CHAPTER B

EVOGENE LTD.

Board of Directors' Report on the State of Company Affairs

as at December 31, 2012 (*)

(*) The English version of this report, prepared as at December 31, 2012, is a translation of Evogene Ltd.'s Board Of Directors' Report in Hebrew, and is hereby presentedfor convenience purposes only. Please note that the Hebrew version constitutes the legally binding version and in the event of any discrepancy, the Hebrew version shall prevail

<u>Board of Directors' Report on the state of the Company's affairs as at December 31, 2012</u>

We, the undersigned, hereby submit the Board of Directors' report for the period ending December 31, 2012, on the state of affairs of Evogene Ltd. and its subsidiaries, Evofuel Ltd. and Evogene Inc., (together - "Company"). This report was prepared in accordance with Securities Regulations (Periodic and Immediate Reports), 5730-1970, and with the assumption that the party reviewing these statements also has access to the Company's full periodic report dated December 31, 2011 and published March 20, 2012 (reference number, 2012-01-072753).

<u>Part A – Description of the Company and its business environment, Board of Directors' discussion on the state of the Company's affairs</u>

Company Description

The Company is primarily involved in research and development of plant qualities such as yield, drought tolerance and parasite tolerance for a variety of agricultural crops, with the objective of developing improved seeds for the global agricultural and alternative energy industries.

Through its unique technological platforms, and based on its capabilities and knowhow in plant genomics, the Company identifies hundreds of genes and other DNA sequences having the potential to improve qualities of target plants. The Company commercializes the genes and other DNA sequences mainly through collaboration and licensing agreements with seed companies, allowing them to use the Company's genes and other DNA sequences, to develop and commercialize improved seeds. The seed companies can use the genes and/or the other DNA sequences through biotech mediums (genetic improvements) and/or through advanced breeding methods to develop improved seeds.

As of 2012, the Company has begun examining the implementation of its technology to identify gene sequences, for characterizing chemical substances whose purpose is to improve plant properties.

The Company's operations - the identification and characterization of genes and other DNA sequences - use various research and development programs focused on improving (using biotechnology and/or advanced breeding methods) certain target qualities of certain agricultural crops, such as: (1) increasing the harvest of monocot plants (such as corn or rice) (2) increasing the harvest of dicot plants (such as soya or cotton), (3) improving the resistance of plants against environmental stresses (for example, drought, saltiness, heat, freeze, etc.), (4) better use of fertilizers by the plant and (5) improving the resistance of plants (mainly soya) against various pests, such as nematodes.

The Company's research programs, which are based on its unique technology, can be divided into four main applications:

(1) Improving the yields of agricultural crops and their resistance to environmental stress conditions

(2) Improving the resistance of agricultural crops to biotic stress conditions

(3) Developing agrochemicals

(4) Developing and commercializing improved varieties of agricultural crops for producing oil as a raw material for applications as the alternative energy industry

For further details on the main applications in which the Company is involved, see section 6 of Chapter A of this report ("Description of the Company's Business Operations").

In the third quarter of the year the Company began implementing changes to its organizational structure so that each of the four main applications described above will be managed as a separate product division. Each of the four applications utilizes the unique technological capability developed by the Company, with the required adjustments for each application. Each of these product divisions is managed by a designated R&D person and a business development person who will focus on promoting the product division they are managing and will report directly to the management.

Over the past few years, the Company has directed substantial resources to developing and improving its unique technological platforms. The uniqueness of the Company's technology platform stems from various core technologies, mainly computational technology, which was developed by the Company. The computational technology enables the Company to scan large quantities of various plants' genomic information, in order to identify genes and other DNA sequences that may have relevance for the target qualities. For further details on the Company's technology platform, see section 2.a.2 of Chapter A of this report ("Description of the Company's Business Operations").

In the Company's opinion, its competitive advantage lies in its ability to identify genes and other DNA sequences, such as genetic markers, through the use of its computational technology, to efficiently prioritize those outputs in a shorter period of time to alternative methods currently available in the industry. The Company strives to be a world leader in applying plant genomics for improving the performance of key agricultural crops. For further details on the Company's main goals and business strategy, see section 27 of Chapter A of this report ("Description of the Company's Business Operations").

Since its founding, the Company has signed licensing agreements with a number of leading international seed companies, such as Bayer, Monsanto, Syngenta, Pioneer (DuPont) and Biogemma, to allow use of genes and DNA sequences that it identified, for development and possible commercialization (by the seed companies), of improved seeds that host the genes and/or other DNA sequences that were identified by the Company. The objectives of said contractual relationships are the use of genes or other DNA sequences, to improve the qualities of agricultural crops, mainly edible crops for human and animal consumption, such as wheat, corn, soybeans, cotton, canola and rice, providing farmers with added commercial value. For further details on the Company’s collaboration agreements, see section 24 of Chapter A of this report (“Description of the Company’s Business Operations”).

As of the date of this report, the genes and other DNA sequences that the Company has made available for said collaboration agreements are in their initial development stage, and some have demonstrated improvements in target qualities as part of model plant testing (initial indications). That said, the development of any improved seeds that contain genes and other DNA sequences identified by the Company, has not yet been completed and there has been no initial commercial sale of said improved seeds by the Company’s partners and clients, and the completion of the development of such improved seeds, if those will eventually be developed by the Company’s clients and/or strategic partners, is expected to take a few more years.

As of the date of this report, the Company's corn genes are in the most advanced development stage (Phase II) and are expected to go through a number of transformation events and broader field testing in various geographical locations.

For further details on the development stages of improved seeds and the development stages of the genes identified by the Company, see section 3.a.2 of Chapter A of this report (Description of the Company’s Business Operations”).

In addition, the Company is involved in various research and development efforts to develop improved varieties of castor plants, which may serve as a source of oil, which will serve, inter alia, as raw material for the alternative fuel industry, with an emphasis on bio diesel and bio jet fuels. This, through various classic and advanced plant-breeding techniques that are supported by certain components of the Company's technological platform. The Company intends to develop oil-rich castor bean varieties, which will be able to be grown commercially, so as to serve, inter alia, as an efficient and proficient raw material (that is, non-perishable) for the alternative fuel industry, at competitive production costs vis à vis raw materials that are based on plants currently used in the alternative fuel industry.

On January 1, 2012, the Company transferred its alternative fuel operations to Evofuel Ltd, a wholly owned subsidiary (hereinafter – "Evofuel" or "the Subsidiary"). In the process of the transfer of said operations, the Company transferred to Evofuel assets used in the development of improved varieties of castor beans, which may serve as a source for producing oil for the biodiesel industry.

As of the date of this report, Evofuel is focusing its operations in Brazil and Argentina as a major target region for the development and commercialization of the castor bean varieties it is developing. As of the date of this report, the Subsidiary is in the development stages of these varieties, and it has not yet been proven that these varieties will meet the Company's stated goals in the Company's planned cultivation regions.

Beginning the first quarter of 2012, the Company's operations in the development and commercialization of improved varieties of agricultural crops for producing oil as a raw material, among other things for the alternative energy industry (hereinafter – "seeds for the alternative fuel industry"), began being described in the Company's financial reports as a separate sector of operations, as this term is defined in the accepted accounting rules. This in light of the increase in the scope of the Company's operations in this field, as of January 2012, and in light of the fact that this field of activity was transferred in its entirety to the Company's wholly owned subsidiary, Evofuel, Ltd. In accordance with securities regulations (details of the prospectus and draft prospectus – structure and form), 5729-1969, this sector is considered, as of the first quarter of 2012, as a separate field of activity for the purpose of the Company's periodic and quarterly reports.

