Caesarstone Ltd.
Form 20-F
March 12, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 20-F

(Mark One)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2017

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ______ to ______

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report………………………………….

Commission File Number 001-35464

CAESARSTONE LTD.
(Exact Name of Registrant as specified in its charter)

ISRAEL
(Jurisdiction of incorporation or organization)

Kibbutz Sdot-Yam
MP Menashe, 3780400
Israel

(Address of principal executive offices)

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(Name, telephone, email and/or facsimile number and address of company contact person)

Securities registered or to be registered pursuant to Section 12(b) of the Securities Act of 1933:

Title of each class	Name of each exchange on which registered
Ordinary Shares, par value NIS 0.04 per share	The Nasdaq Stock Market LLC

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

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Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of December 31, 2017: 34,338,960 ordinary shares, NIS 0.04 par value per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act:

Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934:

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (section 229.405 of this chapter), and (2) has been subject to such filing requirements for the past 90 days:

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or an emerging growth company. See definition of "accelerated filer," "large accelerated filer" and "emerging growth company" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer	Accelerated filer	Non-accelerated filer
		Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards† provided pursuant to Section 13(a) of the Exchange Act.

† The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP	International Financial Reporting Standards as issued by the International Accounting Standards Board	Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow:

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):

Yes No

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PRELIMINARY NOTES

Introduction

As used herein, and unless the context suggests otherwise, the terms "Caesarstone," "Company," "we," "us" or "ours" refer to Caesarstone Ltd. and its consolidated subsidiaries. In this document, references to "NIS" or "shekels" are to New Israeli Shekels, and references to "dollars," "USD" or "$" refer to U.S. dollars.

Our reporting currency is the United States ("U.S.") dollar. The functional currency of each of our non-U.S. subsidiaries is the local currency in which it operates. These subsidiaries' financial statements are translated into the U.S. dollar, the parent company's functional currency, using the current rate method.

Other financial data appearing in this annual report that is not included in our consolidated financial statements and that relate to transactions that occurred prior to December 31, 2017 are reflected using the exchange rate on the relevant transaction date. With respect to all future transactions, U.S. dollar translations of NIS amounts presented in this annual report are translated at the rate of $1.00 = NIS 3.467, the representative exchange rate published by the Bank of Israel as of December 31, 2017.

Market and Industry Data and Forecasts

This annual report includes data, forecasts and information obtained from industry publications and surveys and other information available to us. Some data is also based on our good faith estimates, which are derived from management's knowledge of the industry and independent sources. Forecasts and other metrics included in this annual report to describe the countertop industry are inherently uncertain and speculative in nature and actual results for any period may materially differ. We have not independently verified any of the data from third-party sources, nor have we ascertained the underlying assumptions relied upon therein. While we are not aware of any misstatements regarding the industry data presented herein, estimates and forecasts involve uncertainties and risks and are subject to change based on various factors, including those discussed under the headings "—Forward-Looking Statements" and "ITEM 3: Key Information—Risk Factors" in this annual report.

Unless otherwise noted in this annual report, Freedonia Custom Research, Inc. ("Freedonia") is the source for third-party industry data and forecasts. The Freedonia report, dated February 20, 2017 ("Freedonia Report"), represents data, research opinion or viewpoints developed independently on our behalf and does not constitute a specific guide to action. The Freedonia Report includes figures related to global countertop demand in total, by region and by material that are different from figures included in the previous custom reports provided to us by Freedonia for the years ended 2010, 2012 and 2014. Specifically, the 2017 Freedonia Report contains higher quartz global penetration and lower laminate share for each of those years. The 2017 Freedonia Report also indicates that Asia demand increased and Europe demand decreased relative to previous custom reports. Quartz penetration in each of our four main markets (and our market share in those markets, accordingly) remained the same as published in previous years. In preparing the report, Freedonia used various sources, including publically available third-party financial statements; government statistical reports; press releases; industry magazines; and interviews with manufacturers of related products (including us), manufacturers of competitive products, distributors of related products, and government and trade associations. Growth rates in the Freedonia Report are based on many variables, such as currency exchange rates, raw material costs and pricing of competitive products, and such variables are subject to wide fluctuations over time. The Freedonia Report speaks as of its final publication date (and not as of the date of this filing), and the opinions and forecasts expressed in the Freedonia Report are subject to change by Freedonia without notice.

Special Note Regarding Forward-Looking Statements

This annual report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended ("Securities Act"), Section 21E of the Securities Exchange Act of 1934, as amended ("Exchange Act"), and the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995, that are based on our management's beliefs and assumptions and on information currently available to our management. Forward-looking statements include information concerning our possible or assumed future results of operations, business strategies, financing plans, competitive position, industry environment, potential growth opportunities, potential market opportunities and the effects of competition. Forward-looking statements include all statements that are not historical facts and can be identified by terms such as "anticipates," "believes," "could," "seeks," "estimates," "expects," "intends," "may "potential," "predicts," "projects," "should," "will," "would" or similar expressions that convey uncertainty of future events or outcomes and the negatives of those terms. These statements may be found in several sections of this annual report, including, but not limited to "ITEM 3: Key Information—Risk Factors," "ITEM 4: Information on Caesarstone," "ITEM 5: Operating and Financial Review and Prospects," "ITEM 10: Additional Information—Taxation—United States Federal Income Taxation—Passive foreign investment company considerations." These statements include, but are not limited to, statements regarding:

- our ability to respond to new market developments;
- our intent to penetrate further our existing markets and penetrate new markets;
- our belief in the sufficiency of our cash flows to meet our needs for the next year;
- our plans to invest in developing, manufacturing and offering innovative products;
- our ability to effectively utilize our production lines and to source products from third parties in response to a potential growing demand for our products;
- our plans to promote and strengthen our brand internationally;
- our plans to invest in research and development for the development of new quartz products;
- our ability to effectively promote the increase of quartz penetration in our existing markets and new markets to generate growth;
- our ability to successfully compete with other quartz surfaces manufacturers, suppliers and distributors, and with suppliers and distributors of other materials used in countertops;
- our ability to acquire third-party distributors, manufacturers of quartz surfaces products or other products and services;
- our plans to continue to expand our international presence;
- our expectations regarding future prices of quartz, polyester and pigments;
- future foreign exchange rates, particularly the NIS, Australian dollar, Canadian dollar and the euro;
- our expectations regarding our future product mix;
- our expectations regarding the outcome of litigation or other legal proceedings in which we are involved, and our ability to use our insurance policy to cover damages; and
- our expectations regarding regulatory matters applicable to us.

The preceding list is not intended to be an exhaustive list of all of our forward-looking statements. Forward-looking statements reflect our current views with respect to future events and are based on assumptions and are subject to risks and uncertainties, including those described in "ITEM 3.D. Key Information—Risk Factors."

You should not put undue reliance on any forward-looking statements. Actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors described in this annual report, including factors beyond our ability to control or predict. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee that future results, levels of activity, performance and events and circumstances reflected in the forward-looking statements will be achieved or will occur. Any forward-looking statement made in this annual report speaks only as of the date hereof. Except as required by law, we undertake no obligation to update publicly any forward-looking statements for any reason after the date of this annual report, to conform these statements to actual results or to changes in our expectations.

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PART I

ITEM 1: Identity of Directors, Senior Management and Advisers

Not applicable.

ITEM 2: Offer Statistics and Expected Timetable

Not applicable.

ITEM 3: Key Information

A. Selected Financial Data

You should read the following selected consolidated financial data in conjunction with "ITEM 5: Operating and Financial Review and Prospects" and our consolidated financial statements and the related notes included elsewhere in this annual report. The consolidated income statement data for the years ended December 31, 2017, 2016 and 2015 and the consolidated balance sheet data as of December 31, 2017 and 2016 are derived from our audited consolidated financial statements included in "ITEM 18: Financial Statements," which have been prepared in accordance with generally accepted accounting principles in the United States ("U.S. GAAP"). The consolidated income statement data for the years ended December 31, 2014 and 2013 and the consolidated balance sheet data as of December 31, 2015, 2014 and 2013 have been derived from our audited consolidated financial statements which are not included in this annual report. The information presented below under the caption "Other Financial Data" and "Dividends declared per share" contains information that is not derived from our financial statements.

	2017	2016	2015	2014	2013
Consolidated Income Statement Data:					
Revenues	$588,147	$538,543	$499,515	$447,402	$356,554
Cost of revenues	390,924	326,057	299,290	257,751	194,436
Gross profit	197,223	212,486	200,225	189,651	162,118
Operating expenses:					
Research and development, net (1)	4,164	3,290	3,052	2,628	2,002
Marketing and selling	81,789	70,343	59,521	55,870	51,209
General and administrative	45,930	40,181	36,612	36,111	32,904
Legal settlements and loss contingencies, net	24,797	5,868	4,654	-	-
Total operating expenses	156,680	119,682	103,839	94,609	86,115
Operating income	40,543	92,804	96,386	95,042	76,003
Finance expenses, net	5,583	3,318	3,085	1,045	1,314
Income before taxes on income	34,960	89,486	93,301	93,997	74,689
Taxes on income	7,402	13,003	13,843	13,738	10,336
Net income	$27,558	$76,483	$79,458	$80,259	$64,353
Net income attributable to non-controlling interest	1,356	1,887	1,692	1,820	1,009
Net income attributable to controlling interest	$26,202	$74,596	$77,766	$78,439	$63,344
Basic net income per ordinary share*	0.73	2.08	2.21	2.25	1.83
Diluted net income per ordinary share*	0.73	2.08	2.19	2.22	1.80
Weighted average number of ordinary shares used in computing basic income per share (in thousands)	34,334	34,706	35,253	34,932	34,667
Weighted average number of ordinary shares used in computing diluted income per share (in thousands)	34,386	34,764	35,464	35,394	35,210
Dividends declared per share	$—	$—	$—	$0.57	$0.58

	2017	2016	2015	2014	2013
Consolidated Balance Sheet Data:					
Cash, cash equivalents and short term bank deposits	$138,707	106,270	$62,807	$54,327	$92,248
Working capital (2)	250,510	216,963	168,841	124,306	145,702
Total assets	652,987	584,700	529,742	439,000	377,556
Total liabilities	166,611	134,108	120,680	109,274	104,333
Redeemable non-controlling interest	16,481	12,939	8,841	8,715	7,624
Shareholders' equity	469,895	437,653	400,221	321,011	265,599

	2017	2016	2015	2014	2013
Other Financial Data:					
Adjusted EBITDA (3)	$100,429	$130,260	$125,667	$116,553	$91,711
Adjusted net income attributable to controlling interest (3)	49,819	81,184	83,682	82,498	63,959
Capital expenditures	22,675	22,943	76,495	86,373	27,372
Depreciation and amortization	29,926	28,254	22,334	17,176	14,994

* See also note 15 to our financial statements included elsewhere in this report.

(1) Research and development expenses are presented net of grants that we received from the National Authority of Technological Innovation (formerly the Office of the Chief Scientist) of the Ministry of Economy and Industry of the State of Israel between 2009 and 2013.

(2) Working capital is defined as total current assets minus total current liabilities.

(3) The tables below reconcile net income to adjusted EBITDA and net income attributable to controlling interest to adjusted net income attributable to controlling interest for the periods presented and are unaudited.

We use certain non-GAAP financial measures to evaluate our performance in conjunction with other performance metrics. The following are examples of how we use such non-GAAP measures:

- Our annual budget is based in part on these non-GAAP measures.

- Our management and board of directors use these non-GAAP measures to evaluate our operational performance and to compare it against our work plan and budget.

Our non-GAAP financial measures, adjusted EBITDA and adjusted net income attributable to controlling interest, have no standardized meaning and accordingly have limitations in their usefulness to investors. We provide such non-GAAP data because management believes that such data provide useful information to investors. However, investors are cautioned that, unlike financial measures prepared in accordance with U.S. GAAP, non-GAAP measures may not be comparable with similar measures used by other companies. These non-GAAP financial measures are presented solely to permit investors to more fully understand how management and our board assesses our performance. The limitations of these non-GAAP financial measures as performance measures are that they provide a view of our results of operations without reflecting all events during a period and may not provide a comparable view of our performance to other companies in our industry.

Investors should consider non-GAAP financial measures in addition to, and not as replacements for, or superior to, measures of financial performance prepared in accordance with GAAP.

In arriving at our presentation of non-GAAP financial measures, we exclude items that either have a non-recurring impact on our income statement or which, in the judgment of our management, are items that, either as a result of their nature or size, could, were they not singled out, potentially cause investors to extrapolate future performance from an improper base. In addition, we also exclude share-based compensation expenses to facilitate a better understanding of our operating performance, since these expenses are non-cash and accordingly do not affect our business operations. While not all inclusive, examples of these items include:

- amortization of purchased intangible assets;

- legal settlements (both gain or loss) and loss contingencies, due to the difficulty in predicting future events, their timing and size;

- material items related to business combination activities important to understanding our ongoing performance;

- excess cost of acquired inventory;

- expenses related to our share based compensation;

- significant one-time offering costs;

- material tax and other awards or settlements, both amounts paid and received; and

- tax effects of the foregoing items.

	2017	2016	2015	2014	2013
Reconciliation of Net Income to Adjusted EBITDA:					
Net income	$27,558	$76,483	$79,458	$80,259	$64,353
Finance expenses, net	5,583	3,318	3,085	1,045	1,314
Taxes on income	7,402	13,003	13,843	13,738	10,336
Depreciation and amortization	29,926	28,254	22,334	17,176	14,994
Legal settlements and loss contingencies, net (a)	24,797	5,868	4,654	—	—
Compensation paid by a shareholder (b)	—	266	—	—	—
Excess cost of acquired inventory(c)	—	—		231	188
Share-based compensation expense(d)	5,277	3,068	2,293	2,642	2,514
Inventory–change of estimate (e)	—	—	—	—	(3,458)
Follow–on expenses (f)	—	—	—	657	1,470
Provision for employee fringe benefits (g)	(114)	—	—	939	—
Settlement with tax authorities (h)	—	—	—	(134)	—
Adjusted EBITDA	$100,429	$130,260	$125,667	$116,553	$91,711

(a) Consists of legal settlements expenses and loss contingencies, net, related primarily to Kfar Giladi arbitration (for 2017), as well as to product liability claims and other adjustments to ongoing legal claims.

(b) One-time bonus paid by a shareholder to our employees in Israel other than officers.

(c) Consists of charges to cost of goods sold for the difference between the higher carrying cost of the inventory of two of our subsidiaries, Caesarstone USA's inventory at the time of its acquisition and inventory that was purchased from its sub-distributors, and Caesarstone Australia Pty Limited's inventory that was purchased from its distributor, and the standard cost of our inventory, which adversely impacts our gross margins until such inventory is sold. The majority of the acquired inventory from Caesarstone USA was sold in 2011, and the majority of the inventory purchased from the Australian distributor was sold in 2012.

(d) Share-based compensation includes expenses related to stock options and restricted stock units granted to our employees and directors, as well as phantom awards and related payroll expenses as a result of exercises.

(e) Relates to a change in estimate for the value of inventory following the implementation of our new ERP system in April 2013.

(f) In 2013, follow-on expenses consist of direct expenses related to a follow-on offering that closed in April 2013, including a bonus paid by our former shareholder, Tene Investment Fund, to certain of our employees that under U.S. GAAP we are required to expense against paid-in capital. In 2014, follow-on expenses consist of direct expenses related to a follow-on offering that closed in June 2014.

(g) Relates to an adjustment of provision for taxable employee fringe benefits as a result of a settlement with the Israel Tax Authority and with the Israeli National Insurance Institute ("NII").

(h) Relates to a refund of Israeli value added tax ("VAT") associated with a bad debt from 2007.

	2017	2016	2015	2014	2013
Reconciliation of Net Income Attributable to Controlling Interest to Adjusted Net Income Attributable to Controlling Interest:					
Net income attributable to controlling interest	$26,202	$74,596	$77,766	$78,439	$63,344
Legal settlements and loss contingencies, net (a)	24,797	5,868	4,654	—	—
Compensation paid by a shareholder (b)	—	266	—	—	—
Excess cost of acquired inventory (c)	—	—	—	231	188
Inventory – change of estimate (d)	—	—	—	—	(3,458)
Follow-on expenses (e)	—	—	—	657	1,470
Share-based compensation expense (f)	5,277	3,068	2,293	2,642	2,514
Provision for employee fringe benefits (g)	(114)	—	—	939	—
Settlement with tax authorities (h)	—	—	—	(134)	—
Tax adjustment (i)	—	(1,158)	—	342	—
Total adjustments before tax	29,960	8,044	6,947	4,677	714
Less tax on above adjustments	6,343	1,456	1,031	618	99
Total adjustments after tax	23,617	6,588	5,916	4,059	615
Adjusted net income attributable to controlling interest	$49,819	$81,184	$83,682	$82,498	$63,959

(a) Consists of legal settlements expenses and loss contingencies, net, related primarily to Kfar Giladi arbitration (for 2017), as well as to product liability claims and other adjustments to ongoing legal claims.
(b) One-time bonus paid by a shareholder to our employees in Israel other than officers.
(c) Consists of charges to cost of goods sold for the difference between the higher carrying cost of the inventory of two of our subsidiaries, Caesarstone USA's inventory at the time of its acquisition and inventory that was purchased from its distributor, and Caesarstone Australia Pty Limited's inventory that was purchased from its distributor, and the standard cost of our inventory, which adversely impacts our gross margins until such inventory is sold. The majority of the acquired inventory from Caesarstone USA was sold in 2011, and the majority of the inventory purchased from the Australian distributor was sold in 2012.
(d) Relates to a change in estimate for the value of inventory following the implementation of our new ERP system in April 2013.
(e) In 2013, follow-on expenses consist of direct expenses related to a follow-on offering that closed in April 2013, including a bonus paid by our former shareholder, Tene Investment Fund, to certain of our employees that under U.S. GAAP we are required to expense against paid-in capital. In 2014, follow-on expenses consist of direct expenses related to a follow-on offering that closed in June 2014.
(f) Share-based compensation includes expenses related to stock options and restricted stock units granted to our employees and directors, as well as phantom awards and related payroll expenses as a result of exercises.
(g) Relates to an adjustment of provision for taxable employee fringe benefits as a result of a settlement with the Israel Tax Authority and with the NII.
(h) Relates to a refund of Israeli VAT associated with a bad debt from 2007.
(i) Relates to an adjustment in taxes as a result of a tax settlement we reached with Israeli tax authorities.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Our business faces significant risks. You should carefully consider all of the information set forth in this annual report and in our other filings with the United States Securities and Exchange Commission ("SEC"), including the following risk factors which we face and which are faced by our industry. Our business, financial condition and results of operations could be materially and adversely affected by any of these risks. In that event, the trading price of our ordinary shares would likely decline and you might lose all or part of your investment. This report also contains forward-looking statements that involve risks and uncertainties. Our results could materially differ from those anticipated in these forward-looking statements, as a result of certain factors including the risks described below and elsewhere in this report and our other SEC filings. See also "Special Note Regarding Forward-Looking Statements" on page iv of this annual report.

Risks related to our business and industry

We face intense competitive pressures from manufacturers of quartz or other surface materials, which could materially and adversely affect our results of operations and financial condition.

Our quartz surface products compete with quartz surfaces produced by other quartz manufacturers, as well as with a number of other surface materials such as granite, laminate, marble, manufactured solid surface, concrete, stainless steel, wood and ceramic. Large surfaces made of ceramic, a durable material with sizes similar to our products' sizes, are manufactured using a relatively new technology. We compete with manufacturers of these surface materials and with manufacturers of quartz surfaces with respect to a range of factors. These factors include, among others, brand awareness and brand position, product quality, product differentiation, design and breadth of product offerings, slab dimensions, new product development and time to market, technological innovation, popular home interior design trends, pricing, availability of inventory on demand, distribution coverage, customer service and versatility in products portfolio.

Since we seek to position our products as a premium alternative to other surface materials, including other quartz surfaces, the perception among end-consumers and other stakeholders of the quality and leadership of our products is a key competitive differentiator. If we are unable to anticipate or react quickly to changes in consumer preferences in these areas, we may lose market share and our results of operations may suffer. If consumers in specific markets or globally do not place as much value on branded quartz surfaces or prefer other brands, the quartz surfaces market becomes a commodity market, or if we are unable to compete with lower-priced products perceived as comparable to ours, our market share may be reduced and our financial results may be materially and adversely impacted.

In addition, to maintain our price levels, margins, competitive position and increase demand for our quartz surface products, we must continue to develop and introduce new product designs supported by proprietary manufacturing knowledge or otherwise differentiated from our competitors' products that meet consumer preferences.

