*, in companies in which following its investment, Koor will have a

⁸⁵ For further information pertaining to the Water Commissioner's notice to Koor regarding the findings of the groundwater monitoring drilling conducted close to the complex owned by Koor and rented to a third party, see footnotes to section 14.1[D] to this part.

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position of control in them, and in companies in which Koor will not have a position of control following its investment (in this regard see also section 2.14 of this Part). Given the state of the markets and the opportunities that arise, Koor examines and makes said financial investments in publicly traded companies whose market value has decreased significantly due to the crisis in the markets (with respect to Koor's investment in Credit Suisse shares, see section 10.2 to this part). Nevertheless, Koor's policy allows operations that deviate from these principles in cases in which Koor's management believes that the specific circumstances justify such exceptions.

23. Discussion of Risk Factors

For a description of the risk factors that affect the operations of Makhteshim Agan and Credit Suisse, see sections 9.2.22 and 10.3 [E] to this part, respectively.

Additionally, the following risk factors apply to Koor as a holding company:

Macro

23.1 The state of the global economy

In 2010, economic recovery in most of the financial and real markets worldwide continued, nonetheless, the implications of the financial crisis that began in 2008 are still evident, including volatility of the prices of securities and currencies, and against a backdrop of uncertainty regarding the ability of part of the European countries to serve their debt, the ability of the US to reduce unemployment, the slow recovery of the real estate market in the US and dealing with inflation in emerging countries (particularly in China) due to the increase in commodity prices worldwide. In the past few days, as a result of the earthquake in Japan, which damaged the nuclear power plants in the country and created concern that its economy will be harmed, the uncertainty in the global financial markets increased and these markets, worldwide declined sharply. As of the report date, it is not possible to assess whether the crisis in the financial markets, as aforesaid, have ended, or the scope of the direct and indirect financial implications in Israel and other countries, nor the duration of these implications, if any. For further information relating to the condition of the financial markets, see section 8 to this part.

The indications of this crisis and the slight recovery therefrom have impacted and may continue to impact the business results of the Company and its investees, their liquidity, equity, value of their assets and their ability to sell these assets, business situation (including the demand for products of the Company's investees), their compliance with the financial covenants applicable to them, their credit rating, their ability to pay dividends, and their ability to raise financing for their ongoing operating activities and long-term operations, as well as on the financing terms.

23.2 Financial risks

[A] [A]Koor and its investees are exposed to changes in exchange rates, which directly or indirectly impact their business results and the value of their assets and liabilities. Furthermore, Makhteshim Agan conducts its business in various environments, operating in various currencies and therefore is exposed to market risks, which include mainly changes in exchange rates (particularly the Euro, NIS and BR against the USD, which are the currencies in which it operates). Makhteshim Agan's board of directors approve a policy of using generally accepted derivative financial instruments for reducing exposure to changes in exchange rate

During the course of 2010, most of Koor's cash balances were in NIS or CHF. As at December 31, 2010, Koor has net debt balances (less cash, cash equivalents and encumbered deposits) of NIS 2.95 billion (approximately CHF 0.8 billion) that are exposed to fluctuations in the exchange rate of the Swiss franc against the NIS, and cash balances of NIS 25 million in USD. The fair value in shekels of Koor's liquid assets and net debt balances is affected by changes in the exchange rate of the shekel against these currencies and this change is recognized in profit and loss.

Additionally, Koor is affected by the impact of the exchange rate of the NIS against the Swiss franc on the NIS value of the investment in sellable assets (Credit Suisse shares at fair value,

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as at the report date, of NIS 5.67 billion, which is CHF 1.46 billion), and the impact of the exchange rates of the shekel against the USD on the balances of its NIS investments in investees active abroad and/or most of whose activity is in foreign currency (excluding in the event of sever and/or continued impairment with respect to sellable financial assets, as set forth in Note 3(I)1 to the Financial Statements.