<u>Substantial changes in the Company's operations and affairs during the reporting period</u>

- **Further development and improvement of ATHLETE™, the Company's core computational technology for identifying genes.**

  During the year covered by this report, the Company launched ATHLETE™ 4.0. ATHLETE™ 4.0 contains new computational tools and improved computational capabilities for discovering and prioritizing genes with the potential for improving desired qualities in target plants. For further details on the launching of ATHLETE™ 4.0, see the Company's report from 4 April 2012, reference number, 2012-01-093873.

- **Further development and improvement of the Company's core computational technology for discovering genes - Gene2Product™** – a unique integrated computational platform developed by the Company for improving trait efficacy by high throughput optimization of gene function in the target crop as part of the development process for biotechnology seed products, to improve the stability and traits expressed by the genes and to increase the chances for success in developing biotechnology seeds in the development pipeline of the Company's clients. Utilization of Gene2Product™ is complementary to the use of ATHLETE™ for gene discovery. The aim of Gene2Product™ is to improve trait efficacy on the target trait by, for example: optimizing the gene expression in the plant by stacking other genes, to achieve a stronger effect and further access.

- As of the date of this report, there are four sub-platforms that comprise the Gene2Product™ platform: **RePack** (Regulation Package) - Improves trait efficacy by predicting the regulation mode for the gene of interest that will provide the optimal expression pattern.; **PlaNet** (Plant Network) - Improves trait efficacy by predicting appropriate gene combinations, referred to in the seed industry as "gene stacking"; **GeneDex** (Gene Index) – Targeted for incorporation in Gene2Product™ during 2013, GeneDex is designed to improve trait efficacy by predicting functional robustness of a gene across different genetic backgrounds (i.e. germplasms) and environmental conditions; and **GeneSpec** (Gene Spectrum) - Improves trait efficacy by selecting the preferred functional gene variant for each gene of interest for the crop of interest. On January 29, 2013, the Company announced the completion of the development of the Gene2Product™ platform, version 1.0. For further details on this platform, see the Company's report from January 29, 2013, reference number 2013-01-024075.

- **Identification and characterization of a new gene pool (non-protein coding long RNA)**

  During the reporting period, the Company announced the successful completion of a two-year pilot project for developing validation for a new platform for identifying non-protein coding long RNA genes, to be used for improving plant traits. For further details on the completion of the pilot project, see the Company's report from November 26, 2012, reference number, 2012-01-289230.

- **Development of Phenomix – new core technology for gathering plant phenotype data**

  During 2012 the Company completed the development of a computerized system for gathering phenotypic data in the field and synchronizing it with the Company's servers. The system is operated by a designated team and serves all the experiments on plants. The Company's researchers can use Phenomix to assess the behavior of plants in environmental conditions that are very similar to the existing cultivation conditions in commercial agriculture, and to link such behavior to the genomic activity in the plant itself. The additional data obtained using Phenomix is expected to improve the Company's ability to discover genes and facilitate more precise prediction of the extent of the influence and compatibility of potential genes for improving plant traits in various field conditions. For further details on the launching of Phenomix, see the Company's report from November 14, 2012, reference number, 2012-01-279063.

- **Launching of a new gene validation system**

  During 2012, the Company developed new gene validation technology using a monocot plant model (hereinafter – "the new validation system"). The development of this system was completed on February 12, 2013. The new validation system, which uses Brachypodium plant models, will enable the Company to examine the effect of potential genes on monocot plants such as wheat, corn and rice. The new system will serve the Company in its current collaborations on monocot plants, other gene and DNA sequence R&D (including genetic markers) for improving target traits such as yield and resistance to environmental stress conditions. Until the development of the new system, the Company, like the rest of this industry, used a dicot plant model system to validate both monocot plants dicot plants. For further details on the completion of the development of the new validation system, see the Company's report from January 29, 2013, reference number 2013-01-036123.

- **Collaboration with an investment bank for raising funds for Evofuel, a wholly owned subsidiary**

  As reported in the Company's Board of Directors' Report for the first three quarters of 2012, in May 2012 the Company and its Subsidiary began collaborating with an investment bank to raise funds to finance the Subsidiary's operations, in exchange for a proportion of the funds raised, in accordance with the details set in the agreement. The agreement is valid until the completing of the round of capital raising, or until April 2013, whichever comes first, and the commitment to pay a commission to the investment bank will apply for a year thereafter. In December 2012 the Company notified the bank of the termination of the agreement.

Private placements

- On June 3, 2012, the Board of Directors of the Company approved a private placement of 380,000 unregistered options, convertible to 380,000 ordinary Company shares with a nominal value of NIS 0.01. The placement was conducted for new Company employees and a number of consultants. On June 25, 2012 a total of 368,000 of the said options were allocated. For details on the vesting period of the options, the exercise price and the rest of the options' terms, see the Company's immediate reports from 3 June 2012, reference number, 2012-01-146190, from June 21, 2012, reference number, 2012-01-162690, and from June 25, 2012, reference number, 2012-01-166194.

- On October 24, 2012, the Company's Board of directors approved a private placement of 35,000 unregistered options convertible to 35,000 ordinary Company shares with a nominal value of NIS 0.01 for a number of serving Company Board members, for the completion of an additional year serving in the Company. On November 11, 2012 the said options were allocated as follows:

    1. A total of 25,000 unregistered options were allocated to directors (hereinafter – "the directors' options")

    2. A total of 10,000 unregistered options were allocated to external directors (hereinafter – "the external directors' options")

  For details on the vesting period of the options, the exercise price and the rest of the options' terms, see the Company's immediate reports from November 11, 2012, reference number, 2012-01-277083, and from October 24, 2012, reference number, 2012-01-263418.

- On November 19, 2012, the Company's Board of directors approved a private placement of 280,000 options convertible to 280,000 ordinary Company shares with a nominal value of NIS 0.01 for a number of employees. On December 6, 2012 the said options were allocated. For details on the vesting period of the options, the exercise price and the rest of the options' terms, see the Company's immediate reports from November 19, 2011, reference number, 2012-01-283530, and from December 6, 2012, reference numbers 2012-01-303456, 2012-01-303474, 2012-01-303498 and from December 9, 2012, reference number, 2012-01-305286.

Collaboration agreements

- An agreement from June 14, 2012 between the Company and Rasi Seeds, a leading Indian seed production and marketing company of rice and other agricultural crops (hereinafter: “Rasi Seeds”), for the granting of an exclusive license to Rasi Seeds, with no termination date, for the use of specific genes that were identified by the Company as having potential for improving yield and plant tolerance to drought (hereinafter: “the genes”), for research, development and the possible commercialization of improved rice varieties in India and additional countries. For further details on the collaboration agreement with Rasi Seeds, see the Company’s report from June 14, 2012, reference number 2012-01-157278.

- An agreement from May 22, 2012 between Evofuel Ltd., the Company’s wholly owned subsidiary (hereinafter: “Evofuel”) and T6 Industrial S.A., one of the leading biofuel manufacturers in Argentina (hereinafter: “T6 Industrial”) for the evaluation of oil-rich castor bean varieties, currently being developed by Evofuel for use as sustainable (ie un-perishable) raw material for the alternative fuels industry (hereinafter: “the developed castor bean varieties”), and their adaptation for commercial production in Argentina. The extent of the joint project is expected to be two years, but the parties may, under certain conditions set in the agreement, extend or shorten the duration of the agreement, or decide on its early termination. During the project and upon its termination the parties will evaluate the possibility of entering into a commercial agreement concerning the developed castor bean varieties. For further details on the collaboration agreement with T6 Industrial, see the Company’s report from May 22, 2012, reference number 2012-01-131151.