Some of our competitors may be able to adapt more quickly to changes in consumer preferences and demand, devote greater resources to and/or more successfully promote their business, market more diversified product offerings involving materials in addition to quartz surfaces, and acquire complementary businesses. The development of a new surface material that decreases consumers’ demand for quartz products may also result in a loss of market share, such that our results of operations may suffer. For example, ceramic surfaces have been offered in different markets as countertops in recent years, and if broadly accepted by consumers, they may in the future become a strong competitor of quartz surface products.

We have invested considerable resources to position our quartz surface products as premium branded products. Due to our products’ high quality and positioning, we generally set our prices—especially for our differentiated products—at a higher level than alternate surfaces and quartz surfaces provided by other manufacturers. Manufacturers located in the Asia-Pacific region and in Europe market quartz surface products at lower price points, including quartz surface products which imitate our products and designs and products, the manufacturing of which requires know-how and advanced technical capabilities. Even if we seek to lower the prices that we charge for our products in certain markets, we may be unable to achieve the low labor and energy costs of some of our competitors in order to maintain current margins on our products and therefore we may be unable to penetrate the growing low segment of the market. If we cannot effectively compete with other manufacturers of quartz or other surface materials for the reasons described above, our results of operations, business and financial condition could be materially adversely affected.

Downturns in the home renovation and remodeling and new residential construction sectors or the economy generally and a lack of availability of consumer credit could materially and adversely impact end-consumers and lower demand for our products, which could cause our revenues and net income to decrease.

Our products are primarily used as countertops in residential kitchens. As a result, our sales depend significantly on home renovation and remodeling spending, as well as new residential construction spending. We believe that in each of our key existing markets, the United States, Australia (unless stated otherwise, reference to Australia in this report includes Australia and New Zealand), Canada and Israel, approximately 60% to 70% of our business is generated from home renovation and remodeling and approximately 25% to 35% is driven by new residential construction. Our products are also used in commercial applications. As a result, our business is mainly affected by trends in the home renovation and remodeling and new residential construction sectors. For example, in 2017 renovation and remodeling spending in Australia were estimated to decline by 3.1% after three consecutive years of positive growth, and single-family housing completions, where we generally have higher market share than in multi-family housing, were estimated to drop by 1.0% (according to the Housing Industry Association). As a result, our revenues in Australia in 2017 grew by only 2.1% on a constant currency basis compared to 2016, which is our lowest annual growth rate in Australia since 2012, the previous year of negative housing environment conditions. In 2015, housing conditions in the United States were significantly less favorable than in 2014; renovation and remodeling spending grew 5.4% in 2015 compared to 6.1% in 2014 (according to the Joint Center for Housing Studies, Harvard University) and housing completions grew 9.5% in 2015 compared to 15.7% in 2014 (according to NAHB, the National Association of Home Builders), which, among other things, slowed down our annual revenue growth rate in the United States from 41.5%

in 2014 to 20.3% in 2015. Spending on home renovation and remodeling and new residential construction depends significantly on the availability of consumer credit, as well as other factors such as interest rates, consumer confidence, government programs and unemployment. Such factors also affect spending on commercial projects. Any of these factors could result in a tightening of lending standards by financial institutions and reduce the ability of consumers to finance renovation and remodeling expenditures or home purchases. Consumers' ability to access financing varies across our operating markets. If the housing market is negatively impacted as a result of an economic downturn or if other significant economic negative trends occur, we may be unable to grow our business and our revenues and net income may be materially and adversely affected.

Our revenues are subject to significant geographic concentration and any disruption to sales within one of our key existing markets, or to sales to a major customer therein, could materially and adversely impact our results of operations and prospects.

Our sales are subject to significant geographic concentration, with four largest regions accounting for approximately 90% of revenues. In 2017, sales in the United States, Australia, Canada and Israel accounted for 41.7%, 23.4%, 16.6% and 7.6% of our revenues, respectively. Each country has different characteristics and our results of operations could be materially and adversely impacted by a range of factors, including spending on home renovation and remodeling and new residential construction in the region (as discussed above), local competitive changes, changes in consumers' quartz surface or countertop preferences and regulatory changes that specifically impact these markets, as well as by our performance in each of these markets. Sales in our main markets could be materially and adversely impacted by other general economic conditions, including increases in imports of cheaper quartz surfaces from Asian manufacturers into such markets, especially the United States, Australia and Canada. Stronger local currencies could make lower-priced imported goods more competitive than our products. Although we face different challenges and risks in each of the markets in which we operate, due to the existence of a high level of geographic concentration, should an adverse event occur in any of these jurisdictions, our results of operations and prospects could be impacted disproportionately.

In addition, we derived approximately 11% of our total revenues in 2017 from one customer. Revenues from one significant customer may fluctuate from time to time based on the timing under which orders are received. The loss of a significant customer or a significant decrease in business from such customer could have a material adverse effect on our revenues, results of operations and financial condition.

Silicosis and other bodily injury claims may have a material adverse effect on our business, operating results and financial condition.

Since 2008 and through December 31, 2017, lawsuits related to exposure to silica dust were filed with respect to 123 injured persons, against us in Israel directly or that have named us as third-party defendants by fabricators or their employees in Israel, by the injured persons' successors, by the State of Israel, by the Israeli National Insurance Institute (NII) or by others. Out of these lawsuits, as of December 31, 2017, we were party to pending bodily injury lawsuits related to 105 allegedly injured persons in Israel. The lawsuits filed against us by the NII are subrogation claims providing for reimbursement of its payments related to damages paid or that will be paid to plaintiffs if we are found liable for the plaintiffs' damages. During 2017, 41 subrogation claims have been filed against us by the NII. One of the injured persons filed against us a lawsuit in the Central District Court in Israel with a motion for its recognition as a class action; we recently reached a settlement agreement with the plaintiff with respect to such claim, which is currently subject to the court's approval. For more information, see "ITEM 8.A: Financial Information— Legal Proceedings—Claims related to alleged silicosis injuries." Reference to "silicosis claims" in this report includes claims for alleged bodily injuries, including silicosis and other bodily and mental illnesses, alleged to be associated with exposure to silica dust.

As of December 31, 2017, we had also received seven pre-litigation letters threatening to file claims against us on behalf of certain fabricators and their employees in Israel. In 2017, we were serviced with a lawsuit and copies of motions for conciliation in Spain, submitted by five employees of a Spanish fabricator. In 2016, we, as well as other 11 respondents, also received a pre-litigation notice in Australia from a fabricator. We were party to one lawsuit filed in the United States against us and 26 additional defendants, which was dismissed with respect to us.

The plaintiffs in such lawsuits claim that they contracted illnesses, including silicosis, through exposure to silica particles during cutting, polishing, sawing, grinding, breaking, crushing, drilling, sanding or sculpting our products. Silicosis is an occupational lung disease that is progressive and sometimes fatal and is characterized by scarring of the lungs and damage to the breathing function. Inhalation of dust containing fine silica particles as a result of poorly protected and controlled, or unprotected and uncontrolled, exposure, while working in different occupations, including

among other things, processing quartz and other materials that contain silica, can cause silicosis and other diseases. Silica comprises approximately 90% of engineered stones such as our products, and smaller concentrations of silica are present in natural stones. Therefore, in some of the lawsuits it is claimed that fabrication of engineered stones creates higher exposure to silica dust, and, accordingly, creates a higher risk of silicosis. In some of the lawsuits, such claims are supported by expert opinions or certain articles published by scientists.

Most of the claims asserted against us do not specify a total amount of damages sought and the plaintiffs' future damages, if any, is intended to be determined at trial.

Although we intend to vigorously contest the pending claims, we cannot provide any assurance that we will be successful. As of December 31, 2017, we estimated that our total exposure with respect to all then-pending lawsuits in Israel related to 105 injured persons (including the claim filed with a motion for its recognition as a class action) and the un-asserted NII claims was approximately $33.0 million, although the actual outcome of such lawsuits may vary significantly from such estimate. We believe that we have $12.4 million of coverage under our product liability insurance, and accordingly, our net exposure with respect to such pending claims is estimated to be $20.6 million. We cannot make an estimate with respect to threatened claims of which we have received pre-litigation demands. Currently, only one lawsuit has been resolved by Israeli courts in a judgment and without settlement between the parties. Such judgment was later cancelled by the Supreme Court, following out of court settlements between some of the parties.

Any pending or future litigation is subject to significant uncertainty. Our estimated total net exposure with respect to pending claims is subject to change for a variety of reasons, including an unpredictable adverse development in the pending cases. We cannot estimate the number of potential claimants that may file claims against us in Israel or in other jurisdictions in the future or the nature of their claims. In addition, punitive damages may be awarded in certain jurisdictions, even though they are rare in Israel. We may be also subject to putative class action lawsuits in the future in Israel and abroad and we cannot be certain whether such claims will succeed in being certified or on their merits.

Any uninsured damages to which we are subject in existing or future potential litigation, the cost of defending any uninsured claims, compliance costs, and the loss of business from fabricators who no longer find it practical to fabricate our products, may have a material adverse impact on our revenues and profits. Moreover, because Israeli law, Spanish law and the laws of several other jurisdictions recognize joint and several liability among co-defendants in civil suits, and because insurers of fabricators' employers in Israel denied insurance coverage for such fabricators with respect to silicosis-related claims due to alleged silicosis exclusions in employment liability policies (similar exclusions may exist in other jurisdictions), even if we are found only partially liable to a plaintiff's damages, the plaintiff may seek to collect all his damages from us, requiring us to collect separately from our co-defendants their allocated portion of the damages and there can be no assurance that we will succeed in such collection.

Consistent with the experience of other companies involved in silica-related litigation, there may be an increase in the number of asserted claims against us. Such claims could be asserted by claimants in different jurisdictions, including Israel, the United States, Canada, Australia and other markets where our products are distributed and sold and could result in significant legal expenses and damages. Although we believe that claimants in any future silica-related claims involving us should be limited to persons involved in the fabrication or production of our products and those in the immediate vicinity of fabrication activities, claimants may potentially also include end consumers, seeking compensation for bodily or emotional/non-physical damages.

Should there be significant increase in the number of claims against us in Israel and abroad, our management could expend significant time addressing such claims.

18 of our employees, out of which 15 are currently employed in our plants in Israel, have been banned by occupational physicians from working in a workplace with dust due to diagnose or suspected diagnose of silicosis or other lung diseases, and any expenses not covered by the NII which we may incur in this respect are not covered by our employer liability insurance. For more information related to silicosis claims made against us, see "ITEM 8.A: Financial Information—Legal Proceedings—Claims related to alleged silicosis injuries."

Insurance Coverage

We currently have limited product liability insurance policies which apply to us and our subsidiaries and cover claims related to bodily injuries caused by hazardous dust, subject to certain terms and limitations. In recent years, we have been able to obtain such insurance only on less favorable terms than previously. If we are unable to renew our product liability insurances at all or in part from our current insurers or from others, or if we cannot obtain insurance on as favorable terms as previously, our insurance is terminated early, our insurance coverage is decreased, our insurance coverage inadequately covers damages for which we are found liable, or we become subject to silicosis-related claims excluded by our product liability insurance policy or by our employer liability insurance policy, we may incur significant legal expenses and become liable for damages, in each case, that are not covered by insurance. Such events might have a material adverse effect on our business and results of operations. Our product liability insurer notified us that it denied the insurance coverage with respect to some or all of the damages sought in the putative class action lawsuit. We intend to vigorously contest such denial. As of December 31, 2017, our insurance receivables totaled $12.4 million. Although we believe that it is probable that such receivables will be paid to us when such payments are due, if our insurers become insolvent in the future or for other reason do not pay such amounts in full or on a timely basis, such failure could have a material adverse effect on our financial results and cash flow. See also Note 10 to our financial statements included elsewhere in this report.

For more information on our insurance coverage, see “ITEM 8.A: Financial Information—Legal Proceedings—Claims related to alleged silicosis injuries.”

Regulatory requirements and any changes thereto relating to hazards associated with exposure to silica dust in the engineered quartz surfaces may be costly and burdensome to us or our fabricators and distributors, thus materially and adversely affecting our business.

We may be required to make additional expenses associated with exposure to silica dust in the engineered quartz surfaces industry to enhance our compliance with current and future laws, regulations or standards in Israel and the U.S. Failure to comply with existing regulatory requirements or any changes thereto may expose us to regulatory actions (as detailed below in "—The extent of our liability for environmental, health and safety, product liability and other matters may be difficult or impossible to estimate, and could negatively impact our financial condition and results of operations') as well as lawsuits by our employees. Distributors and fabricators working with our products may also face engineering and compliance costs related to the fabrication of our products and similar products, which could cause them to resort to fabricating alternative products that do not carry the same risks associated with silica dust generated from the fabrication of our products.

In February 2015, the U.S. Occupational Safety and Health Administration ("OSHA") and the U.S. National Institute for Occupational Safety and Health published a hazard alert identifying exposure to silica as a health hazard to workers involved in manufacturing, finishing and installing natural and manufactured (engineered) stone countertop products, both in fabrication shops and during in-home finishing and installation. Effective June 2016, OSHA lowered the permissible exposure limit to silica dust. Such change applies to fabricators in the U.S starting from June 23, 2017 and to our plant in Richmond Hill starting from June 23, 2018. In addition, in December 2015, the Israeli Ministry of Economy and Industry ("IMEI") proposed a new law, aimed at improving the health protection and safety of persons engaged in fabrication of engineered quartz surfaces by imposing obligations to obtain permits for engineered stone fabrication and marketing. Such regulatory changes, if made and not effectively enforced or executed, or, if they impose a burden on the operations of fabricators and distributors, may materially and adversely impact our business, increase the market share of surfaces made from other materials and materially harm our financial results. Similar regulatory changes may be made in other jurisdiction and cause changes to our industry that may not be favorable to us.

If we are unable to manufacture our existing products globally as planned, our results of operations and future prospects will suffer.

Difficulties with or interruptions of our manufacturing operations could delay our output of products and harm our relationships with our customers, damage our brand and reputation and have a materially adverse effect on our results of operations. We currently manufacture our products at our two facilities in Israel and our facility in the U.S. In addition, we source a portion of our supply chain from original equipment manufacturers ("OEMs"). Since opening our facilities in the U.S. in 2015, we have experienced certain inefficiencies due to challenges related to the ramp up of the plant, such as establishing an experienced workforce, processes implementation, engineering optimization and other factors. Although we have improved the performance of our U.S plant during 2017, such inefficiencies led to lower than expected throughput, yield and, as a result, higher than expected manufacturing cost per square meter produced. In addition, in 2017, we experienced lower throughput and, as a result, higher production costs per slab in our Israeli plants, partly as a result of a growing volume of new innovative products, the production of which entails a learning curve, more sophisticated manufacturing processes and longer cycle times to manufacture.

If such inefficiencies in our U.S plant and such pressure of new product on our throughput and yield in our plants will continue, we may experience disruptions in our operations, we may be unable to meet demand for our products, and our business and financial results may be negatively impacted.

We have purchased the majority of our manufacturing production lines from Breton S.p.A. ("Breton"), a manufacturer of lines for the production of engineered stone slabs. We depend on Breton for certain spare parts for our production line equipment and for their support and know-how required to resolve specific technical problems in their manufacturing equipment, and anticipate we will continue to do so in the future. Inability or delays in obtaining

specialty machine components and spare parts from Breton or know-how technical support could prevent or delay our output of products.

Damage to our manufacturing facilities or products caused by human error or negligence, software or hardware failures, physical or electronic security breaches, power loss or other failures or circumstances beyond our control, could interrupt or delay our manufacturing or other operations. We may also encounter difficulties or interruptions as a result of the application of enhanced manufacturing technologies or changes to production lines to improve our throughput or to upgrade or repair our existing manufacturing lines.

In addition, labor disputes or enforcement actions by environmental and health and safety authorities could result in a full or partial work stoppage or strikes by employees, as the case may be, that could delay or interrupt our output of products.

Our insurance policies have limited coverage in case of significant damage to our manufacturing facilities and may not fully compensate us for the cost of replacement and any loss from business interruptions. Any damage to our facilities or interruption in manufacturing, whether due to limitations in manufacturing capacity or arising from factors outside of our control, could result in delays or failure in meeting contractual obligations and could have a materially adverse effect on our relationships with our distributors and customers, and on our financial results.

If demand for our products continues to grow, we may need to further expand our manufacturing facility in the United States or elsewhere. If we fail to achieve this further expansion, we may be unable to grow our business and revenue, maintain our competitive position or improve our profitability.

During 2015, we expanded our production capacity to meet anticipated demand through the construction of a new manufacturing facility with capacity for two production lines in our U.S. facility in Richmond Hill, Georgia. In addition to a $135 million investment, we have started initial steps toward establishing an additional facility in Richmond Hill to accommodate additional manufacturing capacity in the future as needed to satisfy potential demand. Although we have experience running existing manufacturing facilities for our quartz surfaces in Israel, our Richmond Hill facility is our first manufacturing facility outside of Israel and we have been facing challenges in effectively ramping up its production. While we improved the performance of our U.S. plant in 2017, we cannot assure you that we will be able to successfully manage manufacturing facilities in the U.S., or elsewhere, in a timely or profitable manner. Moreover, if we are unable to hire, train and retain skilled employees in any new facilities or successfully transfer or continue to transfer our manufacturing processes in a timely and cost-effective manner, or at all, then we may experience operating disruptions and may be unable to meet demand for our products, which could have a negative impact on our business and financial results.

Any such new investment will also cause temporary inefficiencies that will adversely impact our margins. While we believe that our efficiency in our U.S. facility will improve over time, in 2017, 2016 and 2015, our margins were adversely impacted, in part, by temporary inefficiencies in the performance of the first two production lines in our U.S. facility. Additionally, if the demand for our products decreases or if we do not produce the number of products that we expect to produce after the expansion projects are complete and operational, due to our fixed operational expenses our financial condition and results of operations may be negatively impacted.

Increased demand for our products may also prompt a need to expand our OEM sourcing. Failure to effectively collaborate with OEM suppliers or problems inherent in the use of OEMs could materially adversely affect our competitive position or profitability.

If we have insufficient capacity to fulfill the demand for our products, we may be required to outsource certain parts of our manufacturing. In 2017, we acquired certain slab models, generally basic colors, from third-party engineered stone manufacturers (OEMs), which we may be required to re-qualify in order to meet demand for our products. We expect to increase this activity in 2018. If we are unable to successfully manage the quality of materials from these third-party suppliers or if they delay delivery of our products, our brand and reputation could be impaired and warranty claims from end-customers could increase. Additionally, if we are unable to agree on the commercial terms with such vendors, or effectively enforce the terms of any verbal or written agreements, such manufacturers could

cease manufacturing in the amounts required to meet the demand for our products, or at all. In such cases, we may need to locate and qualify alternative manufacturers, which could cause substantial delays in manufacturing, increase our costs, negatively impact the quality of our products and require us to adjust our products and our manufacturing processes. All of these factors could materially and adversely impact our reputation, revenues and results of operations. In addition, cooperation with third party manufacturers may require us to expose certain intellectual property relating to our products and designs, the confidentiality of which we may not be able to further control or enforce. If we experience demand for our products that exceeds our manufacturing capacity and we fail to acquire slab models from third parties, we may not have sufficient inventory to meet our customers' demands, which would negatively impact our revenues and potentially cause us to lose market share.

Our results of operations may be materially and adversely affected by fluctuations in currency exchange rates, and we may not have adequately hedged against them.

We conduct business in multiple countries, which exposes us to risks associated with fluctuations in currency exchange rates between the U.S. dollar (our functional currency) and other currencies in which we conduct business. In 2017, 43.5% of our revenues were denominated in U.S. dollars, 23.4% in Australian dollars, 16.6% in Canadian dollars, 7.6% in NIS, 6.8% in Euros and a smaller portion in other currencies. In 2017, the majority of our expenses were denominated in U.S. dollars, NIS and Euros, and a smaller proportion in Canadian and Australian dollars. As a result, weakening of the Australian and Canadian dollars and strengthening of the NIS and, to a lesser extent, the Euro against the U.S. dollar presents a significant risk to us and may impact our business significantly. For example, in 2017, the Australian dollar appreciated by 3.1% against the U.S. dollar compared to 2016 on an annual average basis, which resulted in our operating income increasing by $3.2 million, or 0.5% of our revenues in 2017, compared to 2016. In 2017, the Canadian dollar appreciated 2.1% against the U.S. dollar compared to 2016 on an annual average basis, which resulted in our operating income increasing by $1.2 million, or 0.2% of our revenues in 2017, compared to 2016. We translate sales and other results denominated in foreign currency into U.S. dollars for our financial statements. During periods of a strengthening dollar, our reported international sales (and earnings, assuming the U.S. dollar strengthens equally against all other relevant currencies) would be reduced.