In respect of its exposure to the exchange rate of the Swiss franc against the NIS, Koor engages, from time to time and in varying scope, in purchasing transactions of CHF/NIS sell options and selling CHF/NIS sell options (together – "Cylinder Transactions"). Often the scope of the open cylinder transactions are higher than the net exposure to the CHF exchange rate. Contracts are generally drawn up for periods of up to twelve months, but can be cleared and are sometimes actually cleared, even prior to the contract expiry date. As at December 31, 2010, the scope of open CHF/NIS cylinder transactions amounted to CHF 1,100 million, the fair value was estimated as a liability in the amount of NIS 119 million (see the valuation attached as Appendix B to the Directors' Report). This was also the highest total of cylinder transactions during the course of 2010. As at the date of publication of this report, there are open CHF/NIS cylinder transactions in the amount of CHF 800 million, the fair value of which is estimated as liabilities in the amount of NIS 123 million. Since the beginning of the first quarter of 2011, the cylinder transactions have at this stage generated profits for the Company estimated by Koor at NIS 38 million. Furthermore, Koor carries out from time to time currency conversions, particularly between NIS and CHF (or visa versa). See Note 3(C)3 to the Financial Statements with respect to the accounting of derivatives that are not used for hedging.

The foregoing information concerning the fair value as at the reporting date for the cylinder transactions and the profit generated for the Company since the beginning of the first quarter of 2011 for these transactions, are included in preliminary estimates and partial information that Koor has to date. This data has not yet been processes, not yet been checked finally and has not been reviewed by Koor's auditors, and are subject to further changes in the CHF exchange rates. Therefore, it is possible that their impact on the Company's results in the first quarter of 2011, will be different to the above. For further information pertaining to the CHF exchange rates see section 2 to the Financial Statements.

- [B] Koor and its investees are exposed to changes in the rate of inflation, which directly or indirectly impact their commercial results and the value of their assets and liabilities. As at the report date, Koor hedges against exposure to inflation by way of future contracts on the index, amounting to NIS 380 million.
- [C] Koor and its investees are exposed to changes in interest rates, which directly or indirectly impact their business results and the value of their assets and liabilities.
- [D] Some investee companies import raw materials required for their operations. Therefore, the commercial results of those companies could be affected by fluctuation in global prices of raw materials.

23.3 Changes in capital markets in Israel and worldwide

A recession or downturn in the capital markets in Israel and worldwide (in this matter see also section 8 of this Part concerning the condition in the financial markets) could have an adverse effect on the prices of the marketable securities held by Koor (in particular, Credit Suisse and Makhteshim Agan) and its investees, to adversely affect its ability to generate capital gains from the realization of their holdings, harm their ability to execute offerings on stock exchanges in Israel and globally, harm their ability to distribute dividends, harm their ability comply with any financial covenants in respect of loans from financial entities, as well as on the rating assigned by the corresponding institutions for their ability to repay their debt. For further information on this matter see also section 8 to this part, referring to the global economic crisis. Moreover, a downturn or recession in the capital markets in Israel and globally could make it difficult to find the financing sources required by Koor and its investees to finance operating activities.

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Koor has material exposure to fluctuations in the price of Credit Suisse shares, including due to changes in the capital markets and the financial institute sector. A recession in the capital market in general, and in the financial institutes sector in particular, could have an adverse effect on the price of Credit Suisse shares held by Koor and a material impact on its financial results and the value of its assets. Furthermore, extraordinary circumstances are possible in which negative capital reserves for holdings in Credit Suisse shares (if there will be such reserves) may be recognized as a loss in the financial statements of Koor and its investees (for details concerning classification and measuring of financial assets and liabilities under IFRS 9 Financial Instruments and the option of early adoption of this standard, see Note 3R to the financial statements). The foregoing is not expected to have a material impact on the financial statements.