- Concerning the Company’s collaboration agreement with Pioneer Hi-Bred International, Inc. (hereinafter: “Pioneer”), from October 29, 2007, for the improvement of yields and resistance to abiotic stress in corn and soybeans, in the framework of which Pioneer received an exclusive research and commercialization license to use a number of genes (the genes) in corn and soybeans, on October 29, 2012 Pioneer notified the Company of Pioneer’s decision to continue developing genes in corn. Accordingly, Pioneer notified the Company that it will pay the Company compensation for the milestone set in the agreement as part of its decision to continue developing the said genes in corn. Pioneer similarly notified the Company of the decision not to continue evaluating the genes in soybeans; this due to Pioneer’s reprioritization of its plans for soybeans.

Financial Situation

Condensed Consolidated Statements of Financial Position, Expressed in US dollars in Thousands

	December 31, 2012 US dollars in Thousands	December 31, 2011 US dollars in Thousands		December 31, 2012 US dollars in Thousands	December 31, 2011 US dollars in Thousands
Current Assets			**Current Liabilities**		
Cash and cash equivalents	24,262	6,465	Trade payables	1,416	2,059
Marketable securities	30,868	34,672	Other payables	3,139	2,079
Short-term deposits	-	17,652	Liabilities in respect of grants from the Chief Scientist	733	905
Trade receivable	1,542	800	Deferred revenue	4,211	4,037
Other receivables	650	981			
	57,322	60,570		9,499	9,080
Non-current Assets			**Noncurrent Liabilities**		
Long term deposits	43	48	Liabilities in respect of grants from the Chief Scientist	2,918	3,039
Fixed assets, net	7,401	7,138	Deferred revenue	4,168	7,673
Intangible assets	89	134	Net employee benefits liabilities	11	9
	7,533	7,320		7,097	10,721
			Shareholders' Equity	48,259	48,089
	64,855	67,890		64,855	67,890

Current Assets

Cash balances and cash equivalents, marketable securities and short-term deposits as of December 31, 2012 totaled $55.1 million, compared with a total of $58.8 million on December 31, 2011. The year over year decrease in cash totals reflects $3 million in payments for investments in fixed assets and cash used in operating activities in the amount of $1.9 million for current operations, which were partially offset by cash received, from exercising of options in the amount of $1.5 million.

Trade receivables as of December 31, 2012 totaled $1.5 million, compared with $800 thousand as of December 31, 2011. This increase reflects a charge to a client in December 2012, for the fourth quarter payment for a collaboration agreement, a charge that was paid to the Company at the beginning of 2013, as opposed to the same period last year, in which the fourth quarter payment was received in December.

Other receivables as of December 31, 2012 totaled $ 650 thousand compared with $ 981 thousand as of December 31, 2011. This decrease results primarily from a reduction in receivables for the repayment of patent registration expenses from the Company's clients.

The balance of current assets as of December 31, 2012 totaled $ 57.3 million, compared with total of $ 60.6 million on December 31, 2011. Most of the decrease reflects the change in the balances of cash and cash equivalents, marketable securities and short-term deposits, as detailed above.

Property, Plant and Equipment ("PPE")

Net PPE assets as of December 31, 2012 totaled $ $ 7.4 million, compared with $ 7.1 million as of December 31, 2011. The increase reflects Company investments of $ 2.1 million in PPE (mainly in the establishment of the new office compound, and from an investment in infrastructure and equipment for R&D), offset by the depreciation accumulated in this period, totaling $ 1.8 million.

The above investment was made in order to meet the Company's commitments under the existing collaboration agreements and in order to support the Company's continued growth.

Intangible Assets

Intangible assets as of December 31, 2012 totaled $ 89thousands, compared with $ 134 thousands as at December 31, 2011. This item includes a payment and issue of Ordinary shares to Compugen, originally transacted during 2007, for extension of its proprietary platform license. In accordance with International Financial Reporting Standards, the payment and share issue are classified as intangible assets, and are amortized over the life of the license.

Current Liabilities

Trade payables as of December 31, 2012 totaled $1.4 million, compared with $2.1 million as of December 31, 2011. The reduction in this item results primarily from a reduction of $1 million in PPE trade payabels; a reduction that was partially offset by increased other trade payables, due to the Company's increased current operations.

Other payables as of December 31, 2012 totaled $3.1 million, compared with $2.1 million as of December 31, 2011. As of December 31, 2012, this balance includes primarily the liability to employees for wages, provision for vacation, recreation and payments to the relevant institutions, and other expenses payable. Most of the increases results from an increase of $385 thousand in liability to the tax authorities for employee taxation on capital gains for the exercise of options, an increase of $400 thousand in liabilities to employees and an increase of US$265 thousand in accrued expenses from the increase in the Company's operations.

The liability for Chief Scientist grants and deferred revenue reflects current maturities in respect of said grants and deferred revenue, and will be more detailed under noncurrent liabilities below.

Total current liabilities as of December 31, 2012 totaled $9.5 million, compared with $9.1 million as of December 31, 2011. The increase results primarily from the increase in other payables, offset by a reduction on trade payables, as detailed above.

Non-Current Liabilities

Non-current liabilities as at December 31, 2012 include the following liabilities:
Liabilities in respect of Chief Scientist grants and liabilities in respect of deferred revenues.

(1) Liabilities in respect of Chief Scientist grants (including current liabilities and non-current liabilities) as of December 31, 2012, of $3.7 million, compared with $3.9 million as of December 31, 2011 ($733 thousand and $905 thousand are reported under current maturities

of other non-current liabilities, respectively). Further to collaboration agreements with Monsanto and Bayer, the Company expects to repay all the government grants received from the Israeli Chief Scientist and other bodies to which the Company is obligated to repay the grant as a percentage of future revenues. Accordingly, in accordance with International Financial Reporting Standards, the entire liability for payment in present value terms was recognized and the sum of the liability is re-evaluated in each report period, with changes charged to profit and loss, and royalty payments recognized as a settlement of the liability.

(2) Deferred revenues as of December 31, 2012 (including current and noncurrent liabilities) totaled $8.4 million, compared with a total of $11.7 million as of December 31, 2011 ($4.2 million and $4 million presented in current liabilities, respectively). This item results mainly from deferred revenue stemming from the application of accounting rules to agreements signed with Monsanto and Bayer as multiple element contracts. The company will recognize this deferred revenue over the collaboration agreement period. The reduction in this item results from the recognition of the relative share of the deferred revenue.

Total noncurrent liabilities as of December 31, 2012 totaled $7.1 million compared with $10.7 million as at December 31, 2011. The decrease results primarily from a decrease in deferred revenue as detailed above.

Shareholders' Equity

Company equity as of December 31, 2012 totaled $48.3 million, compared with $48.1 million as of December 31, 2011. The increase results primarily from an increase following the exercise of options totaling $1.5 million and from an increase in the capital reserve from a share-based payment of $1.2 million, which was partially offset by a net loss of US$2.5 million.

Operating Results

Following are the consolidated quarterly statements of the comprehensive loss, for 2012, compared with the comprehensive profit in 2011.