Although we currently engage in derivatives transactions, such as forward and option contracts, to minimize our currency risk, we do not hedge all of the exposure. We have been using a dynamic hedging strategy to hedge our cash flow exposures. This strategy involves consistent hedging of exchange rate risk in variable ratios ranging to up to 100% of the exposure over rolling 12 months. As of December 31, 2017, our average hedging ratio was approximately 31% out of our expected currencies exposure for 2018. Therefore, future currency exchange rate fluctuations against which we have not adequately hedged could materially and adversely affect our profitability. Moreover, our currency derivatives, except for our U.S. dollar/NIS forward contracts, are currently not designated as hedging accounting instruments under Accounting Standards Codification ("ASC") 815, Derivatives and Hedging. Hedging results are charged to finance expenses, net, and therefore, do not offset the impact of currency fluctuations on our operating income. As an exception, commencing in 2014, our U.S. dollar/NIS forward contracts are charged to operating expenses as designated hedge instruments, partially offsetting the impact of the U.S. dollar/NIS currency fluctuations on our operating income. See "ITEM 11: Quantitative and Qualitative Disclosures About Market Risk."

Changes in the prices of our raw materials have increased our costs and decreased our margins and net income in the past and may increase our costs and decrease our margins in the future.

In 2017, raw materials accounted for approximately 42% of our cost of goods sold. The cost of raw materials consists of the purchase prices of such materials and costs related to the logistics of delivering the materials to our manufacturing facilities. Our raw materials costs are also impacted by changes in foreign currency exchange rates, mainly the euro as it relates to polyester and other raw materials purchased from Europe.

Quartz, which includes quartz, quartzite and other dry minerals and engineered materials which include high amounts of silica (together referred to in this annual report as "quartz" unless otherwise specifically stated), is the main raw material component used in our products. Quartz accounted for approximately 35% of our raw materials cost in 2017. Our cost of sales and overall results of operations may be impacted significantly by fluctuations in quartz prices. For example, if our cost of quartz were to rise by 10%, we would experience a decrease of approximately 1.0% in our gross profit margin. In particular, from 2013 to 2015, we experienced selective price increases from our Turkish quartz suppliers, such that the average cost of quartz supplied to our facilities in Israel increased by approximately 3% and 4% in 2013 and 2014, respectively. Any future increases in quartz prices could also have a materially adverse impact on our margins and net income.

Polyester, which acts as a binding agent in our products, accounted for approximately 35% of our raw materials costs in 2017. Accordingly, our cost of sales and overall results of operations may be impacted significantly by fluctuations

in polyester prices. For example, if the cost of polyester was to rise by 10%, we would experience a decrease of approximately 1.0% in our gross profit margin. The cost of polyester we incur is a function of, among other things, manufacturing capacity, demand and the price of crude oil. Our cost of polyester fluctuated significantly over the years. In particular, in 2017 average polyester cost increased by approximately 21% denominated in the purchasing currency. We acquire polyester on a purchase order basis based on our projected needs for the subsequent one to three months. Going forward, we may experience pressure from our polyester suppliers to increase prices even during a period covered by purchase orders.

Pigments are also used to manufacture our products. Although pigments account for a significantly lower percentage of our raw material costs than polyester, we encountered in the past and may experience in the future fluctuations in pigment prices. In 2017, the price of titanium dioxide, our principal white pigmentation agent, increased by approximately 33% compared to 2016, impacting our gross profit margin by approximately 0.4%. Such prices fluctuations may also have a materially adverse impact on our margins and net income.

We have found that increases in prices may be difficult to pass on to our customers. If we are unable to pass on to our customers increases in raw materials prices, specifically in quartz, polyester and pigments, our margins and net income may be materially and adversely impacted. For cost of our raw materials in 2017 and prior years, see "ITEM 5.A: Operating Results and Financial Review and Prospects—Operating Results— Cost of revenues and gross profit margin."

The extent of our liability for environmental, health and safety, product liability and other matters may be difficult or impossible to estimate, and could negatively impact our financial condition and results of operations.

Our manufacturing facilities and operations in Israel and our manufacturing facility in the United States are subject to numerous Israeli and U.S. laws and regulations relating to environmental, health and safety, and other matters, such as dust and styrene control, as detailed in "ITEM 4.B: Information on Caesarstone—Business Overview—Environmental and Other Regulatory Matters." Violations of environmental, health and safety laws and regulations may lead to civil and criminal sanctions against us, our directors, officers or employees. Liability under these laws and regulations involves inherent uncertainties and, among others, in some cases may compel the installation of additional controls and subject us to substantial penalties, injunctive orders and facility shutdowns. If our operations are enjoined because of failure to comply with such regulations, the decrease in production could materially adversely affect our results of operations. Violations of environmental laws could also result in obligations to investigate or remediate potential contamination, third-party property damage or personal injury claims resulting from potential migration of contaminants off-site. We have identified in the past and may identify in the future compliance risks related to environmental and health and safety regulation standards. Preparation and implementation of mitigation plans for such risks may take time and during such time we may not be in full compliance with applicable laws and standards.

In addition, the operation of our manufacturing facilities in Israel and in the United States is subject to applicable permits, standards, licenses and approvals, such as business licenses for all our facilities; wastewater discharge permits, poisons permits and fire regulation authorities approvals in Israel; and air quality permit and storm water pollution prevention permits in Richmond Hill. We are also seeking to obtain building permits with respect to improvements and additions made to our manufacturing facilities in Israel. For detailed information, see "ITEM 4.B: Information on Caesarstone—Business Overview—Environmental and Other Regulatory Matters". Subject to certain terms, the business license for our Sdot-Yam plant is in perpetual effect and the business license for our Bar-Lev plant is in effect until December 31, 2018. The business license for our U.S. facility is in effect until December 31, 2018. We expect such business licenses to be extended by the municipal authorities for a specified term and we intend to seek subsequent extensions on an ongoing basis. If we are unable to obtain, extend or maintain the business license for any of our plants, we would be required to cease operations at such location, which would materially adversely affect our results of operations. Generally, failure to obtain a permit or license required for the operation of our facilities, or failure to comply with the requirements thereunder, may result in civil and criminal penalties, fines, court injunctions, imprisonment, and operations stoppages. Our ability to obtain necessary permits and approvals for our manufacturing facilities may be subject to additional costs and possible delays beyond our initial projections. In addition, to demonstrate compliance with underlying permits licenses or approvals, we are required to perform a considerable amount of monitoring, record-keeping and reporting. We may not have been, or may not be, at all times, in complete compliance with such requirements and we may incur material costs or liabilities in connection with such violations, or in connection with remediation at our sites or certain third-party manufacturing sites if we are found liable in relation thereto.

From time to time, we face compliance issues related to our manufacturing facilities. See "ITEM 4.B: Information on Caesarstone—Business Overview—Environmental and Other Regulatory Matters" for additional information on compliance with environmental, health and safety and other relevant regulations relating to our facilities, including with respect to our compliance with styrene ambient air standards and dust emission occupational health standards.

New environmental laws and regulations, new interpretations of existing laws and regulations, increased governmental enforcement or other developments in Israel and in the United States could require us to make additional unforeseen expenditures. The requirements to be met, as well as the technology and length of time available to meet those requirements, continue to develop and change. These expenditures or costs for environmental compliance could have a materially adverse effect on our business's results of operations, financial condition and profitability. The range of reasonably possible losses from our exposure to environmental liabilities in excess of amounts accrued to date cannot be reasonably estimated at this time.

In addition, due to the nature of some of our production facilities and manufacturing processes, we and our officers and directors could be subject to claims, fines, orders and injunctions due to workplace accidents involving our employees. If our employees do not follow and we do not successfully enforce the safety procedures established in our facilities or otherwise do not meet the relevant laws and standards, our employees may be subject to work related injuries. Although we maintain workers' compensation insurance, it may not provide adequate coverage against potential liabilities.

Other than as described above, we cannot predict whether we may become liable under environmental, product liability and health and safety statutes, rules, regulations and case law of the countries in which we operate. The amount of any such liability in the future or its impact on our business operation otherwise could be significant and may adversely impact our financial condition and results of operations.

A key element of our strategy is to expand our sales in certain markets, such as the United States and Canada. Failure to expand such sales would have a materially adverse effect on our future growth and prospects.

A key element of our strategy is to grow our business by expanding sales of our products in certain existing markets that we believe have high growth potential, as well as in selected new markets. In particular, we intend to focus our growth efforts on the United States and Canada. In 2016, according to Freedonia, engineered quartz surfaces represented only 14% of the total countertops by volume installed in the United States. In connection with our growth strategy, Caesarstone USA and Caesarstone Canada Inc. ("Caesarstone Canada") entered into agreements with IKEA USA and IKEA Canada, respectively. Caesarstone USA also entered into an agreement with Lowe's Companies Inc. ("Lowe's"). We may also seek to expand into additional markets in the future. For instance, in the first quarter of 2017, we started selling and distributing our products in the United Kingdom ("U.K.") directly through our U.K. subsidiary, Caesarstone (UK) Ltd.

We face several challenges in creating demand for our products and brand in the United States, Canada or other markets, including driving consumers' desire to use our quartz surfaces for their kitchen countertops and other interior settings. If the market for quartz surfaces in these regions does not develop as we expect or develops more slowly than we expect or develops more at the lower price segment, our future growth, business, prospects, financial condition and operating results will be harmed. We may also face certain challenges in supplying materials to large retailers in these regions. For more information, see "—Cooperation with large retailers could introduce uncertainty into our sales volumes, having a materially adverse effect on our financial results. Additionally, our reliance on third-party suppliers to provide installation and fabrication services to large retailers could impair our relationship with our customers, which could also materially harm our business and results of operations." Our success will depend, in large part, upon consumer acceptance and adoption of our products and brand in these markets, on the level of our execution, our go-to market strategy and its implementation and the timely availability of our products across regions, and if we do not effectively expand into these markets, there could be an adverse impact on our sales and financial condition.

Cooperation with large retailers could introduce volatility into our sales volumes, having a materially adverse effect on our financial results. Additionally, our reliance on third-party suppliers to provide installation and fabrication services to large retailers could impair our relationship with our customers, which could also materially harm our business and results of operations.

Since May 2013 and October 2014, we have supplied our products to IKEA in the U.S. and Canada, respectively, pursuant to exclusive agreements which were in effect until the end of 2017. We also supply to IKEA non-laminate products. In November 2017, we entered into a new arrangement with IKEA with different conditions and for an unlimited term, which either party could terminate with five month's prior notice. However, we and IKEA continued to conduct business based on the terms of the original agreements and in February 2018, an understanding was reached between us and IKEA, pursuant to which the original agreements for the U.S. and Canada continue to apply in 2018 instead of the new arrangement. We are currently in discussions with IKEA to formally extend the original agreements. Pursuant to such agreements, we have and will continue to supply, fabricate and install countertops, primarily from our quartz surfaces, which are marketed by IKEA without a brand name, as well as solid surface countertops, which we source from a third party. We expect that the IKEA agreements will be extended until the end of 2018, and will continue to be renewed thereafter; however, there is no assurance that such renewal will be made on similar terms or at all. In case they are not renewed, with the cessation of our sales through IKEA U.S. and IKEA Canada, our revenue in the U.S. and Canada would significantly decrease. For more information on our sales through IKEA, see "ITEM 5: Operating and Financial Review and Prospects."

Additionally, we have a revolving yearly agreement with Lowe's in the U.S., under which we fabricate and install an overlay solution made of our products designed to be installed over existing countertops on a non-exclusive, purchase order basis. As of the first quarter of 2017, we offer our products and related services in several Lowe's stores in the United States. Our agreement with Lowe's is automatically renewed on a year-to-year basis, unless terminated earlier in accordance with its terms. There is no assurance that this agreement will continue to be renewed or that Lowe's will issue any specific amount of purchase orders under this agreement.

Our sales to any retailers, including IKEA and Lowe's, may be affected, among other things, by their sales and promotional events, the timing and scope of which is determined exclusively by the retailers and can impact our sales volume. Accordingly, our sales through IKEA in the U.S. and Canada have been, and may continue to be, volatile, and we may not be able to maintain or increase such sales or to maintain its current profitability level.

We have entered into arrangements with third parties for the supply of solid surface materials for IKEA and fabrication and installation services to IKEA and Lowe's and we may enter into such agreements with other third parties, in addition to or in lieu of the existing ones. The success of these third-party relationships may impact our supply of countertops, inventory levels, quality and service level standards and ability to manage the installation and fabrication of countertops to meet customers' demands and at reasonable prices. If we are unable to successfully manage the installation and fabrication services performed for us by these third-party fabricators and installers, we may experience relatively high waste of our products used by fabricators for such works, and complaints from end-consumers with respect to supply time, quality and service level of the fabrication and installation, including defects and damages. Such risks could expose us to warranty-related damages, which if not covered back-to-back by the fabricators engaged by us, could have a materially adverse effect on our financial results, reputation and brand position and lead to the termination of our agreements with IKEA or Lowe's.

We may encounter significant delays in manufacturing if we are required to change the suppliers for the raw materials used in the production of our products.

Our principal raw materials are quartz, polyester and pigments. We acquire quartz from quartz manufacturers from Turkey, India, Israel and a number of European countries. We do not have long-term supply contracts with our suppliers of quartz and execute purchase orders from time to time. In 2017, approximately 69% of our quartz was imported from four suppliers in Turkey and we expect a similar level in 2018. We acquire polyester mainly from two suppliers, on a purchase order basis, based on our projected needs for the subsequent one to three months. Such suppliers are unwilling to agree to preset prices for periods longer than a quarter, and their prices may be volatile. We acquire other raw materials used in our products from a limited number of suppliers on a purchase order basis.

We cannot be certain that any of our current suppliers will continue to provide us with the quantities of raw materials that we require or satisfy our anticipated specifications and quality requirements. We may also experience a shortage of such materials if, for example, demand for our products increases. For instance, in recent years, there have been significant tensions between Turkey and the State of Israel that have raised questions as to whether commercial arrangements between companies in these countries would be adversely impacted to a material extent. If tensions between Turkey and Israel worsen, our Turkish suppliers may not provide us with quartz shipments. We expect our agreements with Turkish quartz suppliers with respect to prices and quantities to remain unchanged through the end of 2018. However, if they fail to perform in accordance with these arrangements, we may not be successful in enforcing them.

If we are unable to agree upon prices with suppliers of our raw materials, or effectively enforce the terms of any verbal or written agreements or understandings which we may have with any of them, our suppliers could cease supplying us with the raw materials required for our products. If our supply of quartz, polyester and other raw materials is adversely impacted to a material extent or if, for any other reason, any of our suppliers does not perform in accordance with our agreements with them, if any, or ceases supplying us with the relevant material, for any reason, we would need to locate and qualify alternate suppliers. This could result in substantial delays in manufacturing,

increase our costs, negatively impact the quality of our products or require us to adjust our products and our manufacturing processes. Any such delays in or disruptions to the manufacturing process could materially and adversely impact our reputation, revenues and results of operations as well as other business aspects, such as our ability to serve our customers and meet their order requests.

For more information with regards to suppliers of raw materials used in our products, see “ITEM 4.B: Information on Caesarstone—Business Overview—Raw materials and Service Provider Relationships.”

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If we do not manage our inventory effectively, our results of operations could be materially adversely affected.

We must manage our inventory effectively in order to meet the demand for our products. We intend to increase our inventory levels to improve our products' availability. If our forecasts exceed actual demand, we could experience excess inventory, resulting in increased costs. If we ultimately determine that we have excess inventory, we may have to reduce our prices and write-down inventory which could have an adverse effect on our business, financial condition and results of operations. If we have insufficient inventory levels, we may not be able to respond to the market demand for our products, resulting in reduced sales and market share.

We may pursue a wider product offering, including introducing new products and materials, which may be unsuccessful, and may divert management's attention and negatively affect our margins and results of operations.

Our competitive advantage is due, in part, to our ability to develop and introduce innovative new and improved products and to strengthen our brand. To maintain such advantage, we may introduce new surface materials, introduce quartz surfaces designated for certain market segments under Caesarstone or another brand, and diversify our existing products offering through complementary products. Introducing new products involves uncertainties, such as gauging changing consumer preferences, developing, manufacturing, marketing and selling new technologies, products and materials, and entering into new market segments. Even if we decide to introduce new products and enter new markets, whether through cooperation with third party manufacturers or manufacturing at our own facilities, we may not be successful in capturing the market share dominated by competitors in this area, offer innovative alternatives ahead of the competition or maintain the strength of our brand. Such new initiatives may require increased time and resources from our management, result in higher than expected expenses and have a material adverse effect on our margins and results of operation.

Our operating results may suffer due to our failure to manage our international operations effectively or due to regulatory changes in international jurisdictions where we operate.

Our products are sold in approximately 50 countries throughout the world, our raw materials, equipment and machinery are acquired in different countries, our products are manufactured in Israel and the United States and our global management operates from Israel. We are therefore subject to risks associated with having international operations and expanding globally. Accordingly, our sales, purchases and operations are subject to risks and uncertainties, including:

- fluctuations in exchange rates;
- fluctuations in land and sea transportation costs, as well as delays in transportation and other time-to-market delays, including as a result of strikes;
- unpredictability of foreign currency exchange controls;
- compliance with unexpected changes in regulatory requirements;
- compliance with a variety of regulations and laws in each relevant jurisdiction;
- difficulties in collecting accounts receivable and longer collection periods;

- changes in tax laws and interpretation of those laws;
- taxes, tariffs, quotas, custom duties, trade barriers and other similar restrictions on our sales, purchases and exports which could be imposed by certain jurisdictions;
- difficulties enforcing intellectual property and contractual rights in certain jurisdictions; and
- economic changes, geopolitical regional conflicts, terrorist activity, political unrest, civil strife, acts of war, strikes and other economic or political uncertainties.

Significant political developments could also have a materially adverse effect on us. In the United States, due to our substantial sales, distribution, import and manufacturing operations, potential or actual changes in fiscal, tax and labor policies could have uncertain and unexpected consequences that materially impact our business, results of operations and financial condition. For more information, see "—We may have exposure to greater-than-anticipated tax liabilities." In the U.K., "Brexit," the referendum in which voters approved an exit from the European Union ("E.U."), could lead to legal uncertainty and potentially divergent national laws and regulations which could adversely affect our business and financial condition. While the U.K. and the E.U. are expected to reach an agreement by 2019 regarding the U.K.'s formal exit from the E.U., political changes in the U.K. following the "Brexit" referendum and other factors leave it unclear when exactly the U.K. will exit and on what terms.

The regulatory framework for privacy and data security issues worldwide is currently in flux and is likely to remain so for the foreseeable future. For example, the E.U.'s new General Data Protection Regulation will apply to us, as relevant, effective May 2018, and will result in more stringent requirements for data processors and controllers, including substantially higher penalties for failure to comply. A failure by us or a third-party contractor providing services to us to comply with applicable privacy and data security laws and regulations may result in sanctions, statutory or contractual damages or litigation.

All of these risks could also result in increased costs or decreased revenues, either of which could have a materially adverse effect our profitability. As we continue to expand our business globally, we may have difficulty anticipating and effectively managing these and other risks that our global operations may face, which may materially and adversely affect our business outside of Israel and our financial condition and results of operations.

The steps that we have taken to protect our brand, technology and other intellectual property may not be adequate, and we may not succeed in preventing others from appropriating our intellectual property.

We believe that our trademarks (registered and unregistered) are important to our brand, success and competitive position. We anticipate that, as the quartz surface market becomes increasingly competitive, maintaining and enhancing our brand, proprietary technology and other intellectual property may become more important, difficult and expensive. In the past, some of our trademark applications for certain classes of applications of our products have been rejected or opposed in certain markets and may be rejected for certain application classes in the future, in all or parts of our markets, including without limitation, for flooring and wall cladding. We have in the past, are currently, and may in the future be, subject to opposition proceedings with respect to applications for registration of our intellectual property, including but not limited to our trademarks, including Caesarstone®. These barriers to registering our brand names and trademarks in various countries and applications may restrict our ability to promote and maintain a cohesive brand throughout our key markets, which could materially harm our competitive position and materially and adversely impact our results of operations. Additionally, if we are unsuccessful in challenging a third party's products on the basis of trademark infringement, continued sales of such products could materially and adversely affect our sales and our brand and result in the shift of consumer preference away from our products.

There can be no assurance that new or pending patent applications for our technologies and products will be approved in a timely manner or at all, or that such patents will effectively protect our intellectual property. There can be no

assurance that we will develop patentable intellectual property in the future, and we have chosen and may further choose not to pursue patents for innovations that are material to our business.