23.4 **Political, security and economic situation**

A deterioration in the political and security situation and economic recession, in Israel and globally, may have an adverse effect on the position of Koor's investees. Among others, the political, security and economic situation may affect the performance of these companies, the readiness of foreign investors to invest in them and the willingness of international companies to enter into agreements with them.

23.5 **Government grants and benefits; budgetary policy**

Some of Koor's investees receive budgets from government bodies, such as the Office of the Chief Scientist, which provides grants for research and development, and the Investment Center, which provides various grants and/or tax benefits. These grants and benefits impose restrictions on the operations of the companies that receive them. A violation of the restrictions imposed on these companies, pursuant to the relevant deeds of approval and laws, may impose sanctions on them, including the return of grants, cancellation of benefits, or financial and criminal sanctions. Moreover, changes in the budgets of government ministries such that said grants and/or benefits that Koor's investees may receive in the future are prevented or reduced, may adversely impact their operations and results.

Investments of foreign entities in Israeli companies are affected, inter alia, by the continued encouragement of foreign investments by regulatory entities in Israel, including in taxation aspects. If encouragement of foreign investment is discontinued and/or restricted, investments by foreign bodies in Koor's investees or trade on their securities could be adversely affected, which could in turn have an adverse effect on the business results of Koor and its investees.

23.6 **Changes in legislation and regulation**

Legislative changes in various areas, such as restrictive trade practices, tax laws and environmental protection laws, could impact the results of Koor and of its investees. Likewise, changes in policy adopted by the various authorities by virtue of these laws could have such an impact. Changes in the quota rates for goods and in the policies to protect domestic production could also influence the results of some of Koor's investees.

Some of Koor's investees operate overseas, or their securities are traded on overseas stock exchanges. Changes in legislation and regulatory policies in the relevant foreign countries could influence the results of these companies.

A change in accounting regulations could affect the business results of Koor and its investees, and their ability to distribute dividends.

Sectoral Factors

23.7 **Environmental quality**

Some of Koor's investees (primarily Makhteshim Agan – see section 9.2.15 to this part) are exposed to the various requirements of the authorities responsible for environmental protection. Changes in the policy of these regulatory agencies and the degree of compliance by said companies with the provisions of environmental protection legislation may affect the profitability of these investees, and accordingly the profitability of Koor.

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23.8 **Wages and labor relations**

A substantial increase in the minimum wage or other significant changes in labor laws could adversely affect the business results of Koor's investees, and consequently, also adversely affect Koor's business results. Additionally, strikes or other labor conflicts in Koor's investees and strikes or other work stoppages affecting Israel's ports could have an adverse effect on their business results, and accordingly, on Koor's business results as well.

23.9 **Antitrust**

The Antitrust Commissioner has declared certain investee companies of IDB Development to be monopolies. Koor is also subject, inter alia, to the provisions of the Antitrust Law with respect to its transactions or transactions of its investees that constitute a merger and/or include restrictive trade practices, as these terms are defined in the said law. Accordingly, certain transactions may require approval of the Antitrust Commissioner, who could prevent or condition their approval on restrictive terms. The terms included in the merger permits that were or will be given by the Antitrust Commissioner in connection with the acquisition of holdings in various companies by the controlling shareholders of Koor and/or companies they control, could limit the operations of Koor and its investees and influence their results.

Special factors

23.10 **Financial institutions holding financial assets for Koor**

Some of Credit Suisse shares owned by Koor are held by financial institutions and brokers. Koor is exposed to risks of losses in respect of these holdings, in certain cases of deterioration in the financial stability of these financial institutions and brokers. The risk is higher when there are no regulatory or contractual restrictions on the right of the financial institution to hold the assets held for Koor together with its proprietary assets, and when it has the right to borrow, pledge or make further dispositions of the financial assets it holds for Koor. See also sections 10.2[B] and [C] to this part.