	01-03/12	04-06/12	07-09/12	10-12/12	01-12/12	01-12/11
	US dollars in Thousands	US dollars in Thousands	US dollars in Thousands	US dollars in Thousands	US dollars in Thousands	US dollars in Thousands
Revenue	4,200	4,087	3,967	4,818	17,072	14,901
Cost of revenue	2,079	2,404	2,420	2,649	9,552	8,247
Gross profit	2,121	1,683	1,547	2,169	7,520	6,654
Research and development expenses, net	1,457	1,851	1,850	2,094	7,252	6,384
Business development expenses	249	295	316	299	1,159	1,136
General and administrative expenses	536	533	470	729	2,268	2,313
Operating expenses	(2,242)	(2,679)	(2,636)	(3,122)	(10,679)	9,833
Operating loss	(121)	(996)	(1,089)	(953)	(3,159)	(3,179)
Other income (expense)	-	-	-	33	33	(4)
Net financing income (expense)	567	(114)	231	199	883	255
Net financing income - revaluation of options	-	-	-	-	-	3,729
Net financing income (expense) - revaluation of liabilities to the Chief Scientist	10	(29)	(142)	(44)	(205)	(156)
Income (loss)	456	(1,139)	(1,000)	(765)	(2,448)	645

before taxes						
Taxes on income	-	52	22	-	74	-
Total comprehensive income (loss)	456	(1,191)	(1,022)	(765)	(2,522)	645
Basic and fully diluted income (loss) per share (expressed in US$)	0.012	(0.03)	(0.03)	(0.02)	(0.07)	0.02

Revenue

Company revenues for 2012 totaled $17.1 million, compared with $14.9 million in 2011. Most of the increase results from the extension and the expansion of the collaboration agreement with Monsanto, signed in the fourth quarter of 2011. Revenue in the fourth quarter of the year totaled $4.8 million, compared with $4.7 million in the same period last year. Company revenues include revenue from collaboration agreements with Monsanto and Bayer as well as with other parties.

Cost of revenue

During 2012 cost of revenue totaled $9.6 million, compared with $8.2 million during 2011. Cost of revenue during the fourth quarter of the year totaled $2.6 million, compared with $2.7 million, in the same period last year. This item includes expenses that are not included in cash flow in respect of a share-based payment to employees and consultants in 2012, totaling $364 thousand, compared with $681 thousand in the same period last year and which totaled $71 thousand in the fourth quarter of 2012, compared with $196 thousand in the same quarter of last year.

The increase in this item results mainly from an increase in the Company's operations to meet its commitments under various agreements signed by the Company, as detailed above, and in accordance with growth in revenue.

Gross Profit

The Company's gross profits in 2012 totaled $7.5 million, compared with $6.7 million in 2011. Gross profit during the fourth quarter of the year totaled $2.2 million, compared with $2 million during the same period last year.

Operating Expenses

Research and development expenses, net- In 2012 research and development expenses (net of grants that do not involve any liability to repay), totaled $7.3 million, compared with $6.4 million in 2011. Net research and development expenses for the fourth quarter of the year totaled $2.1 million, compared with $1.7 million during the same period last year. This increase results mainly from an increase in the scope of the Company’s operations and in the number of the Company’s employees, to support the expansion of the Company’s internal R&D programs, which are designed to facilitate the continued growth of the Company. This item includes non cash expenses in respect of a share-based payment to employees and consultants in 2012, totaling $364 thousand, compared with $682 thousand in the same period last year and which totaled $71 thousand in the fourth quarter of 2012, compared with $90 thousand in the same quarter last year.

Business development expenses- In 2012, business development expenses totaled $1.2 million, compared with $1.1 million in 2011. Business development expenses during the fourth quarter of the year totaled $299 thousand, compared with $409 thousand in the same period last year. This item includes non cash expenses in respect of a share-based payment to employees and consultants in 2012, totaling $164 thousand, compared with expenses of $230 thousand in the same period last year and which totaled $46 thousand in the fourth quarter of 2012, compared with $59 thousand in the same period last year. The decrease in business development expenses in the fourth quarter of 2012, compared with the same quarter of last year results primarily from legal expenses in respect of travel abroad stemming from the signing of the agreement with Monsanto at the end of November 2011.

General and administrative expenses- General and administrative expenses totaled $2.3 million in 2012 a2011. General and administrative expenses during the fourth quarter of 2012 totaled $729 thousand, compared with $663 thousand in the same period last year. Most of this increase resulted from increased salary expenses due to the recruitment of employees to support the increase in the Company’s operations. This item includes non cash expenses in respect of a share-based payment to employees and consultants in 2012, totaling $281 thousand, compared with a total of $536 thousand in the same period last year and which totaled $60 thousand in the fourth quarter of 2012, compared with $109 thousand in the same period last year.

Operating Loss

In 2012 and the same period last year, the Company's operating loss totaled $3.2 million. The Company's operating loss in the fourth quarter of the year totaled $953 thousand, compared with an operating loss of $821 thousand in the same period last year.

Net financing income/expense

In 2012, the Company's net financing income totaled $883 thousand, compared with $255 thousand in 2011. The increase in net financing income results primarily from a decrease in foreign currency exchange differential expenses and an increase in income in respect of the re-evaluation of the marketable securities measured at fair value through profit and loss. The Company's financing income during the fourth quarter of the year totaled $199 thousand, compared with $48 thousand in the same period last year.

In 2011, the Company's financing income in respect of a net revaluation of options totaled $3.7 million. This item includes the change in the market value of Series 2 Options, which were revaluated at fair value. These options were mostly exercised and expired by May 2011, such that they have no effect on the Company's reports in the reporting period and the Company had no financing income or expenses in respect of a net revaluation of options in 2012. The Company had no financing income or expenses in respect of a net revaluation of options in the fourth quarter of 2012 and in the same period last year.

Financing expenses on the revaluation of liabilities to the Chief Scientist, during the 2012 totaled $205 thousand, compared with $156 thousand during 2011. Financing expenses on the revaluation of net liabilities to the Chief Scientist during the fourth quarter of the year totaled $44 thousand, compared with $38 thousand during the same period last year.

Comprehensive Income/Loss

The Company's comprehensive loss in 2012 totaled $2.5 million, compared with a comprehensive income of $645 thousand in 2011. The profit in 2011 was generated as a result of financing income totaling S$3.7 million in respect of revaluation of Series 2 Options, which was generated and recognized in 2011 alone, in the wake of the expiration of the options in May 2011. As noted above, in the reporting period there were no financing revenues in respect of revaluation of the options. The Company's comprehensive loss in the fourth quarter of the year totaled $765 thousand, compared with a comprehensive loss of $907 thousand in the same period last year.

Cash Flows

The cash flow used for operating activities in 2012 totaled US$1.9 million, compared with cash flows provided by operating activities in the same period last year, totaling $2.1 million. Most of the increase in the cash flow used for operating activities resulted from a decrease in deferred revenue and from an increase in trade receivables balances, which was partially offset by an increase in other payables balances.

Cash flows provided by investing activities in 2012 totaled $18.5 million, compared with cash flow used for investing activities, totaling $30.6 million in the same period last year. Most of the change in cash flow resulted from the maturity of short-term bank deposits in 2012, compared with investment in bank deposits in the same period last year and the realization of marketable securities in 2012, compared with the investment in marketable securities in the same period last year.

In 2012 the cash used for investment activity in PPE totaled US$3 million, compared with a total of US$3.8 million in the same period last year.