Despite our efforts to execute confidentiality agreements with our employees and managers, our know-how and trade secrets could be disclosed to third parties, which could cause us to lose any competitive advantage resulting from such know-how or trade secrets, as well as related intellectual property protections in certain cases.

The actions we take to establish and protect our intellectual property may not be adequate to prevent unlawful copy and use of our technology by third parties or imitation of our products and the offering of them under our trademarks by others. These actions may also not be adequate to prevent others, including our competitors, from obtaining intellectual property rights overcoming ours, and limiting or blocking the production and sales of our existing or future products and applying certain technologies. Our competitors may seek to limit our marketing and offering of products relying on their alleged intellectual property rights.

We may face significant expenses and liability in connection with the protection of our intellectual property rights in and outside the United States. The laws of certain foreign countries may not protect intellectual property rights to the same extent as the laws of the United States. For example, historically, China has not protected intellectual property rights to the same extent as the United States, and infringement of intellectual property rights continues to pose a serious risk to doing business in China.

Third parties have claimed, and may from time to time claim, that our current or future products infringe their patent or other intellectual property rights. Under such circumstances, we may be required to expend significant resources in order to contest such claims and, in the event that we do not prevail, we may be required to seek a license for certain technologies, develop non-infringing technologies or stop the sale of some of our products. In addition, any future intellectual property litigation, regardless of its outcome, may be expensive, divert the efforts of our personnel and disrupt or damage relationships with our customers.

For more information, see "ITEM 4.B: Information on Caesarstone—Business Overview—Intellectual Property".

Our directors and executive officers who are members of Kibbutz Sdot-Yam and Tene may have conflicts of interest with respect to matters involving the Company.

Kibbutz Sdot-Yam, or the Kibbutz, which beneficially owned 33.3% of our shares as of March 1, 2018, is party to a voting agreement with Tene Investment in Projects 2016 Limited Partnership ("Tene"), by which both the Kibbutz and Tene are deemed our controlling shareholders under the Israeli Companies Law. The Kibbutz and Tene also agreed to use their best efforts to prevent any dilutive transactions that would reduce the Kibbutz's holdings in us below 26% on a fully diluted basis and to cause that at least four directors on behalf of the parties are elected to our board of directors. For more information, see "ITEM 7.A. Major Shareholders and Related Party Transactions—Major Shareholders." One member of our board of directors and a number of our key employees are members of the Kibbutz. Certain of these individuals also serve in different positions in the Kibbutz, including business manager of the Kibbutz. Such individuals have fiduciary duties to both us and Kibbutz Sdot-Yam. As a result, our directors and executive officers who are members of the Kibbutz may have real or apparent conflicts of interest on matters affecting both us and the Kibbutz and, in some circumstances, such individuals may have interests adverse to us. For example, in the annual general meeting of our shareholders held in December 2015, the Kibbutz opposed the independent nominees our board of directors proposed to nominate to the board and suggested two alternative nominees identified by the Kibbutz as independent. In addition, two members of our board of directors, including the chairman of the board of directors, also serve as partners in Tene. Since these individuals have fiduciary duties to both us and Tene, there may be real or apparent conflicts of interest in this respect as well. See "ITEM 6.A: Directors, Senior Management and Employees—Directors and Senior Management."

Consolidation in our industry may increase the competitive pressures to which we are subject and may enhance our competitors' manufacturing, sales and marketing capabilities.

Due to the highly fragmented nature of the quartz surface market, consolidation may occur and a smaller number of large companies may take leading market positions. We believe we would encounter strong competition from any such larger companies following their consolidation. Larger companies are likely to benefit from economies of scale associated with quartz surface manufacturing that are becoming important to remain competitive in an increasingly global quartz surface market. Such economies of scale will be increasingly important as the quartz surface market matures in the future. In addition, larger companies may have significantly greater resources than we do to penetrate markets, in particular, by investing significant sums in raising awareness for their brand among end-consumers in order to drive sales of their products, as well as by operating manufacturing facilities closer to customers and end-consumers in various regions worldwide. If we are unable to grow our business organically or undertake our own acquisitions, we may lose market share, which could have a materially adverse effect on our business, financial condition and results of operations.

We have experienced quarterly fluctuations in revenues and net income as a result of seasonal factors and building construction cycles, which are hard to predict with certainty.

Our results of operations are impacted by seasonal factors, including construction and renovation cycles. We believe that the third quarter of the year exhibits higher sales volumes than other quarters because demand for quartz surface products is generally higher during the summer months in the northern hemisphere when the weather is more favorable for new construction and renovation projects, as well as due to efforts to complete such projects before the beginning of the new school year. Conversely, the first quarter is impacted by a slowdown in new construction and renovation projects during the winter months as a result of adverse weather conditions in the northern hemisphere, and, depending on the date of the spring holiday in Israel in a particular year, the first or second quarter is impacted by a reduction in sales in Israel due to such holiday. Similarly, sales during the first quarter in Australia are negatively impacted by fewer construction and renovation projects due to public holidays. In the third quarter of 2017, we generated 13.4% more revenue and a 5.3% higher adjusted EBITDA than the first quarter of 2017. Adverse weather in a particular quarter or a prolonged winter period can also impact our quarterly results. Our future results of operations may experience substantial fluctuations from period to period as a consequence of such adverse weather. Increased or unexpected quarterly fluctuations in our results of operations may increase the volatility of our share price and cause declines in our share price even if they do not reflect a change in the overall performance of our business.

Our limited resources and significant competition for business combination or acquisition opportunities may make it difficult for us to complete a combination or acquisition, and any combination or acquisition that we complete may disrupt our business and fail to achieve our intended objectives.

While we believe there are a number of target businesses we might consider acquiring, including, in certain instances, our distributors, manufacturers of quartz surfaces and other surfaces like ceramic, we may be unable to persuade those targets of the benefits of a combination or acquisition. Our ability to compete with respect to a combination with or acquisition of certain larger target businesses will be determined by, among other factors, our available financial resources. This inherent competitive limitation may give others an advantage in pursuing such combinations or acquisitions.

Any combination or acquisition that we effect will be accompanied by a number of risks, including the difficulty of integrating the operations and personnel of the acquired business, the potential disruption of our ongoing business, the potential distraction of management, expenses related to the acquisition and potential unknown liabilities associated with acquired businesses. In connection with any acquisition, we may encounter liabilities in the future associated with its business that we did not experience prior to the acquisition or that were unknown at the time of acquisition that could have a materially adverse impact on our results of operations. Any inability to integrate completed combinations or acquisitions in an efficient and timely manner could have a materially adverse impact on our results of operations. In addition, we may not recognize the expected synergies or benefits in connection with a future combination or acquisition. If we are not successful in completing combinations or acquisitions that we pursue in the future, we may incur substantial expenses and devote significant management time and resources without a successful result. Acquisitions which may include the expansion of our business into new products, like ceramic, and new applications, could distract our management attention, impose high expenses and investments and expose our business to additional risks. Such acquisitions carry further risks associated with the entry into new business lines in which we do not have previous experience, and there can be no assurance that any such business expansion would be successful. In addition, future combinations or acquisitions could require the use of substantial portions of our available cash or result in dilutive issuances of securities.

We are subject to litigation, disputes or other proceedings, which could result in unexpected expenses and time and resources that could have a materially adverse impact on our results of operation, profit margins, financial condition and liquidity.

We are currently involved in several legal disputes, including against our former South African agent, World of Marble and Granite, and certain fabricators and their employees in Israel, Australia and Spain, as further detailed in "ITEM 8.A: Financial Information—Consolidated Financial Statements and Other Financial Information—Legal Proceedings." In addition, from time to time, we are involved in other legal proceedings and claims in the ordinary course of business related to a range of matters, including contract law, intellectual property rights, employment, product liability and warranty claims and claims related to modification and adjustment or replacement of product surfaces sold.

The outcome of litigation and other legal matters is always uncertain, and the actual outcome of any such proceedings may materially differ from estimates. An adverse ruling in these proceedings could have a materially adverse effect on us. If we are unsuccessful in defending such claims or elect to settle any of these claims, we could incur material costs and could be required to pay varying amounts of monetary damages, some of which may be significant, and/or incur other penalties or sanctions, some or all of which may not be covered by insurance. Although we maintain product liability insurance, we cannot be certain that our coverage, if applicable, will be adequate for liabilities actually incurred or that insurance will continue to be available to us on economically reasonable terms, or at all. These material costs could have a materially adverse effect on our business, results of operations and financial condition.

Our distributors' actions may have a materially adverse effect on our business and results of operations. Our results of operations may be further impacted by the actions of our re-sellers in the United States.

Sales to third-party distributors accounted for 9.8% of our revenues in 2017. In our indirect markets, we depend on the success of the selling and marketing efforts of our third-party distributors, and any disruption in our distribution network could materially impair our ability to sell our products or market our brand, which could materially and adversely affect our business and results of operations. As we have limited control over these distributors, their actions could also materially harm our brand and company reputation in the marketplace.

In the majority of our distribution arrangements, we operate on the basis of an initial agreement or general terms of sale or, in certain cases, without any agreement, in writing or at all. The lack of a written agreement with many of our distributors may lead to ambiguities, costs and challenges in enforcing terms of such arrangements, including where we wish to terminate early due to the distributor's failure to meet annual sales targets. We have experienced difficulties, including litigation, in connection with the termination of certain of our distributors due to disputes regarding their terms of engagement. See "ITEM 8.A: Financial Information—Consolidated Financial Statements and Other Financial Information—Legal proceedings." Additionally, we may be unable to distribute our products through another distributor within the territory during the period in which we must give prior termination notice, or to identify and retain new distributors upon termination, which may materially and adversely impact our market share, results of operations, relationships with our customers and end-consumers and brand reputation. Because some of our distributors operate on nonexclusive terms, distributors may also distribute competitors' quartz surfaces or other surface materials, which may cause us to lose market share.

In the U.S., we supply our products in part to sellers who in turn re-sell them to fabricators, contractors, developers and builders. Certain actions by such third parties may also materially harm our brand and reputation.

The termination of arrangements with distributors and re-sellers may lead to litigation, resulting in significant legal fees for us and detracting our management's effort, time and resources. In addition, our distributors worldwide, and our re-sellers in the U.S., generally disclose to us sales volumes and other information on a monthly or quarterly basis. An inaccurate sales report, the revision of a sales report on which we have already relied or our failure to understand correctly the information in a sales report could cause significant, unexpected volatility in our sales to a distributor or a re-seller during a particular period, including due to accumulated excess inventory, and may impact our ability to make plans regarding our supply chain. Any of these events could materially and adversely affect or cause unexpected fluctuations in our results of operations.

Disruptions to our information technology systems due to cyber-attacks or our failure to upgrade and adjust our information technology systems globally, may materially impair our operations, hinder our growth and materially and adversely affect our business and results of operations.

We believe that an appropriate information technology ("IT") infrastructure is important in order to support our daily operations and the growth of our business. If we experience difficulties in implementing new or upgraded information systems or experience significant system failures, or if we are unable to successfully modify our management information systems or respond to changes in our business needs, we may not be able to effectively manage our

business, and we may fail to meet our reporting obligations.

Additionally, if our current back-up storage arrangements and our disaster recovery plan are not operated as planned, we may not be able to effectively recover our information system in the event of a crisis, which may materially and adversely affect our business and results of operations.

In the current environment, there are numerous and evolving risks to cybersecurity and privacy, including criminal hackers, hacktivists, state-sponsored intrusions, industrial espionage, employee malfeasance and human or technological error. High-profile security breaches at other companies and in government agencies have increased in recent years, and security industry experts and government officials have warned about the risks of hackers and cyber-attacks targeting businesses such as ours. Computer hackers and others routinely attempt to breach the security of technology products, services and systems, and to fraudulently induce employees, customers, or others to disclose information or unwittingly provide access to systems or data. We are constantly implementing new technologies and solutions to assist in the prevention of potential and attempted cyber-attacks, as well protective measures and contingency plans in the event of an existing attack. We analyze the risks we face on an ongoing basis and, accordingly, strengthen our IT infrastructure, update our policies and conduct training for our employees, to enhance our ability to prevent and respond to such risks. However, we can provide no assurance that our current IT system or any updates or upgrades thereto, the current or future IT systems of our distributors or re-sellers or the IT systems of online paying agents that we use or may use in the future, are fully protected against third-party intrusions, viruses, hacker attacks, information or data theft or other similar threats. Legislative or regulatory action in these areas is also evolving, and we may be unable to adapt our IT systems or to manage the IT systems of third parties to accommodate these changes. We have experienced and expect to continue to experience actual or attempted cyber-attacks of our IT networks. Although none of these actual or attempted cyber-attacks has had a material adverse impact on our operations or financial condition, we cannot guarantee that any such incidents will not have such an impact in the future. Furthermore, a cyber-attack that bypasses our IT security systems or those of our distributors, re-sellers or online paying agents, causing an IT security breach, could lead to a material disruption of our information systems, the loss of business information and loss of service to our customers. There is no assurance that we will be insulated from claims relating to cyber-attacks or withstand legal challenges in relation to our agreements with third parties. Additionally, we have access to sensitive customer information in the ordinary course of business. If a significant data breach occurred, our reputation could be materially and adversely affected, confidence among our customers may be diminished, or we may be subject to legal claims, any of which may contribute to the loss of customers and have a material adverse effect on us. In addition, the continued worldwide threat of terrorism and heightened security in response to such threat may cause further disruptions and create further uncertainties or may otherwise materially harm our business. To the extent that such disruptions or uncertainties result in delays or cancellations of customer orders or the manufacture or shipment of our products, or in theft, destruction, loss, misappropriation or release of our confidential data or our intellectual property, our business and results of operations could be materially and adversely affected.

We may have exposure to greater-than-anticipated tax liabilities.

The determination of our worldwide provision for income taxes and other tax liabilities requires significant judgment, and there are many transactions and calculations where the ultimate tax determination is uncertain. We have applied the guidance in ASC 740, “Income Taxes” in determining our accrued liability for unrecognized tax benefits, which totaled approximately $2.7 million as of December 31, 2017. See also note 11 to our financial statements included elsewhere in this report. Although we believe our estimates are reasonable, the ultimate outcome may differ from the amounts recorded in our financial statements and may materially affect our financial results in the period or periods for which such determination is made.

We have entered into transfer pricing arrangements that establish transfer prices for our inter-company operations. However, our transfer pricing procedures are not binding on the applicable taxing authorities. The amount of income tax that we pay could be materially and adversely affected by earnings being lower than anticipated in jurisdictions where we have lower statutory rates and higher than anticipated in jurisdictions where we have higher statutory rates. From 2015 onward, our U.S. manufacturing operations also carry inter-company transactions at transfer prices and

arrangements set by us. We cannot be certain that tax authorities will not disfavor our inter-company arrangements and transfer prices in the relevant jurisdictions. Taxing authorities outside of Israel could challenge our allocation of income between us and our subsidiaries and contend that a larger portion of our income is subject to tax in their jurisdictions, which may have higher tax rates than the rates applicable to such income in Israel. Any adjustment in one country while not followed by counter-adjustment in the other country, may lead naturally to double taxation for the group. Any change to the allocation of our income as a result of review by such taxing authorities could have a negative effect on our operating results and financial condition.

Our facilities in Israel receive different tax benefits as "Preferred Enterprises" under the Israeli Law for the Encouragement of Capital Investments, 1959 ("Investment Law"), with our production lines qualifying to receive different grants and/or reduced company tax rates. Therefore, some of our production lines also receive tax benefits based on our revenues and the allocation of those revenues between the two facilities in Israel. As a result, the Israeli taxing authorities could challenge our allocation of income between these two facilities and contend that a larger portion of our income is subject to higher tax rates. In Israel, there are no tax benefits to production outside of the country. As such, our portion of taxable income in Israel that relates to the U.S. manufacturing facility will have no tax benefits. The ITA could challenge the allocation of income related to production in Israel and income related to production outside of Israel, which may result in significantly higher taxes. There are currently no legal regulations governing this allocation and certain of the ITA's internal guidelines have ambiguities. Moreover, we may lose all of our tax benefits in Israel in the event that our manufacturing operations outside of Israel exceed certain production levels (currently set at 50% of the overall production and subject to future changes by the ITA). We do not foresee such circumstances as probable in the coming years.

In the United States, H.R. 1, originally known as the 2017 Tax Cuts and Jobs Act (the "TCJA") made significant changes to the U.S. Internal Revenue Code, including a reduction in the federal income corporate tax rate from 35% to 21% and limitations on certain corporate deductions and credits. In addition, the TCJA requires complex computations to be performed that were not previously required in U.S. tax law, significant judgments to be made in interpretation of the provisions of the TCJA and significant estimates in calculations, and the preparation and analysis of information not previously relevant or regularly produced. The U.S. Treasury Department, the IRS, and other standard-setting bodies could interpret or issue guidance on how provisions of the TCJA will be applied or otherwise administered that is different from our interpretation. Finally, foreign governments may enact tax laws in response to the TCJA that could result in further changes to global taxation and materially affect our financial position and results of operations. While we have provided the effect of the TCJA in our Consolidated Financial Statements as included in Note 11 to our financial statements included elsewhere in this report, the application of accounting guidance for various items and the ultimate impact of the TCJA on our business are currently uncertain.

We are entitled to a property tax abatement (starting in the 2014 tax year) with respect to our U.S manufacturing facility for ten years at 100% and an additional five years at 50% subject to our satisfaction of certain qualifying terms with respect to headcount, average salaries paid to our employees and total capital investment amount in our U.S manufacturing facility. The tax abatement is granted pursuant to bond purchase loan agreements we entered into with the Development Authority of Bryan County. If we do not meet the qualifying terms of the bond, we will bear the applicable property tax, which will be recognized in our operating costs and which would materially and adversely impact our projected margins and results of operations. See "ITEM 4.D: Information on Caesarstone- Property, Plants and Equipment."

Certain U.S. holders of our ordinary shares may suffer adverse tax consequences if we or any of our non-U.S. subsidiaries are characterized as a "controlled foreign corporation", or a CFC, under Section 957(a) of the Internal Revenue Code of 1986, as amended (the "Code").

A non-U.S. corporation is considered a CFC if (i) more than 50% of (1) the total combined voting power of all classes of stock of such corporation entitled to vote, or (2) the total value of the stock of such corporation, is owned, or is considered as owned by applying certain constructive ownership rules, (ii) by United States shareholders who each own stock representing 10% or more of the vote or, for the taxable year of a non-U.S. corporation beginning after December 31, 2017 and for taxable years of shareholders with or within which such taxable years of such non-U.S. corporation ends, 10%or more of the value on any day during the taxable year of such non-U.S. corporation ("10% U.S. Shareholder"). Generally, 10% U.S. Shareholders of a CFC are required to include currently in gross income such 10% U.S. Shareholder's share of the CFC's "Subpart F income", a portion of the CFC's earnings to the extent the CFC holds certain U.S. property, and certain other new items under the TCJA. Such 10% U.S. Shareholders are subject to current U.S. federal income tax with respect to such items, even if the CFC has not made an actual distribution to such shareholders. "Subpart F income" includes, among other things, certain passive income (such as income from dividends,

interests, royalties, rents and annuities or gain from the sale of property that produces such types of income) and certain sales and services income arising in connection with transactions between the CFC and a person related to the CFC.

Certain changes to the CFC constructive ownership rules introduced by the TCJA may cause one or more of our non-U.S. subsidiaries to be treated as CFCs, thus impacting our CFC status and affecting holders of our ordinary shares that are 10% United States shareholders. For 10% U.S. Shareholders, this may result in negative U.S. federal income tax consequences, such as current U.S. taxation of Subpart F income and of any such shareholder's share of our accumulated non-U.S. earnings and profits (regardless of whether we make any distributions), taxation of amounts treated as global intangible low-taxed income under Section 951A of the Code with respect to such shareholder, and being subject to certain reporting requirements with the U.S. Internal Revenue Service. Current or prospective 10% U.S. Shareholders should consult their tax advisors regarding the U.S. tax consequences of acquiring, owning, or disposing our ordinary shares and the impact of the TCJA, especially the changes to the rules relating to CFCs.

We depend on our senior management team and other skilled and experienced personnel to operate our business effectively, and the loss of any of these individuals could materially and adversely affect our business and our future financial condition or results of operations.

We are dependent on the skills and experience of our senior management team and other skilled and experienced personnel. These individuals possess strategic, managerial, sales, marketing, operational, manufacturing, logistical, financial and administrative skills that are important to the operation of our business. We have experienced and may continue to experience employee and management turnover. The loss of any of these individuals and the inability to attract, retain and maintain additional personnel, each could prevent us from implementing our business strategy and could materially and adversely affect our business and our future financial condition or results of operations. We do not carry key man insurance with respect to any of our executive officers or other employees. We cannot assure you that we will be able to retain all of our existing senior management personnel and key personnel or to attract additional qualified personnel when needed.

