

# **ADAMA Ltd.**

## **Feasibility Analysis Report on Derivatives Hedging Transactions**

### **I. Background of Derivatives Hedging**

ADAMA Ltd. and its subsidiaries (hereinafter combined as “the Company”) conduct crop protection business in dozens of countries. In many countries, the business is settled in local currencies while the relevant local subsidiaries are nominated in USD. In addition, one of the Company’s major subsidiaries issued corporate bonds denominated in Israeli Shekel and linked to Israeli Consumer Price Index (CPI). Given the global nature of its operational activities and the composition of its assets and liabilities, the Company, in the ordinary course of its business, is expected to use derivatives to hedge exposures related to foreign exchange rates and CPI.

### **II. Overview of Derivatives Hedging**

The derivatives transactions of the Company are for the purpose of hedging only and will match the size and term of the accounting exposure and economic exposure of the Company. All the Company’s hedging transactions are expected to be through banks in certain countries where the Company is present. The hedging tools include (inter alia) Forwards, Swaps, Loans and Deposits, Options, Exotic Options, and Options Strategies (including sell and buys). The Company expects that the maximum outstanding contract value of derivatives transactions on any single trading day from its approval at the 2024 Annual Shareholder Meeting till the next annual shareholder meeting (validity duration) should not exceed USD 5 billion. The transaction limits shall be valid and can be recycled within the validity duration.

### **III. Necessity and Feasibility of Derivatives Hedging**

As the Company’s business covers dozens of countries and is settled in local currencies in many countries, volatility of foreign exchange rates and CPI, being affected by international political and economic environments, can have big impacts on the Company's business performance. The hedging business is expected to effectively offset the risks caused by exchange rate and CPI fluctuations and thus help to strengthen the Company’s financial stableness. Therefore, it is necessary to conduct derivative hedging transactions.

The hedging transactions are based on the Company's ordinary course of business and match the size and term of the accounting exposure and economic exposure of the Company. The Company has formulated the Derivatives Hedging Management Policy as the internal control system. The Policy specified decision-making authority and procedures, operative organizations, reporting mechanisms and monitoring measures. The Company has professional teams for conducting the transactions and monitoring risks. The Company has the funding and risk resistance capabilities aligned with hedging transactions.

#### **IV. Risk Analysis for Derivatives Hedging Transactions**

1. Market risks: The current domestic and international political and economic situation, which has been complicated and volatile with ongoing geopolitical conflicts escalating, may cause drastic fluctuations in exchange rates and consumer price index and result in significant increase in the Company's hedging costs and consequently, potential losses.
2. Credit risks of default by customers: the Company's sales to customers worldwide usually involve customer credit as is customary in each market. A portion of these credit lines is insured, while the remainder are exposed to risk, particularly during economic slowdowns in the relevant markets. Any overdue accounts receivable from customers, or failure of money collection within the forecasted payback period may affect the Company's cash flow and result in the actual cash flow incurred not being able to fully match the term or amount of the foreign exchange derivatives business that has been operated.
3. Liquidity risks: as the derivatives transactions are carried out with banks based on the Company and its relevant subsidiaries' collection and payment in foreign currency as well as assets and liabilities in local and foreign currencies. Such transactions do not take up the available funds, but there is the risk of having to pay spreads to the banks due to losses on closing out and chopping down positions for various reasons.
4. Risks of contract fulfillment: The counterparties of the Company's futures and derivatives trading are banks with good credit and long-term business relationship, so the occurrence of such risk is relatively low.
5. Legal risks: Changes to relevant laws or violation of relevant laws by the counterparties may result in improper execution of contracts and bring losses to the Company.

#### **V. Risk Control Measures**

1. The Company has formulated *the Derivatives Hedging Management Policy* as the internal

control system for managing foreign exchange and index risk hedging, which clearly stipulates the principles, approval authority, operating institutions and processes as well as risk control procedures of the derivatives trading, to ensure a comprehensive supervision over each link from pre-emptive prevention, in-process monitoring to post-processing.

2. The Company conducts derivatives trading with large domestic and overseas commercial banks with compliant qualifications and good credibility, strictly follows the laws and regulations in the relevant fields in each country to avoid possible legal risks and fully takes into account settlement, liquidity and FX volatility related to the transactions.

3. The Company and its relevant subsidiaries follow up and evaluate their derivatives portfolio and transactions in a timely manner through weekly, monthly and quarterly meetings; any significant change in the market or significant floating losses, whenever it occurs, will be timely reported to the Company's management team and the Board of Directors as appropriate, so as to activate a contingency mechanism to respond and handle the situation appropriately.

4. Conducting transactions shall be based, among other things, on an external expert (or other system) theoretical pricing and/or banks/brokers quotes, as the case may be.

5. The financial department shall keep the records and documentation with respect to the process and transactions.

6. The internal audit department of the Company is the supervisory institution for its derivatives transactions and is responsible for monitoring and checking the compliance of both the Company and its subsidiaries in the decision-making, management and execution of relevant transactions.

## **VI. Conclusion of the Feasibility Study of Derivatives Hedging Transactions**

The Company has formulated the Derivatives Hedging Management Policy as the internal control system for managing foreign exchange and index risk hedging. The hedging transactions are closely related to the Company's ordinary course of business and will match the size and term of the accounting exposure and economic exposure of the Company. They are expected to enhance the Company's financial soundness and reduce the adverse impact of foreign exchange rate and index fluctuations on the Company's operating results. Therefore, the expected derivatives hedging transactions are necessary and feasible.

ADAMA Ltd.

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