Cash flows provided by financing activities totaled $1.1 million in 2012, compared with a total of $25.6 million in the year ending December 31, 2011. In 2011 the Company received $9.6 million for the exercise of shares, transacted by Bayer and $16.1 million in respect of the exercise of the Company's Series 2 Options and the exercising of options by employees. The cash flow from financing operations in 2012 resulted mainly from the exercising of options by employees, in amount of $1.5 million.

Financing Sources

The Company intends to finance its operations by drawing on its cash balances, and receipts that it will receive in respect of signed collaboration agreements with its clients. In addition, the Company is constantly evaluating additional financing possibilities.

Compensation for Senior Officeholders

On February 25, 2013 the Company’s Board of directors considered the **compensation** given to each of the five recipients of the highest remuneration among the senior officeholders at the Company, and to each of the Company’s Board members. To consider the terms of the remuneration and the relationship between it and the contribution of each of the officeholders and the Board members, the Board considered, inter alia, criteria and considerations for remunerating officeholders, as determined in amendment 20 to the Companies Law, 5759-1999 (“Amendment 20”).

The **<u>Compensation</u>** committee and the Board were presented, inter alia, with the relevant data for remunerating the above officeholders, as required in the directives of amendment 21 to the Securities Regulations (Periodic and Immediate Reports), 5730-1970 (“the reporting regulations”) and in light of amendment 20, including the following data: (a) the data on all the terms of employment for the officeholders in the reporting year; (b) the goals of each officeholder and the extent to which these goals were met in 2012; (c) the resumé of the officeholder, detailing his education and experience; (d) data on the employment terms of all the other Company officeholders; (e) data on the ratio between the salary of each officeholder and the average and mean salary at the Company; (f) a professional opinion prepared by the Chairman of the Board of Directors of the Company (concerning the CEO) and a professional opinion prepared by the CEO (concerning the vice presidents); (g) an examination of the share-based payments and (h) data on the remuneration package common in the market during the reporting year, paid to other officeholders in similar positions in companies similar in size to the Company, and involved in operations similar to those of the Company, and a comparison of these data to the compensation package of each officeholder (via an external survey).

Following are the conclusions of the Board:

A. Ofer Haviv - President, and CEO - Company Employee since 2002, and serving in his current position since December 2004)

During the report year, Mr. Haviv was entitled to a monthly salary and fringe benefits, as detailed in Paragraph 11 of Chapter D of this report. In addition, on February 25, 2013, the **<u>Compensation</u>** Committee and the Board of Directors approved a bonus for Mr. Haviv for 2012 (subject to the approvals required under law) and a raise in salary, effective as of January 2013, all as detailed in Paragraph 11 of Chapter D of this report.

The Board of Directors considered Mr. Haviv’s performance and contribution to the Company. Mr. Haviv has made a significant and continuous contribution to the Company’s achievements, growth and the scope of its operations, and especially to everything connected with the continued development of the Company’s technological abilities, the development of new field of operation for the Company and the continued establishment of the Company’s position as a global technology leader in its field. In 2012, Mr. Haviv initiated and

spearheaded substantive strategic and structural change at the Company, which is expected to lead the Company to accelerated growth and better utilization of the knowledge at the Company. The Board of Directors of the Company believes that the experience that Mr. Haviv has accumulated in the Company's field of operation since 2004, when he began serving as CEO, is unique, and his contribution to the Company's achievements is significant.
Considering Mr. Haviv performance and achievements in the reporting year and considering the data presented to the Board of Directors, as detailed above, the Board of Directors has determined that the overall compensation to the CEO and president is fair and reasonable and reflects his considerable contribution to the Company in the reporting year.

B. Dr. Hagai Karchi, Executive Vice President, Chief Technology Officer (a Company Founder and employee since 2002)

During the reporting year, Dr. Karchi was entitled to a monthly salary and fringe benefits, as detailed in Paragraph 11 of Chapter D of this report. In addition, on February 25, 2013, the **Compensation** Committee and the Board of Directors approved a bonus for Dr. Karchi for 2012 and a raise in salary, effective as of January 2013, all as detailed in Paragraph 11 of Chapter D of this report.
The Board of Directors considered Dr. Karchi's performance and contribution to the Company during 2012, and inter alia everything connected with heading the Company's R&D department following the Company's structural and organizational change, and his contribution to the Company's entry into new fields of operation and the Company's meeting its scientific commitments to its strategic partners and clients. The Board of Directors believes that Dr. Karchi brings the Company unique added value both as a founder of the Company and as a scientist with world-class expertise in plants.
Considering Dr. Karchi's performance and achievements in the reporting year and considering the data presented to the Board of Directors, as detailed above, the Board of Directors has determined that the overall compensation to Dr. Karchi is fair and reasonable and reflects his considerable contribution to the Company in the reporting year.

C. Mr. Assaf Oron – Executive Vice President - Strategy and Business Development (Company employee since 2006)

During the reporting year, Mr. Oron was entitled to a monthly salary and fringe benefits, as detailed in Paragraph 11 of Chapter D of this report. In addition, on February 25, 2013, the **Compensation** Committee and the Board of Directors approved a bonus for Mr. Oron for

2012 and a raise in salary, effective as of January 2013, all as detailed in Paragraph 11 of Chapter D of this report.

The Board of Directors considered Mr. Oron's performance and contribution to the Company during 2012, and inter alia everything connected with business develop at the Company, building strategy with a view to the long term for new operations at the Company, building strategy in the biodiesel field, and the entry into collective agreements with companies in this field' and the continued management of the Company's intellectual property. The Board of Directors believes that Mr. Oron brings the Company unique added value in the business development field.

Considering Mr. Oron's performance and achievements in the reporting year and considering the data presented to the Board of Directors, as detailed above, the Board of Directors has determined that the overall compensation to Mr. Oron is fair and reasonable and reflects his considerable contribution to the Company in the reporting year.

D. Mr. Assaf Kacen, Executive Vice President - Technology Platform, (Company employee since 2009)

During the reporting year, Mr. Kacen was entitled to a monthly salary and fringe benefits, as detailed in Paragraph 11 of Chapter D of this report. In addition, on February 25, 2013, the **Compensation** Committee and the Board of Directors approved a bonus for Mr. Kacen for 2012 and a raise in salary, effective as of January 2013, all as detailed in Paragraph 11 of Chapter D of this report.

The Board of Directors considered Mr. Kacen's performance and contribution to the Company during 2012, and inter alia everything connected with advancing the Company's technology platform, his tremendous contribution to the Company's meeting its commitments under the multiyear collaboration agreements and other contracts with its clients and strategic partners, implementing the increase in the scope of the Company's operations and improving the efficiency and quality of the Company's project execution setup. The Board of Directors believes that Mr. Kacen brings the Company unique added value in his field.

Considering Mr. Kacen's performance and achievements in the reporting year and considering the data presented to the Board of Directors, as detailed above, the Board of Directors has determined that the overall compensation to Mr. Kacen is fair and reasonable and reflects his considerable contribution to the Company in the reporting year.

E. Ms. Sigal Fattal - VP finance, (joined the Company during 2012)

During the reporting year, Ms. Fattal was entitled to a monthly salary and fringe benefits, as detailed in Paragraph 11 of Chapter D of this report. In addition, on February 25, 2013, the **Compensation** Committee and the Board of Directors approved a bonus for Ms. Fattal for 2012 and a raise in salary, effective as of January 2013, all as detailed in Paragraph 11 of Chapter D of this report.