Risks related to our relationship with Kibbutz Sdot-Yam

Our headquarters and one of our two manufacturing facilities in Israel are located on lands leased by Kibbutz Sdot-Yam from the Israel Lands Administration and the Edmond Benjamin de Rothschild Caesarea Development Corporation Ltd. If we are unable to continue to lease such lands from Kibbutz Sdot-Yam, our business and future business prospects may suffer.

One of our manufacturing facilities, our headquarters and our research and development facilities are located on lands leased by the Kibbutz pursuant to two lease agreements between the Kibbutz and the Israel Lands Administration ("ILA"), and an additional lease agreement between the Kibbutz and the Edmond Benjamin de Rothschild Caesarea Development Corporation Ltd. ("Caesarea Development Corporation").

The first lease agreement between Kibbutz Sdot-Yam and the ILA has been extended through 2060. The second agreement between Kibbutz Sdot-Yam and the ILA expired in late 2009, and in February 2017, the District Court approved a settlement pursuant to which the Kibbutz and the ILA will enter into a new lease agreement for a period of 49 years, with an option to renew for additional 49 years. As of the date of this report, the parties are still in the process of finalizing the terms of the lease agreement. Previous agreements between Kibbutz Sdot-Yam and the ILA with respect to this property contained restrictions with respect to the use of the property by the Kibbutz. We cannot assure you that our current use of the property and the rights granted to us by Kibbutz Sdot-Yam pursuant to the land use agreement will not provide the ILA with the right to terminate the rights of Kibbutz Sdot-Yam to the property.

The lease agreement between Kibbutz Sdot-Yam and the Caesarea Development Corporation permits Kibbutz Sdot-Yam to use the property for the community needs of Kibbutz Sdot-Yam and is in effect until year 2037. Caesarea Development Corporation charges Kibbutz Sdot-Yam based on the use of the relevant portion of the property for industrial purposes, and thus, has provided recognition to Kibbutz Sdot-Yam's use of such portion of the property for industrial purposes.

Each of the ILA and the Caesarea Development Corporation may terminate their respective lease in certain circumstances, including if Kibbutz Sdot-Yam breaches its agreements therewith, commences proceedings to disband or liquidate, or in the event that Kibbutz Sdot-Yam ceases to be organized as a "kibbutz" as defined in the lease (meaning, a registered cooperative society classified as a kibbutz). If any of the leases and the rights of Kibbutz Sdot-Yam to use the properties described above terminate, we may be unable to maintain our operations on these lands, which would have a materially adverse effect on our operations.

For more information on these agreements, see "ITEM 7.B: Major Shareholders and Related Party Transactions—Related Party Transactions."

Pursuant to certain agreements between us and Kibbutz Sdot-Yam, we depend on Kibbutz Sdot-Yam with respect to leasing the buildings and areas of our manufacturing facilities in Israel, acquiring new land as well as building additional facilities should we need them.

Our Bar-Lev facility is leased from Kibbutz Sdot-Yam pursuant to a land purchase and leaseback agreement effective as of September 1, 2012. The land purchase and leaseback agreement was simultaneously executed with a land use agreement pursuant to which Kibbutz Sdot-Yam permits us to use the site for a period of ten years with an automatic renewal for an additional ten years unless we provide Kibbutz Sdot-Yam two years' advance notice that we do not wish to renew the lease.

Our Sdot-Yam facility, located in Kibbutz Sdot-Yam, is also leased from the Kibbutz, pursuant to a land use agreement effective as of March 2012 and for a period of 20 years. We may not terminate the operation of either of the two production lines at our Sdot-Yam facility as long as we continue to operate production lines elsewhere in Israel. Additionally, our headquarters must remain at Kibbutz Sdot-Yam. As a result of these restrictions, our ability to reorganize our manufacturing operations and headquarters in Israel is limited. In addition, pursuant to the land use agreement we entered into with the Kibbutz with respect to our Sdot-Yam facility, in the event of a material change in the payments made by the Kibbutz to the ILA or the Caesarea Development Corporation, as of January 1, 2018 the Kibbutz may appoint an appraiser to reassess the fees we agreed to in the land use agreements. Recently, the Kibbutz notified us that it intends to increase the fees related to the land lease agreement based on alleged additional covered areas used by us on the leased land and due to alleged material increase in the Kibbutz payments to the ILA and Caesarea Development Corporation. We are examining the request and there may be reciprocal claims relating to the renegotiation of the fees under such agreement.

Pursuant to the land use agreements between us and Kibbutz Sdot-Yam, subject to certain exceptions, if we need additional facilities on the land that we are permitted to use under such land use agreements, then, subject to obtaining the permits required by law, Kibbutz Sdot-Yam will build such facilities for us by using the proceeds of a loan that we will make to Kibbutz Sdot-Yam, which loan shall be repaid to us by off-setting the additional monthly payment that we would pay for such new facilities and, if not fully repaid during the lease term, upon termination thereof. As a result, we depend on Kibbutz Sdot-Yam to build such facilities in a timely manner. While Kibbutz Sdot-Yam is responsible under the agreement for obtaining various licenses, permits, approvals and authorizations necessary for our use of the property, with respect to our use of property in Sdot- Yam, we have waived any monetary recourse against the Kibbutz for failure to receive such licenses, permits, approvals and authorizations.

If we are unable to renew our existing lease agreements with the Kibbutz in the future, we may be required to move our Israeli facilities and headquarters to an alternate location. In addition, the Kibbutz may not be able, in a timely manner, to purchase additional land or build additional facilities that we may require due to increased demand for our products, or obtain the necessary licenses or permits for existing or current property. This could result in increased costs, substantial delays and disruptions to the manufacturing process, which could materially and adversely impact our reputation, revenues and results of operations as well as other business aspects, such as our ability to serve our customers and meet the existing or increased demand for our products. We may also suffer losses to the extent we have waived monetary recourse against the Kibbutz for failure to obtain licenses and permits for some of our currently leased property. For more information with respect to our agreements with Kibbutz Sdot-Yam, see "ITEM 7.B: Major Shareholders and Related Party Transactions—Related Party Transactions".

Regulators and other third parties may question whether our agreements with Kibbutz Sdot-Yam are no less favorable to us than if they had been negotiated with unaffiliated third parties.

Our headquarters, research and development facilities and our two manufacturing facilities in Israel are located on lands leased by Kibbutz Sdot-Yam. We have entered into certain agreements with Kibbutz Sdot-Yam pursuant to which Kibbutz Sdot-Yam provides us with, among other things, a portion of our labor force, electricity, maintenance, security and other services. We believe that such services are rendered to us in the normal course of business and they

represent terms no less favorable than those that would have been obtained from an unaffiliated third party. Nevertheless, a determination with respect to such matters requires subjective judgments regarding valuations, and regulators and other third parties may question whether our agreements with Kibbutz Sdot-Yam are in the ordinary course of our business and are no less favorable to us than if they had been negotiated with unaffiliated third parties. As a result, the tax treatment for these transactions may also be called into question, which could have a materially adverse impact on our operating results and financial condition. See "ITEM 7.B: Major Shareholders and Related Party Transactions—Related Party Transactions."

Under Israeli law, our board, audit committee and shareholders may be required to reapprove certain of our agreements with Kibbutz Sdot-Yam every three years, and their failure to do so may expose us to liability and cause significant disruption to our business.

The Companies Law requires that the authorized corporate organs of a public company approve every three years any extraordinary transaction in which a controlling shareholder has a personal interest and that has a term of more than three years, unless a company's audit committee determines, solely with respect to agreements that do not involve compensation to a controlling shareholder or his or her relatives, in connection with services rendered by any of them to the company or their employment with the company, that a longer term is reasonable under the circumstances. Our implementation of this requirement with respect to the agreements entered into between us and Kibbutz Sdot-Yam may be challenged by regulators and other third parties.

Our audit committee has determined that the terms of all the agreements entered into between us and Kibbutz Sdot-Yam are reasonable under the relevant circumstances, except for the manpower agreement entered into between Kibbutz Sdot-Yam and us on January 1, 2011, as it relates to office holders, and the services agreement entered into between Kibbutz Sdot-Yam and us on July 20, 2011 (as amended). See "ITEM 7.B: Major Shareholders and Related Party Transactions—Related Party Transactions." Our manpower agreement (as it relates to office holders) and our services agreement, each with Kibbutz Sdot-Yam, have been reapproved by our shareholders in 2015 under the Companies Law requirements and are subject to re-approval by July 2018.

If our audit committee, board and shareholders do not re-approve the manpower agreement and the services agreement in accordance with the Companies Law, or if it is determined that re-approval of our other agreements with Kibbutz Sdot-Yam is required every three years and the re-approval is not obtained, we will be required to terminate such agreements, which may be considered a breach under the terms of such agreements, and could expose us to damage claims and legal fees, and cause significant disruption to our business. In addition, we would be required to find suitable replacements for the services provided to us by Kibbutz Sdot-Yam under the manpower agreement and the service agreement, which may take time, and we can provide no assurance that we can obtain the same or better terms with a third party than those we have agreed to with Kibbutz Sdot-Yam.

Risks related to our ordinary shares

We cannot provide any assurance regarding the amount or timing of dividend payments.

In February 2018, we declared the distribution of a special cash dividend in the amount of $0.29 per share, to be paid on March 14, 2018, subject to withholding tax of 20%. We also adopted a dividend policy pursuant to which we intend to pay a quarterly cash dividend in the range of $0.10-$0.15 per share (subject to the applicable tax) up to the lesser of 50% of the reported net income attributable to controlling interest (i) on a quarterly basis or (ii) on a year-to-date basis, subject in each case to the approval of our board of directors. We currently expect that payments of dividends pursuant to the dividend policy will be based on the recommendation of our board of directors, after taking into account legal limitations, the benefit of the Company and its obligations, growth plans and contractual limitations under our credit agreements, and other factors that our board of directors may deem relevant. We cannot provide assurances regarding the amount or timing of any dividend payments and may decide not to pay dividends in the future.

The price of our ordinary shares may be volatile.

The market price of our ordinary shares could be highly volatile and may fluctuate substantially as a result of many factors, including (i) actual or anticipated fluctuations in our results of operations; (ii) variance in our financial performance from the expectations of market analysts; (iii) announcements by us or our competitors of significant business developments, changes in distributor relationships, acquisitions or expansion plans; (iv) changes in the prices of our raw materials or the products we sell; (v) our involvement in litigation; (vi) our sale of ordinary shares or other

securities in the future; (vii) market conditions in our industry; (viii) changes in key personnel; (ix) the trading volume of our ordinary shares; (x) changes in the estimation of the future size and growth rate of our markets; (xi)changes in our board of directors, including director resignations; (xii) actions of investors and shareholders, including short seller reports and proxy contests; and (xiii) general economic and market conditions unrelated to our business or performance.

Additionally, effective October 2016, our ordinary shares were randomly selected by The Nasdaq Stock Market for inclusion in its "Tick Size Pilot Program." The program will last for two years and imposes wider minimum quoting and/or trading increments, or "tick sizes," for certain securities with market capitalization under a certain level. Under the program, our ordinary shares began trading in five-cent rather than one-cent increments. The change to five-cent increments may result in greater fluctuations in the market price of our ordinary shares and could result in higher trading costs for investors.

In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been instituted against that company. In 2015, we became subject to a putative securities class action claim in the U.S. District Court for the Southern District of New York related to losses allegedly suffered as a result of the decline in the market price of our ordinary shares. In August 2017, the court approved our settlement agreement with the lead plaintiffs and our insurance carriers covered the settlement amount in full. We cannot assure you that in the future we may not be subject to further litigation or that it will be fully covered by our insurance carriers. See "ITEM 8: Financial Information- Legal Proceedings".

If equity research analysts do not publish research or reports about our business or if analysts, including short sellers, issue unfavorable commentary or downgrade our ordinary shares, the price of our ordinary shares could decline. Additionally, we may fail to meet publicly announced financial guidance or other expectations about our business, which would cause our ordinary shares to decline in value.

The trading market for our ordinary shares relies in part on the research and reports that equity research analysts publish about us and our business. The price of our ordinary shares could decline if one or more securities analysts downgrade our ordinary shares or if one or more of those analysts issue other unfavorable commentary or cease publishing reports about us or our business. The market price for our ordinary shares has been in the past, and may be in the future, materially and adversely affected by allegations made in reports issued by short sellers regarding our business model, our management and our financial accounting. We have also faced difficulty in the past accurately projecting our earnings and have missed certain of our publicly announced guidance. If our financial results for a particular period do not meet our guidance or if we reduce our guidance for future periods, the market price of our ordinary shares may decline.

The substantial share ownership position of Kibbutz Sdot-Yam and Tene will limit your ability to influence corporate matters.

As of March 1, 2018, Kibbutz Sdot-Yam and Tene beneficially owned 33.3% of our outstanding ordinary shares. As a result of this concentration of share ownership and their voting agreement described above, the Kibbutz Sdot-Yam and Tene are considered controlling shareholders under the Israeli Companies Law, and, acting on their own or together, will continue to have significant voting power on all matters submitted to our shareholders for approval. These matters include:

- the composition of our board of directors (other than external directors);
- approving or rejecting a merger, consolidation or other business combination; and
- amending our articles of association, which govern the rights attached to our ordinary shares.

This concentration of ownership of our ordinary shares could delay or prevent proxy contests initiated by other shareholders, mergers, tender offers, open-market purchase programs or other purchases of shares of our ordinary shares that might otherwise give you the opportunity to realize a premium over then-prevailing market price of our ordinary shares. The interests of Kibbutz Sdot-Yam or Tene may not always coincide with the interests of our other shareholders. This concentration of ownership may also lead to proxy contests. For example, prior to the voting arrangement between Tene and the Kibbutz, in connection with our annual general meeting of shareholders held in

December 2015, Kibbutz Sdot-Yam issued a proxy to our shareholders, in which it opposed the independent nominees our board of directors proposed to nominate to the board and suggested two alternative nominees. Such initiatives, which may not coincide with the interests of our other shareholders, result in us incurring unexpected costs and could divert our management’s time and attention. This concentration of ownership may also materially and adversely affect our share price.

In recent years, Israeli issuers listed on securities exchanges in the United States have also been faced with governance-related demands from activist shareholders, unsolicited tender offers and proxy contests. Responding to these types of actions by activist shareholders could be costly and time-consuming for management and our employees, and could disrupt our operations or business model in a way that would interfere with our ability to execute our strategic plan.

As a foreign private issuer whose shares are listed on the Nasdaq Global Select Market, we may follow certain home country corporate governance practices instead of certain Nasdaq requirements.

As a foreign private issuer whose shares are listed on the Nasdaq Global Select Market, we are permitted to follow certain home country corporate governance practices instead of certain requirements of the rules of Nasdaq. As permitted under the Israeli Companies Law, our articles of association provide that the quorum for any ordinary meeting of shareholders shall be the presence of at least two shareholders present in person, by proxy or by a voting instrument, who hold at least 25% of the voting power of our shares instead of 33 1/3% of the issued share capital required under Nasdaq requirements. At an adjourned meeting, any number of shareholders constitutes a quorum.

In the future, we may also choose to follow Israeli corporate governance practices instead of Nasdaq requirements with regard to, among other things, the composition of our board of directors, compensation of officers and director nomination procedures. In addition, we may choose to follow Israeli corporate governance practice instead of Nasdaq requirements with respect to shareholder approval for certain dilutive events (such as for issuances that will result in a change of control of the company, certain transactions other than a public offering involving issuances of a 20% or more interest in the company and certain acquisitions of the stock or assets of another company) and for the adoption of, and material changes to, equity incentive plans. Accordingly, our shareholders may not be afforded the same protection as provided under Nasdaq corporate governance rules. Following our home country governance practices, as opposed to the requirements that would otherwise apply to a U.S. company listed on the Nasdaq Global Select Market, may provide less protection than is accorded to investors of domestic issuers. See "ITEM 16G: Corporate Governance."

As a foreign private issuer, we are not subject to the provisions of Regulation FD or U.S. proxy rules and are exempt from filing certain Exchange Act reports.

As a foreign private issuer, we are exempt from the rules and regulations under the Exchange Act related to the furnishing and content of proxy statements, and our officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we are not required under the Exchange Act to file annual and current reports and financial statements with the SEC as frequently or as promptly as U.S. domestic companies whose securities are registered under the Exchange Act, we are permitted to disclose limited compensation information for our executive officers on an individual basis and we are generally exempt from filing quarterly reports with the SEC under the Exchange Act. Moreover, we are not required to comply with Regulation FD, which restricts the selective disclosure of material nonpublic information to, among others, broker-dealers and holders of a company's securities under circumstances in which it is reasonably foreseeable that the holder will trade in the company's securities on the basis of the information. These exemptions and leniencies reduce the frequency and scope of information and protections to which you may otherwise have been eligible in relation to a U.S. domestic issuer.

We would lose our foreign private issuer status if (a) a majority of our outstanding voting securities were either directly or indirectly owned of record by residents of the United States and (b)(i) a majority of our executive officers or directors were United States citizens or residents, (ii) more than 50% of our assets were located in the United States or (iii) our business were administered principally in the United States. Our loss of foreign private issuer status would make U.S. regulatory provisions mandatory. The regulatory and compliance costs to us under U.S. securities laws as a U.S. domestic issuer may be significantly higher. If we are not a foreign private issuer, we will be required to file periodic reports and registration statements on U.S. domestic issuer forms with the SEC, which are more detailed and extensive than the forms available to a foreign private issuer. We would also be required to follow U.S. proxy disclosure requirements, including the requirement to disclose, under U.S. law, more detailed information about the compensation of our senior executive officers on an individual basis. We may also be required to modify certain of our policies to comply with accepted governance practices associated with U.S. domestic issuers. Such conversion and modifications will involve additional costs. In addition, we would lose our ability to rely upon Nasdaq exemptions from certain corporate governance requirements that are available to foreign private issuers.

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Our United States shareholders may suffer materially adverse tax consequences if we are characterized as a passive foreign investment company.

Generally, if for any taxable year, 75% or more of our gross income is passive income, or at least 50% of our assets are held for the production of, or produce, passive income, we would be characterized as a passive foreign investment company for United States federal income tax purposes. There can be no assurance that we will not be considered a passive foreign investment company for any taxable year. If we are characterized as a passive foreign investment company, our U.S. shareholders may suffer materially adverse tax consequences, including having gains realized on the sale of our ordinary shares treated as ordinary income, rather than capital gain, the loss of the preferential rate applicable to dividends received on our ordinary shares by individuals who are U.S. holders, and having interest charges apply to distributions by us and the proceeds of share sales. See "ITEM 10.E: Additional Information—Taxation—United States Federal Income Taxation—Passive foreign investment company considerations."

The market price of our ordinary shares could be negatively affected by future sales of our ordinary shares.

As of March 1, 2018, we had 34,348,660 ordinary shares outstanding. This included approximately 11,440,000 ordinary shares, or 33.3% of our outstanding ordinary shares, beneficially owned by Kibbutz Sdot-Yam and Tene, which can be resold into the public markets in accordance with the restrictions of Rule 144, including volume limitations, applicable to resales by affiliates or holders of restricted securities.

Sales by us or by Kibbutz Sdot-Yam, Tene or other large shareholders of a substantial number of our ordinary shares in the public market, or the perception that these sales might occur, could cause the market price of our ordinary shares to decline or could materially impair our ability to raise capital through a future sale of, or pay for acquisitions using, our equity securities.

Kibbutz Sdot-Yam and Tene may require us to effect a registered offering of up to an additional 11,440,000 shares under the Securities Act for resale into the public markets. All shares sold pursuant to an offering covered by such registration statement or statements will be freely transferable. See "ITEM 7.B: Major Shareholders and Related Party Transactions—Related Party Transactions—Registration rights agreement."

In addition to these registration rights, as of March 1, 2018, 1,231,079 ordinary shares were reserved for issuance under our 2011 Incentive Compensation Plan ("2011 plan") of which options to purchase 1,157,204 ordinary shares were outstanding, with a weighted average exercise price of $33.0 per share, and 73,875 restricted stock units ("RSUs") were outstanding. To the extent they are covered by our registration statements on Form S-8, these shares may be freely sold in the public market upon issuance, except for shares held by affiliates who have certain restrictions on their ability to sell.