23.11 **Bank supervision**

There are limitations in the Proper Conduct of Banking Business Regulations of the Supervisor of Banks on the amounts that a bank in Israel is allowed to lend to an "individual borrower", a "group of borrowers", and to the six largest borrowers and "borrower groups" in a banking corporation (in this regard, see section 8 to this part). These restrictions may impair the ability of Koor and some of its investees to borrow additional amounts from banks in Israel, their ability to invest in companies that took large amounts of credit from banks in Israel, and their ability to execute certain business transactions in cooperation with entities that took such credit. Changes to the Proper Conduct of Banking Business Regulations in the list of corporations belonging to the same group of borrowers as Koor, and in the balance of their debt to banks in Israel, as well as changes in the equity of the banks themselves, could limit the ability of the banking system in Israel to make credit available to Koor and its investees. For information pertaining to the draft amendments of the existing provision concerning the restrictions on an "individual borrower" and a "borrower group", see section 8 of this Part.

23.12 **Restrictions on the realization of holdings**

Koor and some of its investees are subject to legal and contractual restrictions that may limit the ability of Koor and its investees to realize holdings.

It is noted that if and when the merger transaction with ChemChina is completed (see section 3.5[A] to this part), Makhteshim Agan will convert to be a private company, which will be held 60% by ChemChina and 40% by Koor. As a result of the foregoing and in view of Koor's undertakings under the shareholders agreement with ChemChina, which becomes effective on the date of the closing of the merger, Koor's ability to sell its holdings in Makhteshim Agan will be limited (due to Makhteshim Agan being a private company and as long as it remains so) and subject to certain terms, including restrictions set in the shareholders agreement with regard to the transfer and/or sale of shares to competitors.

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23.13 Restrictions on making investments

Koor and some of its investees are subject to legal restrictions in respect of new investments or increase in existing investments in investees in some cases. Koor and some of its investees are also subject to legal and regulatory restrictions in respect of their business operations in Israel and globally. These legal and regulatory restrictions, as well as contractual restrictions, may limit Koor's ability to take advantage of business opportunities for new investments or to increase or realize existing investments.

23.14 Reliance on investees' cash flow

One of Koor's sources of cash flow are the dividends distributed by its investees. Changes in the distribution of dividends by Koor's investees and changes in profitability and cash flow of these companies may affect Koor's cash flow and business operations. It should be noted that in some of the companies, Koor is a minority shareholder, and its influence on management and the setting of policy is accordingly limited.

23.15 Absence of position of influence or limited influence in certain investments.

Koor conducts from time to time financial investments in various companies that do not award in a position of influence in such companies. As part of its holdings, Koor holds non-controlling shares and accordingly its ability to influence the conduct and to set policies of such investees is limited and subject in certain cases to arrangements between Koor and the other shareholders. It is noted that if and when the merger transaction with ChemChina is completed (see section 3.5[A] to this part), Makhteshim Agan will convert to be a private company, which will be held 60% by ChemChina and 40% by Koor (see section 3.5[A] of this Part).

The following is Koor's assessment of the types of risk factors and the degree of their impact on Koor's operations:

Risk factors	Degree of impact		
	Major	Moderate	Minor
Macro	<ul style="list-style-type: none"> ▪ State of global economy ▪ Financial risks ▪ Changes in capital markets in Israel and worldwide 	<ul style="list-style-type: none"> ▪ Political, security and economic situation ▪ Changes in legislation and regulation 	<ul style="list-style-type: none"> ▪ Government grants and benefits; budgetary policy
Sector		<ul style="list-style-type: none"> ▪ Environmental protection 	<ul style="list-style-type: none"> ▪ Wages and labor relations ▪ Antitrust
Special	<ul style="list-style-type: none"> ▪ Financial institutions holding financial assets for Koor 	<ul style="list-style-type: none"> ▪ Bank supervision ▪ Reliance on investees' cash flow 	<ul style="list-style-type: none"> ▪ Restrictions on the realization of holdings ▪ Restrictions on the execution of investments ▪ Absence of position of influence or limited influence in certain investments