The Board of Directors considered Ms. Fattal's performance and contribution to the Company during 2012, and inter alia everything connected with heading the Company's finance department, handling and preparing the Company's periodic and annual reports, implementing ISOX regulations at the Company, managing the investment of the Company's cash balances, and executing the complete separation of the Evofuel field of operations from the Company's fields of operation, from a financial perspective. The Board of Directors believes that Ms. Fattal brings the Company unique added value in the finances field.

Considering Ms. Fattal's performance and achievements in the reporting year and considering the data presented to the Board of Directors, as detailed above, the Board of Directors has determined that the overall compensation to Ms. Fattal is fair and reasonable and reflects her considerable contribution to the Company in the reporting year.

Directors' Compensation

As of the date of this report, Mr. Martin Gerstel, Chairman of the Board of Directors, Mr. Leon Recanati, Dr. Adina Makover, and Dr. Simcha Sadan serve as directors of the Company, while Dr. Michael Angel, and Dr. Kinneret Livnat Savitsky serve as external directors of the Company.

In general, the Company's policy is to compensate directors at the Company for their service to the Company with an annual allocation of option (non-negotiable) for the purchase of regular shares in the Company. This is in keeping with the renewing mechanism for the allocation of options to directors, as described in Paragraph 11 in Chapter D of this report. In addition, the Company's external directors (as well as Board committee chairmen, who are not external directors) are entitled to receive annual compensation from the Company and compensation for participation in meetings, in accordance with the law and as detailed in Paragraph 11 of Chapter D of this report.

The Board of Directors of the Company was presented with all the data pertaining to the compensation of Company directors in the reporting year, as required by amendment 21 of the Securities Regulations (Periodic and Immediate Reports), 5730-1970, and the directives of parts B and C of the sixth supplement to these regulations, as detailed in Paragraph 11 of Chapter D of this report, and were presented with the following data: Data on their experience, capabilities and the duration of their service on the Company’s Board of Directors, the rate of the directors’ participation in Board meetings and the various Board committee meetings in the reporting year, the results of the Company’s operations in 2012 and the extent to which the Company met the goals set in its working plan for 2012.

It is stressed that compensation in securities is the only form of compensation given to a director for service as director of the Company, except for the external directors, who, as noted above, are also entitled to annual compensation and participation compensation, in accordance with the Compensation Regulations, in the maximum amount as provided by the Regulations vis à vis each of the external directors, with the exception of the Chairman of Board committees, who are not external directors, who, as detailed above, are entitled to financial compensation that includes annual compensation and compensation for participation in committee meetings, in the maximum amount, as provided by the Compensation Regulations, in respect of the additional effort required of them. In this regard, it should be noted that the exercise price of the options that are granted by the Company, including those that were granted to each director, as noted, is equal to the average closing price of Company shares on the stock exchange during a 15-day period before the date of grant. Said options will vest, on a gradual basis, over an exercise period of four years. Accordingly, the Company's share based compensation formula serves as an incentive to Company directors to increase the value of the Company over the long run, and to tie the compensation awarded to them to further contributions to the Company over the same period of time.

The double share of securities compensation awarded to Mr. Martin Gerstel, Chairman of the Board of Directors, as detailed in Paragraph 11 of Chapter D of this report, is given to the Chairman of the Board of Directors in respect of the additional resources and time that the Chairman of the Board of Directors affords the Company in advancing it and its business operations in the reporting year.

The Board of Directors is of the opinion that after weighing all considerations, as noted above, including the experience, expertise and the skills of the directors, the terms of options given to the directors, and the overall compensation awarded to the directors, that the terms of directors' compensation are proper and fair, when considering the efforts required of the directors to fulfill their positions, their involvement with the Company, and the responsibility involved in the position that they fill, and reflects their contribution to the Company in the reporting year, serves the objectives of the Company to encourage the directors in the Company to continue devoting their best efforts to the Company, and is in line with the good of the Company.

Part B - Exposure to and Management of Market Risks

Officer Responsible for the Company's Market Risk Management:

Mr. Ofer Haviv, the Company's President and Chief Executive Officer, is responsible for market risk management. He is also responsible for carrying out the Board of Directors' policy concerning the investing the Company's liquid balances. (For additional details on Mr. Ofer Haviv, see Paragraph 13 of Chapter D).

Description of Market Risks

Most of the Company's future revenue is expected to be earned in US Dollars or Euro, while most of its expenses, in general, and particularly salary expenses are in Shekel terms. As the Company does not hold any financial instruments that are significantly sensitive to market risks, the Company is, for the most part, exposed to fluctuations in the US Dollar and Euro exchange rates.

Company Policy on Market Risk Management

The Company takes steps to reduce its currency risk exposure by holding its cash balances in NIS-denominated short-term deposits, to finance current operations.

As of the date of the publication of the financial statements, the Company has invested its liquid balances for short periods, in accordance with an investment policy determined by its Board of Directors. The Company does not use derivatives of any kind for any purpose whatsoever, including hedging operations.

Sensitivity Tests

Sensitivity to Changes in the US$/NIS Exchange Rate (expressed in thousands of US dollars)

	Changes In Fair Value		Fair Value as of December 31, 2012	Changes In Fair Value	
	10%	5%	3.733	-5%	-10%
Cash and cash equivalents	(136)	(68)	1,362	68	136
Trade receivables, other receivables and prepaid expenses	(45)	(22)	452	22	45
Government marketable securities-Shekel denominated	(159)	(80)	1,593	80	159
Short-term treasury bills	(13)	(6)	126	6	13
Non-linked corporate bonds	(5)	(2)	48	2	5
Mutual funds – Shekel denominated	(107)	(54)	1,072	54	107
Government bonds – CPI linked	(48)	(24)	479	24	48
Corporate bonds-CPI linked	(43)	(21)	429	21	43
Exchange Traded Funds - linked	(5)	(3)	50	3	5
Trade payables	114	57	(1136)	(57)	(114)
Other payables	303	152	(3,033)	(152)	(303)
Net liabilities for employee benefits	1	1	(11)	(1)	(1)
Stable commitment - vehicle leases	47	22	(474)	(22)	(47)
Stable commitment - CPI linked rentals	133	66	(1,328)	(66)	(133)
Total	**37**	**18**	**(371)**	**(18)**	**(37)**

The fair value of the net liabilities presented in the balance sheet and those that are not presented in the balance sheet, but for which there is a firm contractual obligation, is estimated at US$ 371 thousand as of December 31, 2012. This amount is exposed to dollar/shekel exchange rate changes in a manner that any increase in the said exchange rate decreases the fair value of the net liabilities, and vice versa, in the event of any decrease in the exchange rate.

Thus the Company's basic exposure is to decreases in the US$/NIS exchange rate.

Sensitivity to Changes in the €/US$ Exchange Rate (expressed in thousands of US dollars)

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	Changes In Fair Value		Fair Value as of December 31, 2012	Changes In Fair Value	
	10%	5%	1.318	-5%	-10%
Cash and cash equivalents	**73**	**37**	**730**	**(37)**	**(73)**
Trade receivables	**86**	**43**	**864**	**(43)**	**(86)**
Other receivables	**1**	**0**	**10**	**0**	**(1)**
Current liabilites – deferred revenue	**(32)**	**(16)**	**(321)**	**16**	**32**
Noncurrent liabilites – deferred revenue	**(65)**	**(32)**	**(650)**	**32**	**65**
Total	**63**	**32**	**633**	**(32)**	**(63)**

The fair value of the net assets presented in the balance sheet is estimated at $633 thousand, as of December 31, 2012.