Risks relating to our incorporation and location in Israel

If we fail to comply with Israeli law restrictions concerning employment of Jewish employees on Saturdays and Jewish holidays, we and our office holders may be exposed to administrative and criminal liabilities and our operational and financial results may be materially and adversely impacted.

We are subject to the Israeli Hours of Work and Rest Law, 1951 ("Rest Law"), which imposes certain restriction on the employment terms and conditions of our employees. Among others, the Rest Law prohibits the employment of Jewish employees on Saturdays and Jewish holidays, unless a permit is obtained from the IMEI. Employment of Jewish employees on such days without a permit constitutes a violation of the Rest Law. We received a permit from the IMEI to employ Jewish employees on Saturdays and Jewish holidays in connection with most of the production machinery in our Sdot-Yam facility, effective until December 31, 2018. There is no assurance that we will be able to obtain such permit in the future, and if we do not, we will be required to either refrain from operating our Sdot-Yam facility on Saturdays and Jewish holidays, or employ non-Jewish employees.

If we are deemed to be in any violation of the Rest Law, we and our officers may be exposed to administrative and criminal liabilities, including fines, and our operational and financial results could be materially and adversely impacted. If we fail to obtain a permit in the future or if we are unable to employ only non-Jewish employees on Saturdays and Jewish holidays, we may be required to halt operations of our manufacturing facilities in Israel during such days, have less production capacity and as a result experience a materially adverse effect on our revenues and profitability.

Conditions in Israel could materially and adversely affect our business.

We are incorporated under Israeli law and our principal offices and two of our manufacturing facilities (Sdot-Yam and Bar-Lev) are located in Israel. Accordingly, political, economic and military conditions in Israel directly affect our business. Since the establishment of the State of Israel in 1948, a number of armed conflicts have occurred between Israel and its neighboring countries. These conflicts involved missile strikes against civilian targets in various parts of Israel including most recently, central Israel, and negatively affected business conditions in Israel as well as home starts and the building industry in Israel.

Our facilities are in range of rockets that may be fired from Lebanon, Syria or the Gaza Strip into Israel. In the event that our facilities are damaged as a result of hostile action or hostilities otherwise disrupt the ongoing operation of our facilities, our ability to deliver products to customers could be materially and adversely affected. Our commercial insurance in Israel does not cover losses that may occur as a result of acts of war; however, losses as a result of terrorist attacks to our facilities and disruption to the ongoing operations, are covered by our insurance for damages of up to $20 million, if such damages are not covered by the Israeli government. Although the Israeli government currently covers the reinstatement value of direct damages that are caused by terrorist attacks or acts of war, we cannot assure you that this government coverage will be maintained and will be adequate in the event we submit a claim. Even if insurance is maintained and adequate, we cannot assure you that it will reduce or prevent any losses that may occur as a result of such actions or will be exercised in a timely manner to meet our contractual obligations with customers and vendors.

In addition, popular uprisings in various countries in the Middle East and North Africa have affected the political stability of those countries. Such instability may lead to deterioration in the political and trade relationships that exist between the State of Israel and these countries, such as Turkey, from which we import a significant amount of our raw materials. Moreover, some countries around the world restrict doing business with Israel and Israeli companies, and additional countries may impose restrictions on doing business with Israel and Israeli companies if hostilities in Israel or political instability in the region continues or increases. These restrictions may limit materially our ability to obtain raw materials from these countries or sell our products to companies and customers in these countries. In addition, there have been increased efforts by activists to cause companies and consumers to boycott Israeli goods. Such efforts, particularly if they become more widespread, may materially and adversely impact our ability to sell our products out of Israel.

Our employees in Israel, generally males, including executive officers, may be called upon to perform military service on an annual basis until they reach the age of 40 (and in some cases, up to 45 or 49). In emergency circumstances, they could be called to immediate and prolonged active duty. Our operations could be disrupted by the absence of a significant number of our employees related to military service or the absence for extended periods of one or more of our key employees for military service. Such disruption could materially and adversely affect our business and results of operations. Additionally, the absence of a significant number of the employees of our Israeli suppliers and contract manufacturers related to military service may disrupt their operations, in which event our ability to deliver products to customers may be materially and adversely affected.

Any hostilities involving Israel or the interruption or curtailment of trade between Israel and its present trading partners, or a significant downturn in the economic or financial condition of Israel, could materially and adversely affect our operations and product development, cause our revenues to decrease and materially harm the share price of publicly traded companies with operations in Israel, such as us.

Our operations may be affected by negative economic conditions or labor unrest in Israel.

General strikes or work stoppages, including at Israeli sea ports, have occurred periodically or have been threatened in the past by Israeli trade unions due to labor disputes. These general strikes or work stoppages may have a materially adverse effect on the Israeli economy and on our business, including our ability to deliver products to our customers

and to receive raw materials from our suppliers in a timely manner. These general strikes or work stoppages, in Israel or in other countries where we, our subsidiaries, suppliers and distributors operate, may prevent us from shipping raw materials and equipment required for our production and shipping our products by sea or otherwise to our customers, which could have a materially adverse effect on our results of operations.

Since none of our employees work under any collective bargaining agreements, extension orders issued by the IMEI apply to us and affect matters such as cost of living adjustments to salaries, length of working hours and work week, recuperation pay, travel expenses, and pension rights. Any labor disputes over such matters could result in a work stoppage or strikes by employees that could delay or interrupt our output of products. Any strike, work stoppages or interruption in manufacturing could result in a failure to meet contractual obligations or in delays, including in our ability to manufacture and deliver products to our customers in a timely manner, and could have a materially adverse effect on our relationships with our distributors and on our financial results.

If a union of our employees is formed in the future, we may enter into a collective bargaining agreement with our employees, which may increase our costs and limit our managerial freedom, and if we are unable to reach a collective bargaining agreement, we may become subject to strikes and work stoppages, all of which may materially and adversely affect our business.

The tax benefits that are available to us require us to continue to meet various conditions and may be terminated or reduced in the future, which could increase our costs and taxes.

Some of our Israeli facilities have been granted “Approved Enterprise” status by the Israeli Authority for Investment and Development of the Industry and Economy (“Investment Center”) or have the status of a “Beneficiary Enterprise” or “Preferred Enterprise” which provides us with investment grants (in respect of certain Approved Enterprise programs) and makes us eligible for tax benefits under the Investment Law.

In order to remain eligible for the tax benefits of an “Approved Enterprise”, a “Beneficiary Enterprise” and/or a “Preferred Enterprise” we must continue to meet certain conditions stipulated in the Investment Law and its regulations, as amended, and in certificates of approval issued by the Investment Center (in respect of Approved Enterprise programs), which may include, among other things, selling more than 25% of our products to markets of over 14 million residents in a specific tax year, making specified investments in fixed assets and equipment, financing a percentage of those investments with our capital contributions, filing certain reports with the Investment Center, complying with provisions regarding intellectual property and the criteria set forth in the specific certificate of approval issued by the Investment Center or the ITA. If we do not meet these requirements, the tax benefits could be canceled and we could be required to refund any tax benefits and investment grants that we received in the past adjusted to the Israeli consumer price index and interest, or other monetary penalties. Further, in the future, these tax benefits may be reduced or discontinued. If these tax benefits are cancelled, our Israeli taxable income would be subject to regular Israeli corporate tax rates. The standard corporate tax rate for Israeli companies was 26.5% in 2015, 25% in 2016 and was decreased to 24% in 2017 and 23% in 2018 and thereafter.

Effective as of January 1, 2011, the Investment Law was amended (“Amendment No. 68” or the “2011 Amendment”). Under Amendment No. 68, the criteria for receiving tax benefits were revised. In the future, we may not be eligible to receive additional tax benefits under this law. The termination or reduction of these tax benefits would increase our tax liability, which would reduce our profits. Additionally, if we increase our activities outside of Israel through acquisitions, for example, our expanded activities might not be eligible to be included in future Israeli tax benefit programs. We may lose all of our tax benefits in Israel in the event that our manufacturing operations outside of Israel exceed certain production levels (currently set at 50% of the overall production and subject to future changes by the ITA). We do not foresee such circumstances as probable in the coming years. Those tax rates between 2014 and 2016 were 16% for the portion of our income related to the Sdot-Yam manufacturing facility and 9% for the portion of our income related to the Bar-Lev manufacturing facility. From 2017 onward, the tax rate for the portion of our income related to the Bar-Lev manufacturing facility was reduced to 7.5% and Sdot-Yam tax rate remains unchanged.

Finally, in the event of a distribution of a dividend from the tax-exempt income described above, we will be subject to tax at the corporate tax rate applicable to our Approved Enterprise’s and Beneficiary Enterprise’s income on the amount distributed (grossed-up to reflect the pre-tax income that it would have had to earn in order to distribute the dividend) in accordance with the effective corporate tax rate that would have been applied had we not relied on the exemption. In addition to the reduced tax rate, a distribution of income attributed to an “Approved Enterprise” and a “Beneficiary Enterprise” will be subject to 15% withholding tax. As for a “Preferred Enterprise,” dividends are generally subject to 20% withholding tax from 2014 (or a reduced rate under an applicable double tax treaty, subject to the receipt in advance of a valid certificate from the ITA allowing for a reduced tax rate). However, because we announced our election to apply the provisions of Amendment No. 68 prior to June 30, 2015, we will be entitled to distribute exempt income generated by any Approved/Beneficiary Enterprise to our Israeli corporate shareholders tax free (See “ITEM 10.E: Additional Information—Taxation—Israeli tax considerations and government programs—Law for the Encouragement of Capital Investments, 1959”).

The amendment to the Investment Law stipulated that investments in subsidiaries, including in the form of acquisitions of subsidiaries from an unrelated party, may also be considered as a deemed dividend distribution event, increasing the risk of triggering a deemed dividend distribution event and potential tax exposure. The ITA's interpretation is that this provision applies retroactively to investments and acquisitions made prior to the amendment.

It may be difficult to enforce a U.S. judgment against us, our officers and directors in Israel or the United States, or to assert U.S. securities laws claims in Israel or serve process on our officers and directors.

We are incorporated in Israel. Other than two directors, none of our directors, or our independent registered public accounting firm, is a resident of the United States. Other than one executive officer, none of our executive officers is resident in the United States. The majority of our assets and the assets of these persons are located outside the United States. Therefore, it may be difficult for an investor, or any other person or entity, to enforce a U.S. court judgment based upon the civil liability provisions of the U.S. federal securities laws against us or any of these persons in a U.S. or Israeli court, or to effect service of process upon these persons in the United States. Additionally, it may be difficult for an investor, or any other person or entity, to assert U.S. securities law claims in original actions instituted in Israel. Israeli courts may refuse to hear a claim based on a violation of U.S. securities laws on the grounds that Israel is not the most appropriate forum in which to bring such a claim. Even if an Israeli court agrees to hear a claim, it may determine that Israeli law and not U.S. law is applicable to the claim. If U.S. law is found to be applicable, the content of applicable U.S. law must be proved as a fact, which can be a time-consuming and costly process. Certain matters of procedure will also be governed by Israeli law. There is little binding case law in Israel addressing the matters described above.

Your rights and responsibilities as our shareholder will be governed by Israeli law which may differ in some respects from the rights and responsibilities of shareholders of United States corporations.

Since we are incorporated under Israeli law, the rights and responsibilities of our shareholders are governed by our articles of association and Israeli law. These rights and responsibilities differ in some respects from the rights and responsibilities of shareholders in U.S.-based corporations. In particular, a shareholder of an Israeli company has a duty to act in good faith and in a customary manner in exercising its rights and performing its obligations towards the company and other shareholders and to refrain from abusing its power in the company, including, among other things, in voting at the general meeting of shareholders on certain matters, such as an amendment to the company's articles of association, an increase of the company's authorized share capital, a merger of the company and approval of related party transactions that require shareholder approval. A shareholder also has a general duty to refrain from discriminating against other shareholders. In addition, a controlling shareholder or a shareholder who knows that it possesses the power to determine the outcome of a shareholders' vote or to appoint or prevent the appointment of an office holder in the company or has another power with respect to the company, has a duty to act in fairness towards the company. However, Israeli law does not define the substance of this duty of fairness. See "ITEM 6.C: Directors, Senior Management and Employees—Board Practices— Board Practices—Fiduciary duties and approval of specified related party transactions under Israeli law—Duties of shareholders." Additionally, the parameters and implications of the provisions that govern shareholder behavior have not been clearly determined by the Israeli courts. These provisions may be interpreted to impose additional obligations and liabilities on our shareholders that are not typically imposed on shareholders of United States corporations.

Provisions of Israeli law may delay, prevent or make undesirable a merger transaction, or an acquisition of all or a significant portion of our shares.

Israeli corporate law regulates mergers by mandating certain procedures and voting requirements, and requires that a tender offer be effected when more than a specified percentage of shares in a company are purchased. Further, Israeli tax considerations may make potential transactions undesirable to us or to some of our shareholders whose country of residence does not have a tax treaty with Israel granting tax relief to such shareholders from Israeli tax. With respect to mergers, Israeli tax law allows for tax deferral in certain circumstances but makes the deferral contingent on the fulfillment of numerous conditions, including a holding period of two years from the date of the transaction during which certain sales and dispositions of shares of the participating companies are restricted. Moreover, with respect to certain share swap transactions, the tax deferral is limited in time, and when such time expires, the tax becomes payable even if no actual disposition of the shares has occurred. See "ITEM 10.B: Additional Information—Memorandum and Articles of Association—Acquisitions under Israeli law."

Under Israeli law, our two external directors have terms of office of three years. These directors have been elected by our shareholders to serve for an additional three-year term commencing March 21, 2018.

These provisions of Israeli law could have the effect of delaying or preventing a change in control and may make it more difficult for a third party to acquire us or our shareholders to elect different individuals to our board of directors, even if doing so would be beneficial to our shareholders, and may limit the price that investors may be willing to pay in the future for our ordinary shares.

If we are considered a "monopoly" under Israeli law, we could be subject to certain restrictions that may limit our ability to freely conduct our business to which our competitors may not be subject.

Under the Israeli Restrictive Trade Practices Law, 1988 ("Israeli Antitrust Law"), a company that supplies more than 50% of any asset or service in Israel or, in some cases, in a specific geographical area in Israel is deemed to be a monopoly. The determination of monopoly status depends on an analysis of the relevant product or service market but it does not require a positive declaration, and the status is achieved by virtue of such market share threshold being crossed.

Depending on the analysis and the definition of the relevant product market in which we operate, we may be deemed to be a "monopoly" under Israeli law. Under the Israeli Antitrust Law, a monopoly is prohibited from participating in certain business practices, including unreasonably refusing to provide the relevant product or service, or abuse of market power by means of discriminating between similar transactions or charging what are considered to be unfair prices, and from engaging in certain other practices. Such prohibitions are designed to protect the Israeli market against unfair competition. The Israeli Antitrust Commissioner may determine that a company that is a monopoly has abused its position in the market, and may subsequently order such company to change its conduct in matters that may materially and adversely affect the public, including imposing business restrictions on a company determined to be a monopoly and giving instructions with respect to the prices charged by the monopoly. If we are indeed deemed to be a monopoly and the Commissioner finds that we have abused our position in the market by taking anti-competitive actions and using anti-competitive practices, such as those described above, it would serve as prima facie evidence in private actions and class actions against us alleging that we have engaged in anti-competitive behavior. Furthermore, the Commissioner may order us to take or refrain from taking certain actions, which could limit our ability to freely conduct our business. To date, the Commissioner has not made any such determination. Violations of the Israeli Antitrust Law can constitute a criminal offence, may lead to civil sanctions and may expose a company to damages claims and class actions. We do not believe we are a monopoly, or that our operations constitute a violation of the provisions of the Israeli Antitrust Law even if we were found to be a monopoly under the Israeli Antitrust Law, but we cannot guarantee this to be the case.

Sales in Israel accounted for 7.6% of our revenues in 2017. We have a significant market position in certain jurisdictions outside of Israel and cannot assure you that we are not, or will not become, subject to the laws relating to the use of dominant product positions in particular countries, which laws could limit our business practices and our ability to consummate acquisitions.

ITEM 4: Information on Caesarstone

A. History and Development of Caesarstone

Our History

Caesarstone Ltd. was founded in 1987 and incorporated in 1989 in the State of Israel. We are a leading manufacturer of high quality engineered quartz surfaces sold under our premium Caesarstone brand. Caesarstone is a pioneer in the engineered quartz surfaces industry. Our products consist of engineered quartz slabs that are currently sold in

approximately 50 countries through a combination of direct sales in certain markets performed by our subsidiaries and indirectly through a network of independent distributors in other markets. Our products accounted for approximately 8% of global engineered quartz by volume in 2016. In 2008, 2010 and 2011, we acquired the businesses of our former Australian, Canadian, as well as American and Singaporean distributors, respectively, and established such businesses within our own subsidiaries in such countries. In 2017, we started selling our products in the U.K. directly through our U.K. subsidiary, Caesarstone (UK) Ltd. We now generate a substantial portion of our revenues in the United States, Australia and Canada from direct distribution of our products. Our products are primarily used as kitchen countertops. Other applications include vanity tops, wall panels, back splashes, floor tiles, stairs and other interior surfaces that are used in a variety of residential and non-residential applications. Because of their hardness and non-porous characteristics, our products offer superior levels of scratch, stain and heat resistance, making them extremely durable and ideal for kitchen and other applications relative to competing products such as granite, manufactured solid surfaces and laminate. Through our innovative design and manufacturing processes we are able to offer a wide variety of colors, styles, designs and textures.

In March 2012, we listed our shares on the Nasdaq Global Select Market. We are a company limited by shares organized under the laws of the State of Israel. We are registered with the Israeli Registrar of Companies in Jerusalem. Our registration number is 51-143950-7. Our principal executive offices are located at Kibbutz Sdot-Yam, MP Menashe, 3780400, Israel, and our telephone number is +972 (4) 636-4555. We have irrevocably appointed Caesarstone USA as our agent for service of process in any action against us in any United States federal or state court. The address of Caesarstone USA is 9275 Corbin Avenue, Northridge, California, 91324. For more information about us, our website is www.caesarstone.com. The information contained therein or connected thereto shall not be deemed to be incorporated by reference in this annual report.

Principal Capital Expenditures

Our capital expenditures for fiscal years 2017, 2016 and 2015 amounted to $22.7 million, $22.9 million and $76.5 million, respectively. The majority of our investment activities have historically been related to the purchase of manufacturing equipment and components for our production lines, and in 2014 and 2015 the construction of a new manufacturing facility with two production lines in the United States. In order to support our overall business expansion, we will continue to invest in manufacturing equipment and components for our production lines and in further expanding manufacturing capacity as we may require, subject to growth in the demand for our products. Moreover, we may spend additional amounts of cash on acquisitions from time to time, if and when such opportunities arise. In 2015, we completed the vast majority of our investment in the two production lines of the U.S. manufacturing facility with the remainder of the investment completed in 2016, the total of which amounted to approximately $135 million. Given the fact that the timing of our next capacity expansion in the U.S. facility or elsewhere is not determined yet, we anticipate that our capital expenditures in 2018 will remain significantly lower than the amounts invested in 2014 and 2015.

B. Business Overview*

The global countertop industry generated approximately $95 billion in sales to end consumers in 2016 based on average installed price, which includes fabrication, installation and other related costs. Sales to end-consumers include sales to end-consumers of countertops as opposed to sales at the wholesale level from manufacturers to fabricators and distributors. The following charts show the global countertop market by region and by material, based on sales to end-users in 2016:

We are a leading manufacturer of high-quality engineered quartz surfaces sold under our premium Caesarstone brand. Although the use of quartz is relatively new, it is the fastest growing material in the countertop industry and continues to take market share from other materials, such as granite, manufactured solid surfaces and laminate. Between 1999 and 2016, global engineered quartz sales to end-consumers grew at a compound annual growth rate of 17.9% compared to a 4.9% compound annual growth rate in total global countertop sales to end-consumers during the same period. In recent years, quartz penetration rate, by volume, increased in our key markets, as detailed in the following chart:

Quartz penetration in our key markets

	For the year ended December 31,			
Region	2016	2014	2012	2010
United States	14%	8 %	6 %	5 %
Australia (not including New Zealand)	45%	39 %	35 %	32 %
Canada	24%	18 %	12 %	9 %
Israel	87%	86 %	85 %	82 %

Our products consist of engineered quartz slabs that are currently sold in approximately 50 countries through a combination of direct sales in certain markets and indirectly through a network of independent distributors in other markets. In 2011, we acquired our former U.S. distributor and now generate the substantial majority of our revenues in the United States from direct distribution of our products. Our products are primarily used as kitchen countertops in the renovation and remodeling and residential construction end markets. Other applications for engineered quartz include vanity tops, wall panels, back splashes, floor tiles, stairs and other interior surfaces that are used in a variety of residential and non-residential applications. High quality engineered quartz offers hardness, non-porous characteristics, superior scratch, stains and heat resistance, making it durable and ideal for kitchen and other applications relative to competing products such as granite, manufactured solid surfaces and laminate. Through our design and manufacturing processes we are able to offer a wide variety of colors, styles, designs and textures. In 2016, our products accounted for approximately 8% of global engineered quartz by volume and we captured approximately 13%, 52%, 39% and 85% of the countertop market share in the United States, Australia (not including sales to New Zealand), Canada and Israel, by volume, respectively.

From 2009 to 2017, our revenue grew at a compound annual growth rate of 17.4%. In 2017, we generated revenue of $588.1 million, net income attributable to controlling interest of $26.2 million, adjusted EBITDA of $ 100.4 million and adjusted net income attributable to controlling interest of $49.8 million. See “ITEM 3.A: Key Information—Selected Financial Data” for a description of how we define adjusted EBITDA and adjusted net income attributable to controlling interest and reconciliations of net income to adjusted EBITDA and net income attributable to controlling interest to adjusted net income attributable to controlling interest.

* Global countertop demand in total, by region and by material are based on Freedonia's report as of February 20, 2017 , which included revisions of such data for 2010, 2012 and 2014 previously provided by Freedonia. In general, for each of these three years, data related to quartz global penetration were increased by Freedonia and data related to laminate global penetration were decreased. Also, countertop demand as reported by Freedonia was increased in Asia and decreased in Europe for each of these three years. Quartz penetration in each of our four main markets (and our market share in those markets, accordingly) remained the same as published by Freedonia in each of these three years.

Our Products

Our products to date are generally marketed under the Caesarstone brand. The substantial majority of our products are installed as countertops in residential kitchens. Other applications of our products include vanity tops, wall panels, back splashes, floor tiles, stairs and other interior surfaces. Our engineered quartz slabs measure 120 inches long by 56 1/2 inches wide and 130 inches long by 65 inches wide with a thickness of 1/2 of an inch, 3/4 of an inch or 1 1/4 inches. Engineered quartz surfaces are typically comprised of approximately 90% quartz and approximately 10% polyester and pigments. Our products' composition gives them superior strength and resistance levels to heat, scratches, cracks and chips. Polyester, which acts as a binding agent in our products, make our products non-porous and highly resistant to stains. Pigments act as a dyeing agent to vary our products' colors and patterns.

We engineer our products with a wide range of colors, finishes, textures, thicknesses and physical properties, which help us meet the different functional and aesthetic demands of end-consumers. We offer a wide spectrum of design options in the engineered quartz surface industry with different colors, textures and finishes, designed to appeal to end-consumers' preferences. Our designs range from fine-grained patterns to coarse-grained color blends with a variegated visual texture. Through offering new designs, we capitalize on Caesarstone's brand name and foster our position as a leading innovator in the engineered quartz surface industry.

Our product offerings include three collections, each of which is designed to have a distinct aesthetic appeal. We use a multi-tiered pricing model across our products and within each product collection ranging from lower price points to higher price points. Each product collection is designed, branded and marketed with the goal of reinforcing our products' premium quality.

We introduced our original product collection, Classico, in 1987, and today, this collection accounts for the majority of our sales. Within this product collection, we offer over 80 different colors, with four textures and three thicknesses generally available for each of the collection's colors. Our additional product collections, Concetto, and Supernatural, are marketed as specialty high-end product collections. The Concetto product collection, launched in 2003, features engineered quartz surfaces with hand-incorporated semi-precious stones. In 2012, we launched new products under our Supernatural collection, whose design was inspired by natural stone and which are manufactured using proprietary technology. We regularly introduce new colors and designs to our product collections based on consumer trends.

A key focus of our product development is a commitment to substantiating our claim of our products' superior quality, strength and durability. Our products undergo regular tests for durability and strength internally by our laboratory operations group and by external accreditation organizations. We are accredited by organizations overseeing safety and environment performance, such as the NSF International and GREENGUARD Indoor Air Quality. Our products support green building projects and allow contractors to receive Leadership in Energy and Design (LEED) points for projects incorporating our products.

Distribution

Our four largest markets based on sales are currently the United States, Australia (including New Zealand), Canada and Israel. In 2017, sales of our products in these markets accounted for 41.7%, 23.4%, 16.6% and 7.6% of our revenues, respectively. Total sales in these markets accounted for 89.3% of our revenues in 2017. For a breakdown of

revenues by geographic market for the last three fiscal years, see “ITEM 5.A: Operating Results and Financial Review and Prospects—Operating Results.”

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Direct Markets

We currently have direct sales channels in the United States, Australia, Canada, Israel, the United Kingdom and Singapore. Our direct sales channels allow us to maintain greater control over our entire sales channel within a market. As a result, we gain greater insight into market trends, receive feedback more readily from end-consumers, architects and designers regarding new developments in tastes and preferences, and have greater control over inventory management. Our subsidiaries' warehouses in each of these countries maintain inventories of our products and are connected to each subsidiary's sales department. We supply our products primarily to fabricators, who in turn resell them to contractors, developers, builders and consumers, who are generally advised by architects and designers to use Caesarstone products for a project. In the U.S. and Canada, in certain market channels such as IKEA and Lowe's, we also provide, together with our products, fabrication and installation services, which we source from third party fabricators. We believe that our supply of a fabricated and installed countertop made of Caesarstone is a competitive advantage in such channels, which enables us to better control our products' prices as well as to promote a full solution to our customers.

In Israel, where our headquarters and global operations are located, we distribute our products directly to several local distributors who in turn sell them to fabricators. This arrangement minimizes our financial exposure to end-consumers and provides us with significant depth of coverage in the Israeli market. Although we sell our products to distributors in this market, we consider this a direct market due to the warranty we provide to end-consumers, as well as our fabricator technical and health and safety instruction programs and our local sales and marketing activities. In the United States, Australia, Canada and Singapore we have established direct distribution channels with distribution locations in major urban centers complemented by arrangements with various third parties sub-distributors or stone suppliers in certain areas of the United States. As of 2016, in Australia, Canada and the United States, the adoption rate of the engineered quartz surfaces was approximately 45%, 24% and 14%, respectively, of the overall countertop market by volume, and we have captured approximately 52%, 39% and 13% of countertop market share in Australia, Canada and the United States, respectively.

Starting from May 2013 in the United States and October 2014 in Canada, we provide quartz and solid surfaces countertops to IKEA customers, which we source, fabricate and install. Such countertops are then marketed by IKEA without a brand name. We have engaged several third-parties fabricators to provide us with the fabrication and installation services designated for IKEA customers. In addition, starting from the first quarter of 2017, we provide an overlay solution, made of our products, for existing countertops to Lowe's in the United States. Similar to IKEA, in addition to our products, we provide also fabrication and installation services through third party fabricators. We offer this solution in certain Lowe's stores in the United States and expect to gradually increase the number of Lowe's stores we serve.

In 2016, we terminated our engagement with our U.K. distributor, and starting in January 2017 we have been selling and distributing our products in the U.K. directly through our U.K. subsidiary, Caesarstone (UK) Ltd.

Indirect Markets

We distribute our products in other territories in which we do not have a direct sales channel through third-party distributors, who generally distribute our products to fabricators on an exclusive or non-exclusive basis in a specific country or region. Fabricators sell our products to contractors, developers, builders and consumers. In some cases, our distributors operate their own fabrication facilities. Additionally, our distributors may sell to sub-distributors located within the territory who in turn sell to fabricators.

In most cases, we engage one distributor to serve a country or region. Today, we sell our products in over 40 countries through third-party distributors, and approximately 50 countries in total. Sales to third-party distributors accounted for 9.8% of our revenues in 2017. This strategy often allows us to accelerate our penetration into multiple new markets. Our distributors typically have prior stone surface experience and close relationships with fabricators, builders and

contractors within their respective territory. Some of our distributors are also fabricators.

We work closely with our distributors to assist them in preparing and executing a marketing strategy and comprehensive business plan. Ultimately, however, our distributors are responsible for the sales and marketing of our products and providing technical support to their customers within their respective territories. To assist our distributors in the promotion of our brand in these markets, we provide our distributors with marketing materials and in certain cases, monetary participation in marketing activities. Our distributors devote significant effort and resources to generating and maintaining demand for our products along all levels of the product supply chain in their territory. To this end, distributors use our marketing products and strategies to develop relationships with local builders, contractors, developers, architects and designers. Certain distributors, as well as sub-distributors, do not engage in brand promotion activities and their activities are limited to sales promotion, warehousing and distributing to fabricators or other customers.

We do not control the pricing terms of our distributors' or sub-distributors' sales to fabricators. As a result, prices for our products for fabricators may vary.

Sales and Marketing

Sales

For our direct sales, we manufacture or source engineered quartz slabs based upon our rolling projections of the demand for our products, and for our indirect sales, we manufacture or source our products on a purchase order basis

In recent years, our sales department, responsible for our global sales to third parties, which is based in Israel, has focused on penetrating new markets, as well as further developing our key growth indirect sales markets. We intend to continue to penetrate new markets in collaboration with distributors.

In recent years, we have also significantly increased our revenues within our existing key direct markets in the United States, Australia, Canada and Israel. We believe our products still have significant growth opportunities in the United States, Australia and Canada. For information on sales trends for the regions in which we operate, see “ITEM 5: Operating and Financial Review and Prospects – Components of statement of income”. In addition, in 2016 we established a direct sales channel in the United Kingdom and starting in January 2017 we have been selling and distributing our products in the U.K. directly through our U.K. subsidiary. We intend to continue to invest resources to further strengthen and increase our penetration in our existing markets. We are also exploring alternative sales channels and methodologies to further enhance our presence in each market.

Marketing

We position our engineered quartz surfaces as premium branded products in terms of their designs, quality and pricing. Through our marketing, we seek to convey our products’ ability to elevate the overall quality of an entire kitchen or other interior setting. Our marketing strategy is to deliver this message every time our customers (including end-customers), fabricators, architects and designers come in contact with our brand. We also aim to communicate our position as a design-oriented global leader in engineered quartz surface innovation and technology.

The goal of our marketing activities is to drive marketing and sales efforts through our subsidiaries and our distributors, while creating demand for our products from end-consumers, fabricators, contractors, architects and designers, which we refer to as a “push-and-pull demand strategy.” We believe that the combination of both pushing our products through all levels of the product supply chain while generating demand from end-consumers differentiates us from our competitors in the engineered quartz and surface material industries.

We believe that by localizing our marketing activities at the distributor level (including in our direct markets), we increase the global exposure of our brand while tailoring marketing activities to the individual needs, tastes and preferences of a particular country. As such, marketing activities across our markets differ as we aim to promote sales among those who have the greatest influence on public perception in each market.

We and our distributors implement a multi-channel marketing strategy in each of our territories and market not only to our direct customers, but to the entire product supply chain, including fabricators, developers, contractors, kitchen retailers, builders, architects and designers. We use multiple marketing channels, including advertisements in home interior magazines and websites, the placement of our display stands and sample books in kitchen retails stores and our company website. Through our “Caesarstone University” program we educate fabricators about our products and their capabilities and installation methods through manuals and seminars. As a result, our markets benefit from highly trained fabricators with a comprehensive understanding of our products and the ability to install our products in a variety of applications.

Our marketing materials are developed by our global marketing department in Israel and are used by our distributors and subsidiaries globally. These materials may be slightly adjusted in their respective local markets, which helps in combining the special needs of each market and the global consistency of the Caesarstone brand. We offer our

distributors a refund of a small percentage of their total purchases from us to buy our marketing materials, such as product brochures, promotional packages, print and online advertising materials, sample books, exhibition infrastructure, signage and stationary and display stands. This provides our distributors with significant flexibility to choose the best marketing strategy to implement in their particular territory. Occasionally, our local marketing departments in the United States, Australia and Canada develop their own tactical marketing materials in accordance with our global brand guidelines, in addition to using our marketing materials, due to the size and particular characteristics of these territories. In 2017, we spent $ 28.0 million on direct advertising and promotional activities.

Our websites are a key part of our marketing strategy. We operate a global company website that serves as an international website for our distributors. Certain of our third-party distributors and our Australian subsidiary maintain their own websites, which are in accordance with our brand guidelines and linked to our website. Our websites enable fabricators and end-consumers to view currently available designs, photo galleries of installations of our products in a wide range of settings, and read product success stories, which feature high profile individuals' and designers' use of our products, as well as instructions with respect to the correct usage of our products. We also conduct marketing activity in the social media arena mainly to increase our brand awareness among end-consumers, architects and designers.

We also seek to increase awareness of our brand and products through a range of other methods, such as home design shows, design competitions, media campaigns and through our products' use in high profile projects and iconic buildings. In recent years, we have collaborated with renowned designers, who created exhibitions and particles from our products. Our design initiatives attracted press coverage around the world.

Research and Development

Our research and development department is located in Israel. The department is comprised of 16 employees and works closely with employees from other departments, all of whom have extensive experience in engineered quartz surface manufacturing, polymer science, engineering, product design and engineered quartz surface applications. In 2017, research and development costs accounted for approximately 0.7% of our revenues.

The strategic mission of our research and development team is to develop and maintain innovative and leading technologies and top- quality designs, develop new and innovative products according to our marketing department's roadmap, increase the cost-effectiveness of our manufacturing processes and raw materials, and generate and protect company intellectual property in order to enhance our position in the engineered quartz surface industry. We also study and evaluate consumer trends by attending industry exhibitions and hosting international design workshops with market and design specialists from various regions.

In 2012, we launched the Supernatural collection. These products are designed to reflect our interpretation of natural stone. In 2013, we introduced seven new colors under our Classico and Supernatural collections. In 2014, we introduced eight additional new colors under our Classico and Supernatural collections, including our Calacatta Nuvo, which is our interpretation of natural calacatta stone, and other products inspired by natural granite and marble, all of which were the result of new proprietary technologies developed by our research and development department. In 2015, we launched five new products under our Supernatural collection and four new colors under our Classico collection. In 2016, we launched two new products under our Supernatural collection and seven new products under our Classico collection. In 2017, we launched seven additional new products.

Customer Service

We believe that our ability to provide outstanding customer service is a strong competitive differentiator. Our relationships with our customers are established and maintained through the coordinated efforts of our sales, marketing, production and customer service personnel. In our indirect markets, we provide all of our distributors a limited direct manufacturing defect warranty and our distributors are responsible for providing warranty coverage to end-customers. The warranties provided by our distributors vary in term with a three-year warranty provided in Europe and warranties lasting up to 20 years in other regions. In our direct markets, the warranty period also varies. We provide end-consumers with limited lifetime warranties in the United States,Canada and Israel and a ten-year limited warranty in Australia. For end-consumers, warranty issues on our products are addressed by our local distributor. In our direct markets, following an end-consumer call, our technicians are sent to the product site within a short time. We train our distributors to handle local warranty issues through our "Caesarstone University" program. The Caesarstone University program includes readily accessible resources and tools regarding the fabrication, installation, care and maintenance of our products. We believe our comprehensive global customer service capabilities and the

sharing of our service related know-how differentiate our company from our competitors.

Raw Materials and Service Provider Relationships

Quartz, pigment and polyester are the primary raw materials used in the production of our products. We acquire our raw materials from third-party suppliers. Suppliers ship our raw materials to our manufacturing facilities in Israel primarily by sea. For our U.S. facility, the supply sources are primarily domestic, except for quartz, which is mostly imported. Our raw materials are generally inspected at the suppliers' facilities and upon arrival at our manufacturing facilities in Israel and the U.S. We believe our strict raw material quality control procedures differentiate our products from those of our competitors because they limit the number of product defects and contribute to the superior quality and appearance of our products. The cost of our raw materials consists of the purchase prices of such materials and costs related to the logistics of delivering the materials to our manufacturing facilities. Our raw materials costs are also impacted by changes in foreign currency exchange rates.

Quartz is the main raw material component used in our products. Raw quartz must be processed into finer grades of sand and powder before we use it in our manufacturing process. We purchase quartz from our quartz suppliers already processed by them. We acquire quartz from suppliers primarily in Turkey, Israel, Belgium, India, Spain and Portugal. In 2015, we started to acquire limited quantities of quartz from the United States for our manufacturing operations in our plant at Richmond Hill, Georgia. We require supplies of particular grades and shades of quartz for our products. In 2017, approximately 69% of our quartz, including mainly quartzite, which is used across all of our products was imported from four suppliers in Turkey, out of which approximately 42% was acquired from Mikroman Madencilik San ve TIC.LTD.STI ("Mikroman"), which constitutes approximately 29% of our total quartz, and approximately 34% was acquired from Polat Maden Sanayi ve Ticaret A.S ("Polat"), which constitutes approximately 23% of our total quartz. Our current supply arrangements with Polat and Mikroman for 2018 are set forth in letter agreements. We expect our arrangements with Mikroman and Polat with respect to prices and quantities to remain unchanged through the end of 2018.

Similar to our arrangements with Mikroman and Polat described above, we typically transact business with our quartz suppliers on an annual framework basis, under which we execute purchase orders from time to time. Quartz imported from Turkey, Europe and Israel for our U.S. manufacturing facility entails higher transportation costs. In 2018, we intend to continue to acquire quartz for our U.S. manufacturing facility mainly from the same sources we use for our Israeli facilities, but expect a slight increase in our domestic supply compared to 2017.

In most cases, we acquire polyester mainly from two suppliers, on a purchase order basis, based on our projected needs for the subsequent one to three months. Currently, suppliers are unwilling to agree to preset prices for periods longer than a quarter and suppliers' prices may vary during a quarter as well.

Pigments for our production in Israel are purchased from Israel and suppliers abroad. Pigments for our U.S. production are primarily purchased from the U.S.

Our strategy is to maintain, whenever practicable, multiple sources for the purchase of our raw materials to achieve competitive pricing, provide flexibility and protect against supply disruption.

See "ITEM 3.D. Key Information—Risk Factors— We may encounter significant delays in manufacturing if we are required to change the suppliers for the raw materials used in the production of our products." For our cost of quartz, polyester and pigments in 2017 and prior years, see "ITEM 5.A: Operating Results and Financial Review and Prospects—Operating Results— Cost of revenues and gross profit margin."

Manufacturing and Facilities

Our products are manufactured at our three manufacturing facilities located in Kibbutz Sdot-Yam in central Israel, Bar-Lev Industrial Park in northern Israel and Richmond-Hill, Georgia in the U.S. We completed our Bar-Lev manufacturing facility in 2005, which included our third production line, and we established our fourth production

line at this facility in 2007 and our fifth production line at this facility in 2013. We completed our U.S. manufacturing facility in 2015, where we began to operate our sixth production line in the second quarter of 2015 and our seventh line in the fourth quarter of 2015. Finished slabs are shipped from our facilities in Israel to distributors and customers worldwide and from our U.S facility to customers in North America. In addition, we have taken initial steps towards establishing our second building in the State of Georgia, to accommodate additional manufacturing capacity if we decided to build it in the future as needed to satisfy potential demand. For further discussion of our facilities, see "ITEM 4.D: Information on Caesarstone—Property, plants, and equipment."

The manufacturing process for our products typically involves blending approximately 90% quartz with approximately 10% polyester and pigments. Using machinery acquired primarily from Breton, the leading supplier of engineered stone manufacturing equipment, together with our proprietary manufacturing enhancements, this mixture is compacted into slabs by a vacuum and vibration process. The slabs are then moved to a curing kiln where the cross-linking of the polyester is completed. Lastly, the slabs are gauged, calibrated and polished to enhance shine.

We maintain strict quality control and safety standards for our products and manufacturing process. Our manufacturing facilities have several safety certifications from third-party organizations, including an OHSAS 18001 safety certification from the International Quality Network for superior manufacturing safety operations.

In addition, in 2017 we have increased our outsourcing capabilities and currently purchase a certain portion of our slabs from third-party quartz manufacturers that meet our specifications. We conduct quality control and quality assurance processes with respect to such outsourcing of our products. In 2018, we intend to increase the scope of purchases from OEMs.

Seasonality

For a discussion of seasonality, please refer to "ITEM 5.A: Operating and Financial Review and Prospects—Operating Results—Quarterly results of operations and seasonality."

Competition

We believe that we compete principally based upon product quality, breadth of product offering and product innovation, brand awareness and position, pricing and customer service. We believe that we differentiate ourselves from competitors on the basis of our premium brand, our signature product designs, our ability to offer our products in major markets globally, our focus on the quality of our product offerings, our customer service- oriented culture, our high involvement in the product supply chain and our leading distribution partners.