Thus the Company's basic exposure is to decreases in the €/US$ exchange rate.

Sensitivity to Changes in the CUS$/US$ Exchange Rate (expressed in thousands of US dollars

	Changes In Fair Value		Fair Value as of December 31, 2012	Changes In Fair Value	
	10%	5%	1.004	-5%	-10%
Noncurrent liabilities - Chief Scientist's grants	(19)	(10)	(193)	10	19
Total	(19)	(10)	(193)	10	19

Thus the Company's liabilities in respect of government grants are affected by exposure is to increases in the CUS$/US$ exchange rate.

Sensitivity to Changes in the dollar interest rate (expressed in thousands of US dollars)

	Changes In Fair Value		Fair Value As of December 31, 2012	Changes In Fair Value	
	10%	5%		-5%	-10%
Noncurrent liabilities - Chief Scientist	142	71	(2,725)	(71)	(142)
Total	**142**	**71**	(2,725)	**(17)**	**(142)**

The Company has liabilities in respect of grants from the Chief Scientist that are affected by changes in the dollar interest rate.

Sensitivity to Changes In Prices of Non-Linked NIS-Denominated Marketable Securities (expressed in thousands of US dollars)

	Gain (Loss) On Change		Fair Value As of December 31, 2012	Gain (Loss) On Change	
	10%	**5%**		**-5%**	**-10%**
Government - Shekel denominated	159	80	1,593	(80)	(159)
Short-term treasury bills	13	6	126	(6)	(13)
Non-linked corporate bonds	5	2	48	(2)	(5)
Mutual funds – Shekel denominated	107	54	1,072	(54)	(107)
Total	**284**	**142**	**2,839**	**(142)**	**(284)**

The shekel-denominated securities held by the Company have a market price. Their fair values are calculated by multiplying the market price on December 31, 2012 by the par value of units that the Company held on said date.

Sensitivity to Changes In Prices of Dollar-Denominated Marketable Securities (expressed in thousands of US dollars)

	Gain (Loss) On Change		Fair Value	Gain (Loss) On Change	
	10%	**5%**		**-5%**	**-10%**
Dollar-denominated bonds	2,563	1,282	25,632	(1,282)	(2,563)
Dollar-denominated mutual funds	144	72	1,439	(72)	(144)
Total	**2,707**	**1,354**	**27,071**	**(1,354)**	**(2,707)**

The US Dollar denominated bonds held by the Company holds are marketable and have a market price. Their fair values are calculated by multiplying the market price on December 31, 2012 by the par value of units that the Company held on said date.

Linkage Report

The Linkage Terms of Monetary Balances Reported in the Company's Consolidated Statements of Financial Position as at December 31, 2012 and December 31, 2011 are as Follows:

	December 31, 2012			
	In US dollars or Linked Thereto	In Euro, (Primarily) and other Foreign Currencies, Or Linked Thereto	In NIS, or Linked Thereto	Total
	US$ Thousands			
Assets				
Cash and cash equivalents	22,170	730	1,362	24,262
Marketable securities	27,071	-	3,797	30,868
Trade receivable	678	864	-	1,542
Other receivables	231	10	409	650
Long term deposits	-	-	43	43
	50,150	1,604	5,611	57,365
Liabilities				
Current liabilities - Chief Scientist	733	-	-	733
Current liabilites – deferred revenue	3,890	321	-	4,211
Trade payables	280	-	1,136	1,416
Other payables	106	-	3,033	3,139
Noncurrent liabilities - Chief Scientist's grants	2,725	193	-	2,918
Long-term liabilities - Deferred revenue	3,518	650	-	4,168
Employee benefit	-	-	11	11

liabilities				
	11,252	1,164	4,180	16,596

	December 31, 2011			
	In US$, or Linked Thereto	**In Euro, (Primarily) and other Foreign Currencies, or Linked Thereto**	**In NIS, or Linked Thereto**	**Total**
	US$ Thousands			
Assets				
Cash and cash equivalents	4,315	620	1,530	6,465
Marketable securities	25,033	-	9,639	34,672
Short-term deposits	15,800	-	1,852	17,652
Trade receivable	725	75	-	800
Other receivables	406	2	573	981
Long-term deposits	-	-	48	48
	46,279	697	13,642	60,618
Liabilities				
Current liabilities - Chief Scientist	905	-	-	905
Current liabilites – deferred revenue	3,914	123	-	4,037
Trade payables	12	-	2,047	2,059
Other payables	48	-	2,031	2,079
Noncurrent liabilities - Chief Scientist grants	2,845	194		3,039
Liabilities for employee benefits	-	-	9	9
	7,724	317	4,087	12,128

PART C – Aspects of Corporate Governance

Donations

On its meeting on May 14, 2012 the Board of Directors of the Company decided to adopt a donations policy and to establish it as a corporate social responsibility procedure (hereinafter: "the procedure"). Under this procedure, the Company's social involvement will focus on two areas: firstly, community volunteer activity in which the Company will take an active role, via its employees, and secondly, monetary donations, mainly aimed at financing research scholarships for underprivileged PhD, students involved in plant research at academic institutions in Israel.

Directors with Accounting and Financial Expertise

The Company's Board of Directors has decided, after considering its size, field of operations and the lack of any special operational complexity, that the minimum number of directors who have accounting and financial expertise should be one.

As of financial statement publication date, the Company considers Dr. Simcha Sadan and Dr. Michael Angel, members of the Company's Board of Directors, directors who hold accounting and financial expertise. Dr. Simcha Sadan holds a Ph.D. in Business Administration from Berkley University, California, and serves on the Board of a number of public and private companies. Dr. Michael Angel holds a Ph.D. in Business Administration from Columbia University, New York and serves on the Board of a number of public and private companies.

Disclosure Regarding the Process of the Financial Statements Approval

On July 30, 2007, the Company's Board of Directors decided that the forum responsible for oversight would be the Audit Committee. On January 30, 2011 the Board of Directors of the Company appointed a committee to examine the Company's financial statements (hereinafter: "financial statements committee"), in accordance with provisions of Companies Regulations (Provisions and Terms Regarding the Process of Financial Statement Approval), 5770-2010 ("Regulations on Approving Financial Statements").

On May 12, 2011 the Audit Committee appointed Dr. Michael Angel, external director, as Chairman.

On May 16, 2011, the Board of Directors decided that as the makeup of the Financial Statements Committee and the Audit Committee were one and the same, and as Dr. Michael Angel served as Chairman of both committees, the two committees would be merged into one– the Audit Committee, which would also serve as the Financial Statements Committee

Dr. Michael Angel, external director and Chairman of the committee, Dr. Kinneret Livnat Savitsky, external director, and Dr. Simcha Sadan, director, comprise the Audit Committee.

Dr. Angel and Dr. Sadan have the appropriate accounting and financial expertise. All members of the Audit Committee are independent directors, and before appointment, each submitted the declaration required of them in accordance with provisions of the regulations on approving financial statements.

Before approving the Company’s December 31, 2012 financial statements: (1) a draft of the statements was sent to all members of the Audit Committee (2) the March 10, 2013 meeting of the Audit Committee discussed the financial statements before their presentation to and approval by the Board of Directors. The Committee considered, inter alia, the accounting policies and accounting treatment adopted in respect of significant issues, valuations, including the assumptions and estimates that are used in preparing the information reported in the financial statements as at December 31, 2012. In addition, the Committee considered the various aspects of the supervision and management of risks, those that are reflected in the financial statements as at December 31, 2012, and those that affect the reliability of the financial statements. These issues were discussed in detail at the meeting. Moreover, the public auditors also explained their positions on said issues. Participants at the meeting included all members of the Committee, the Company's Chief Financial Officer, the Company's in-house Legal Counsel, the Company’s internal auditor, and the Company's public auditors. The financial statements were presented to the Committee, and questions were posed and answered. (3) After a discussion of the financial statements by the Audit Committee, its recommendations and remarks regarding the approval of the financial reports were forwarded to the Board of Directors. (4) On March 20, 2013, a meeting of the Board of Directors was held to discuss the financial statements and their approval. At the meeting, the Chairman of the Audit Committee reviewed the issues that were discussed at the Committee and the conclusions set forward by members of the Committee regarding the financial statements.

Independent Directors

As of report date, the Company has not yet adopted the provisions regarding the number of independent directors (as this term is defined by Companies Law, 5769-1999).

In accordance with a January 30, 2011 decision by the Board of Directors, as of report date, the directors who serve as independent directors include Dr. Michael Angel, external director, Dr. Kinneret Livnat Savitsky, external director, and Dr. Simcha Sadan, director.

Disclosure Regarding Exclusive Authorized Signatories

On August 2, 2009, the Board of Directors approved a change in the Company's signing rights. Accordingly, Mr. Ofer Haviv, Company President and Chief Executive Officer was appointed sole authorized signatory in respect of commercial documents that will be approved by the Board of Directors before his signing.

Peer Review

On July 28, 2005, the Israel Securities Authority published guidelines under Section 36A of Securities Law, 5728-1968, which came into effect on August 10, 2005 regarding disclosure of any agreement to a peer review. The goal of the peer review is to set in motion the supervision of the work of auditing firms and to ensure compliance with procedures required during the audit work undertaken by the firms, which will contribute to a more viable capital market.

The Company's Board of Directors has agreed that its public auditors should submit the required information for the peer review carried out by the Institute of Peer Review, attached to the Institute of Certified Public Accountants in Israel on condition that it will guarantee the confidentiality of any information submitted, to the full satisfaction of the Company.

The Internal Auditor

A. Details of the Auditor

On November 18, 2009, the Board of Directors appointed Mr. Doron Cohen, C.P.A. as the internal auditor. Mr. Cohen is a partner of Fahn Kanne Management Control Ltd., and member of the American Institute of Internal Auditors. The internal auditor has rich experience in internal audits of public companies and specializes in a wide range of activities.

The internal auditor complies with requirements of Section 146 (B) of Companies Law, 5759-1999, and the requirements of Section 8 of Internal Audit Law, 5752-1992.

The internal auditor is not an employee of the Company, and provides external internal auditing services.

B. Appointment

The Company's Board of Directors has approved, on November 18, 2009, after recommendation by the audit committee, on November 15, 2009, the appointment of the internal auditor after considering his professional qualifications, auditing experience, and knowledge of the Company's business.

C. Party in Charge

The party responsible for the internal auditor is Mr. Martin Gerstel, Chairman of the Board of Directors.

D. Audit Plan

Mr. Doron Cohen, C.P.A., will continue to implement the audit program, which was charted by the audit committee further to a risk survey that was prepared. The internal audit work plan is an annual plan. The scope and timing of issues that are evaluated are determined by the audit committee and the internal auditor, and the guiding considerations are, inter alia, the recommendation of the internal auditor in accordance with said risk survey, audit needs, and the importance of issues. The internal auditor may use his discretion to depart from the internal audit work plan, if during his internal audit work he encounters other issues that justify a check, after coordinating said with the Audit Committee.

E. Internal Audit Hours

The Audit Committee meeting of 10 March, 2013, decided to increase the scope of internal audit hours by the internal auditor and his staff to approximately 180 hours during 2013.

F. Audit Reports

The internal audit reports are prepared in accordance with professional internal auditing standards, as approved and published by the Israel Institute of Internal Auditors.

G. Access to Information

The internal auditor was given unrestricted access to all Company information systems, including access to financial data, as required under Section 9 of the Internal Audit Law.

H. Internal Audit Report

The Audit Committee meeting of November 15, 2012, discussed a written report submitted by the Internal Auditor on salary compensation in the Company.

I. Evaluation by the Board of Directors of the Internal Auditor's Activities

At its meeting of January 25, 2012, the Board of Directors considered the scope, nature, operations, and work plan of the internal auditor for the reporting year. The Internal Auditor's work plan is finalized after being presented to members of the Board of Directors. The work plan offered a number of alternatives, and on the basis of the Internal Auditor's recommendation, and after consideration of the Company's requirements, a plan was formalized. The Board of Directors also considered the process of presenting the Internal Auditor's conclusions to the Board, and the supervision on adoption of his recommendations by the Company. The Board of Directors was also presented with details of the Internal Auditor's s professional fees and the number of hours contributed. In the opinion of the Board of Directors, the scope and nature of the Internal Auditor's audit plan is reasonable under the circumstances, and is sufficient in order to carry out the internal control objectives.

J. Compensation To The Internal Auditor

The Internal Auditor's fees in 2012 totaled NIS 33,000. The compensation to the Internal Auditor is not dependent on results of the internal audit, and accordingly, in the opinion of the Board of Directors, has no influence on the Internal Auditor's professional considerations and on the results of the internal audit.

.**Disclosure regarding Fees of the Public Auditor**

Kost, Forer, Gabbay, Kasierer serve as the Company's public auditors. In accordance with the Company's articles, the public auditors' fees are approved by the Board of Directors. Following are details of professional fees paid to the Company's public auditors, expressed in NIS thousands.

	2012	**2011**
Payment for auditing and taxation services	270	292
Hours involved in audit and taxation services	1,388	1,875

Part D - Disclosure In Respect Of the Entity's Financial Report

Disclosure Regarding Critical Accounting Estimates

In preparing the Company's financial statements in accordance with generally accepted accounting principles, management is required to use estimates and assessments regarding assets, liabilities, contingent liabilities, and revenue and expense items that are disclosed in the financial statements, during the reporting period. The significant estimates used considered, inter alia, the following: (A) the benefit component in respect of share-based payments to employees, and the value of options, is determined using valuation methods. The Company is aided by external assessors in order to estimate the inherent benefit component (B) the valuation of PUT options that the Company received as part of the investment agreement with Monsanto (C) liabilities to the Chief Scientist the value of the liabilities for royalties in respect of government grants is calculated using the capitalization of future cash flows method, based on the ability of the Company to generate future revenue, against which the Company is required to pay royalties to the Chief Scientist. For the use of this method, the Company built a model that attempts to forecast its future revenue, up to a full refund of the grants that it received.

Post Balance Sheet Events

A. **A collaboration agreement with Plant Array** – see Note 25 to the Company's financial report, attached as Chapter C of this report.

B. **The launching of Gene2Product™**

A unique integrated computational platform developed by the Company for improving trait efficacy by high throughput optimization of gene function in the target crop as part of the development process for biotechnology seed products. This information is presented in greater detail under Substantive Changes in Part A of this chapter.

C. The launching of a new gene validation system for a monocot plant model

During this reporting year, the Company developed new gene validation technology using a monocot plant model. The development of this system was completed on February 12, 2013. This information is presented in greater detail under Substantive Changes in Part A of this chapter.