The dominant surface materials used by end-consumers in each market vary. Our engineered quartz surface products compete with a number of other surface materials such as granite, laminate, marble, manufactured solid surface, concrete, stainless steel, wood and ceramic large slabs, a new countertop surface material entrant. The manufacturers of these products consist of a number of regional and global competitors. Some of our competitors may have greater resources than we have, and may adapt to changes in consumer preferences and demand more quickly, expand their materials offering, devote greater resources to design innovation and establishing brand recognition, manufacture more versatile slab sizes and implement processes to lower costs.

The engineered quartz surface market is highly fragmented and is also served by a number of regional and global competitors. We also face growing competition from low-cost manufacturers from Asia, especially from China, and from Europe. Large multinational companies have also invested in their engineered quartz surface production capabilities. For more information, see "ITEM 3.D. Key Information—Risk Factors—We face intense competitive pressures from manufacturers of quartz or other surface materials which could materially and adversely affect our results of operations and financial condition."

Information Technology Systems

We believe that an appropriate information technology infrastructure is important in order to support our daily operations and the growth of our business.

Our ERP software provides us with accessible quality data and allows us to accurately enter, price and configure valid products in a made-to-order, demand-driven manufacturing environment. Carefully maintained infrastructure is critical, given that our products can be built in a number of combinations of sizes, colors, textures and finishes, and

our production control software enables us to carefully monitor the quality of our slabs. Given our global expansion, we implemented a global ERP based on an Oracle platform, in 2013 and 2014.

We have experienced and expect to continue to experience actual or attempted cyber-attacks of our IT networks. Although none of these actual or attempted cyber-attacks has had a material impact on our operations or financial condition, we cannot guarantee that any such incidents will not have a material adverse impact on our operations or financial condition in the future. We are constantly implementing new technologies and solutions to assist in prevention of potential and attempted cyber-attacks, as well protective measures and contingency plans in the event of an existing attack. We have updated our IT infrastructure to enhance our ability to prevent and respond to such threats, and conduct training for our employees in this respect. For further details see “ITEM 3.D. Key Information—Risk Factors—Disruptions to our information technology systems due to cyber-attacks or our failure to upgrade and adjust our information technology systems globally, may materially impair our operations, hinder our growth and materially and adversely affect our business and results of operations.”

Intellectual Property

Our Caesarstone brand is central to our business strategy, and we believe that maintaining and enhancing the Caesarstone brand is critical to expanding our business.

We have obtained trademark registrations in certain jurisdictions that we consider material to the marketing of our products, all of which are used under the trade mark Caesarstone, including CAESARSTONE®, CONCETTO®, and our Caesarstone logo. We have obtained trademark registrations for additional marks that we use to identify certain product collections, as well as other marks used for certain of our products. While we expect our applications to mature into registrations, we cannot be certain that we will obtain such registrations. In many of our markets we also have trademarks, including registered and unregistered marks, on the colors and models of our products. We believe that our trademarks are important to our brand, success and competitive position. In the past, some of our trademark applications for certain classes of our products' applications have been rejected or opposed in certain markets and may be rejected for certain classes in the future, in all or parts of our markets, including without limitation, for flooring and wall cladding. We are currently subject to opposition proceedings with respect to applications for registration of our trademark Caesarstone™ in certain jurisdictions.

To protect our know-how and trade secrets, we customarily require our employees and managers to execute confidentiality agreements or otherwise agree to keep our proprietary information confidential. Typically, our employment contracts also include clauses requiring these employees to assign to us all inventions and intellectual property rights they develop in the course of their employment and agree not to disclose our confidential information.

In addition to confidentiality agreements, we seek patent protection for some of our latest technologies. We have obtained patents for certain of our technologies and have pending patent applications that were filed in various jurisdictions, including the United States, Europe, Australia, Canada, China and Israel, which relate to our manufacturing technology and certain products. No patent application of ours is material to the overall conduct of our business. There can be no assurance that pending applications will be approved in a timely manner or at all, or that such patents will effectively protect our intellectual property. There can be no assurance that we will develop patentable intellectual property in the future, and we have chosen and may further choose not to pursue patents for innovations that are material to our business.

Environmental and Other Regulatory Matters

Environmental and Health and Safety Regulations

Our manufacturing facilities and operations in Israel and our manufacturing facility in the State of Georgia, United States, whose two production lines became operational in 2015, are subject to numerous Israeli and U.S. environmental and workers' health and safety laws and regulations. Applicable U.S. laws and regulations include federal, state and local laws and regulations, including Georgia state laws. Laws and regulations in both countries deal with pollution and the protection of the environment, setting standards for emissions, discharges into the environment or to water, soil and water contamination, product specifications, nuisance prevention, generation, the treatment, import, purchase, use, storage and transport of hazardous materials, and the storage, treatment and disposal and remediation of solid and hazardous waste, including sludge, and protection of workers' health and safety. Violations of environmental, health and safety laws, regulations and permit conditions may lead to, among other things, civil and criminal sanctions, injunctive orders as well as permit revocations and facility shutdowns as further described in "ITEM 3.D: Key Information— Risk Factors— The extent of our liability exposure for environmental, health and safety, product liability and other matters may be difficult or impossible to estimate, and could negatively impact our financial condition and results of operations".

In addition to being subject to regulatory and legal requirements, our manufacturing facilities in Israel and in the United States operate under applicable permits, licenses and approvals with terms and conditions containing a significant number of prescriptive limits and performance standards. Business licenses for our facilities in Israel contain conditions related to a number of requirements, including with respect to dust emissions, air quality, the disposal of effluents and process sludge, and the handling of waste, chemicals and hazardous materials. We operate in Israel under poison permits that regulate our use of poisons and hazardous materials. Our current poison permits are valid until January 2019 for our Bar-Lev facility and February 2019 for our Sdot -Yam facility. In addition, we dispose of wastewater from our Israeli manufacturing facilities to a treatment plant pursuant to permits obtained from the Israeli Ministry of Environmental Protection (“IMEP”),which are effective until December 31, 2019. Further, in 2014, the IMEP analyzed our sludge waste and determined to classify our sludge as “solid industrial waste.” Our facility in the United States is required to obtain and follow a General Permit for Storm Water Discharges Associated with Industrial Activity of the Georgia Environmental Protection Division (GEPD), an air quality permit from GEDP and other requirements and regulations including among others specific limitations on emission levels of hazardous substances, such as styrene, specific limitations on silica dust levels inside our plant, allowable wastewater discharge limits, oil spill prevention rule, hazardous waste handling requirements and fire protection measures requirements. Each of these permits and licenses require a significant amount of monitoring, record-keeping and reporting in order for us to demonstrate compliance therewith.

From time to time, we face environmental and health and safety compliance issues related to our two manufacturing facilities in Israel and in the U.S.

Manufacturing facilities in Israel:

Styrene gas emissions. The IMEP requires us to comply with the applicable obligations under the law and regulations related to styrene gas emission at both of our manufacturing facilities in Israel.

- We installed and implemented systems which we believe reduce the amount of styrene emissions as required and we present our plans to further improve our control of styrene emission at our plants to the IMEP from time to time. In the past, we have been invited to hearings at the IMEP and the IMEP has recommended an investigation to look into allegations that we exceeded the threshold of styrene air ambient standards during 2013 in our Sdot-Yam facility. If the IMEP decides that we do not fully comply with the styrene emission standards, our business license may be revoked, our facilities’ operation may be limited or shut down and we may become subject to civil and criminal sanctions.
- During 2016 and 2017, we implemented additional engineering solutions and enhanced safety practices in both of our facilities to improve compliance with the styrene gas emission standards. From time to time, the IMEP visits our facilities and provides us with a summary of its findings. We are in ongoing discussions with the IMEP and intend to continue monitoring, and, if necessary, applying corrective measures to control the styrene emissions at our facilities.

Dust emissions and exposure.

- With respect to dust emissions both into the environment and inside our manufacturing facilities in Israel, we are implementing measures in order to achieve compliance with dust emission environmental standards and meet the health and safety standards with respect to permissible exposure limits.
- On December 25, 2016, the Ministry of Labor, Social Affairs and Social Services (“IMLSS”) issued safety orders instructing us to stop production in certain manufacturing processes of the two production lines at our Sdot-Yam facility. The orders alleged deviations from permitted ambient levels of silica dust, styrene and acetone in the facility. Simultaneously, the IMLSS issued a warning of pending safety orders seeking the suspensions of our Bar-Lev facility. As the orders were based on outdated monitoring results, the IMLSS granted us with additional time to obtain updated monitoring results, and, on January 29, 2017, upon receiving satisfactory results reflecting significant improvement, the IMLSS rescinded the orders. We seek on an ongoing basis to continue reducing the level of exposure of our employees to silica dust, styrene and acetone, while enforcing our employees' use of personal protection equipment.

Manufacturing facility in the U.S.:

- Air Permit. In June 2017, following an inspection of our facility, we received a notice of violation of the requirements of the Air Quality Permit from the Georgia Department of Natural Resources, Environmental Protection Division ("DNR"), due to alleged failure to notify the authorities of exceeding the monthly average styrene emission levels for the month of April 2017, and failure to provide records of certain engineering solutions implemented in the facility. We took corrective measures to address the claims raised by the DNR and in July 2017 were notified that the matter was closed and that no further enforcement action will be taken. On February 12, 2018 our plant was inspected again by the DNR, which indicated that an enforcement action may be applied mainly due to an alleged non-compliance with record keeping obligations. We are currently in the process of implementing a compliance program in our facility to enhance our internal procedures. We may be subject to further inspections by the DNR if we are not able to meet all the requirements of the Air Quality Permit.

- Water and Sewer Use. In 2013, we entered into a 30-year agreement with the City of Richmond Hill, pursuant to which the city is required to accept our facility's sanitary and industrial wastewater discharge up to a certain quantity and subject to certain terms and conditions, including certain permitted concentration level in the discharged water. If we do not meet the applicable limitation under such agreement, we may be required to build an onsite waste water treatment facility. In the past, there were instances in which our wastewater discharge did not meet the concentration levels set in the agreement, and there is no assurance that we will successfully meet such levels in the future. The city has further notified us that it may request a change to the permitted concentration levels for discharged wastewater as currently set in the agreement.

- OSHA inspections. During 2016 and 2017 OSHA conducted several inspections at our facility which resulted in citations and penalties relating to, among other things, fall protection and workplace injuries, industrial hygiene, monitoring lockout tag out programs and silica exposure. We implemented corrective measures to address the concerns indicated by OSHA, which concluded in settlement agreements or other understandings with OSHA. Under such agreements and understandings with OSHA, we are required to adhere to certain requirements on an ongoing basis and under preset timeline, including implementation of additional engineering controls for silica dust exposure, conducting certain audits and reporting periodically to OSHA.

Other Regulation

We are subject to the Israeli Rest Law, which, among other things, prohibits the employment of Jewish employees on Saturdays and Jewish holidays, unless a permit is obtained from the IMEI. In January 2018, we received a permit from the IMEI to employ Jewish employees on Saturdays and Jewish holidays in connection with most of the production machinery in our Sdot-Yam facility, effective until December 31, 2018. Currently, in our Bar-Lev facility, our Jewish employees do not work on Saturdays, while our non-Jewish employees are employed on such days.

If we are deemed to be in violation of the Rest Law, we and our officers may be exposed to administrative and criminal liabilities, including fines, and our operational and financial results could be materially and adversely impacted. For more information, see "Item 3.D. Risk Factors—Risks relating to our incorporation and location in Israel—If we fail to comply with Israeli law restrictions concerning employment of Jewish employees on Saturdays and Jewish holidays, we and our office holders may be exposed to administrative and criminal liabilities and our operational and financial results may be materially and adversely impacted."

For information on other regulation applicable, or potentially applicable, to us, see the following risks factors in "ITEM 3.D. Key Information—Risk Factors":

- "Risks related to our business and industry—We may have exposure to greater-than-anticipated tax liabilities."

“Risks related to our incorporation and location in Israel— Conditions in Israel could materially and adversely affect our business.”

- “Risks related to our incorporation and location in Israel—The tax benefits that are available to us require us to continue to meet various conditions and may be terminated or reduced in the future, which could increase our costs and taxes.”

- “Risks related to our incorporation and location in Israel—If we are considered a ‘monopoly’ under Israeli law, we could be subject to certain restrictions that may limit our ability to freely conduct our business to which our competitors may not be subject.

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Legal Proceedings

See “ITEM 8.A: Financial Information—Consolidated Financial Statements and Other Financial Information—Legal Proceedings.”

C. Organizational Structure

The legal name of our company is Caesarstone Ltd. On June 9, 2016, the Israeli Register of Companies approved to change our name from Caesarstone Sdot-Yam Ltd. to Caesarstone Ltd.

Caesarstone was organized under the laws of the State of Israel. We have five wholly-owned subsidiaries: Caesarstone Australia PTY Limited, which is incorporated in Australia, Caesarstone South East Asia PTE LTD, which is incorporated in Singapore, Caesarstone (UK) Ltd., which is incorporated in the United Kingdom, Caesarstone USA, Inc. and Caesarstone Technologies USA, Inc. (which is wholly-owned by Caesarstone USA, Inc.), both of which are incorporated in the United States.

We hold a 55% ownership interest in Caesarstone Canada, a joint venture we established in 2010 with our former distributor in Eastern Canada, Ciot, which operates fabrication facilities and is also a significant customer of Caesarstone Canada. The approval of both shareholders is required for certain corporate actions by the joint venture, including reducing the selling price of the joint venture’s products below a certain level. Unless we and Ciot otherwise agree, at the end of each financial year Caesarstone Canada is obligated to distribute 30% of its distributable profits (net profits, the distribution of which will not cause certain events such as insolvency, breach of bank covenants or missing future cash flows or budget, as determined by the board of directors of Caesarstone Canada). As of the date of this report, a total amount of $1,864 thousand was distributed on the account of Caesarstone Canada's years of operation through the end of 2016.

In connection with the formation of the joint venture, we granted Ciot a put option and Ciot granted us a call option for its interest, each exercisable any time between July 1, 2012 and July 1, 2023. Exercise of the put option requires six months prior notice. Exercise of the call option does not require prior notice. The purchase price of each option is to be calculated based on the 45% interest out of corporate value of Caesarstone Canada. Corporate value calculated according to a formula that evaluates the number of slabs sold by Caesarstone Canada and the price per slab and adjustments related to changes in price per slab for Caesarstone Canada Inc. The put option may only be exercised for at least $5 million plus an additional amount equal to interest at a yearly rate of 3.75%. The exercise of the put or call option would result in an increase in our ownership interest from 55% to 100%. We and Ciot have each expressed different interpretation to the calculation of the aforementioned formula for calculating Caesarstone Canada’s corporate value. CIOT’s put option redemption value in our financials follows Ciot’s interpretation.

D. Property, Plants and Equipment

Our manufacturing facilities are located on the following properties in Israel and the United States:

Properties	Issuer’s rights	Location	Purpose	Size
Kibbutz Sdot-Yam(1)	Land Use Agreement	Caesarea, Central Israel	Headquarters, manufacturing facility, research and development center	30,744 square meters of facility and 60,870 square meters of un-covered yard *
Bar-Lev Industrial Park manufacturing facility (2)	Land Use Agreement	Carmiel, Northern Israel	Manufacturing facility	22,844 square meters of facility and 53,261 square meters of un-covered yard**
Belfast Industrial Center(3,4)	Ownership	Richmond Hill, Georgia, United	Manufacturing facility	26,400 square meters of facility and 401,110 square meters of

States	un-covered yard (excluding 56,089 square meters of wetland)

* Square-meter figures with respect to properties in Israel are based on data measured by the relevant municipalities used for local tax purposes. Kibbutz Sdot-Yam has recently claimed that the facility area is larger than indicated herein and we are reviewing the matter.

** Square-meter figures based on data used by Israeli municipalities for local tax purpose is adjusted to reflect the property leased from Kibbutz Sdot-Yam as agreed between us and the Kibbutz during year 2014.

(1) Leased pursuant to a land use agreement with Kibbutz Sdot-Yam entered into in March 2012 with a term of 20 years, which replaced the former land use agreement. Starting from September 2014 we use an additional 9,000 square meters pursuant to Kibbutz Sdot-Yam's consent under terms materially similar to the land use agreement. However, we have the right to return such additional office space and premises to Kibbutz Sdot-Yam at any time upon 90 days' prior written notice. In September 2016, we exercised our right to return to the Kibbutz an additional office space of approximately 400 square meters which we used since January 2014 under terms materially similar to the land use agreement. The lands on which these facilities are located are held by the ILA and leased or subleased by Kibbutz Sdot-Yam pursuant to agreements described in "ITEM 7.B: Major Shareholders and Related Party Transactions—Related Party Transactions—Relationship and agreements with Kibbutz Sdot-Yam—Land use agreement."

(2) Leased pursuant to a land use agreement with Kibbutz Sdot-Yam entered into in March 2011, with a term of 10 years commencing in September 2012, which will be automatically renewed, unless we give two years prior notice, for an additional 10-year term. This agreement was executed simultaneously with the land purchase and leaseback agreement we entered into with Kibbutz Sdot-Yam, according to which Kibbutz Sdot-Yam acquired from us our rights in the lands and facilities of the Bar-Lev industrial center, under a long term lease agreement we entered into with the ILA on June 6, 2007 to use the premises for an initial period of 49 years as of February 6, 2005, with an option to renew for an additional term of 49 years as of the end of the initial period. For more information, see "ITEM 7.B: Major Shareholders and Related Party Transactions—Related Party Transactions—Relationship and agreements with Kibbutz Sdot-Yam—Land purchase agreement and leaseback."

(3) On September 17, 2013, we entered into a purchase agreement for the purchase of approximately 45 acres of land in Richmond Hill, the State of Georgia, United States, comprising approximately 36.6 acres of upland and approximately 9 acres of wetland for our new U.S. manufacturing facility, the construction of which was completed in 2015. On June 22, 2015, we exercised a purchase option in the agreement and acquired approximately 19.4 acres of land, comprising approximately 18.0 acres of upland. On November 25, 2015, we entered into a new purchase agreement for the purchase of approximately 54.9 acres of additional land situated adjacent to the previously purchased land, comprising approximately 51.1 acres of upland.

(4) In December 2014, we entered into a bond purchase loan agreement, were issued a taxable revenue bond on December 1, 2014, and executed a corresponding lease agreement. Pursuant to these agreements, the Development Authority of Bryan County, an instrumentality of the State of Georgia and a public corporation ("DABC"), has acquired legal title of our facility in Richmond Hill, in the State of Georgia, U.S., and in consideration leased such facilities back to us. In addition, the facility was pledged by DABC in favor of us and DABC has committed to re-convey title to the facility to us upon the maturity of the bond or at any time at our request, upon our payment of $100 to DABC. Therefore, we consider such facilities to be owned by us. This arrangement was structured to grant us property tax abatement for ten years at 100% and additional five years at 50%, subject to our satisfying certain qualifying conditions with respect to headcount, average salaries paid to our employees and the total capital investment amount in our U.S. plant. In December 2015, we entered into an additional bond purchase loan agreement with the Development Authority of Bryan County, and were issued a second taxable revenue bond on December 22, 2015, to cover additional funds and assets which were utilized in the framework of constructing, acquiring and equipping our U.S. facility. If we were to expand our current U.S. facility, we would have been entitled to an additional taxable revenue bond and a corresponding property tax abatement. In 2017, we notified DABC that we will not be utilizing such additional bond at this time and, accordingly, it has expired.

Various environmental issues may affect our utilization of the above-mentioned facilities. For a further discussion, see "Item 4.B. Information on the Company—Business Overview—Environmental and Other Regulatory Matters—Environmental and Health and Safety Regulations" above.

ITEM 4A: Unresolved Staff Comments

Not applicable.

ITEM 5: Operating and Financial Review and Prospects

A. Operating Results

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our financial information presented in “ITEM 3: Key Information,” our audited consolidated balance sheets as of December 31, 2017 and 2016, the related consolidated income statements and cash flow statements for each of the three years ended December 31, 2017, 2016, and 2015, and related notes and the information contained elsewhere in this annual report. Our financial statements have been prepared in accordance with U.S. generally accepted accounting principles. See “ITEM 3.D: Risk Factors” and “Special Note Regarding Forward Looking Statements.”

Company overview

We are a leading manufacturer of high-quality engineered quartz surfaces sold under our premium Caesarstone brand. We have grown to become the largest provider of quartz surfaces in Australia, Canada, Israel, France and South Africa, and have significant market share in the United States and Singapore. Our products accounted for approximately 8% of global engineered quartz by volume in 2016. Our sales in the United States, Australia, Canada and Israel, our four largest markets, accounted for 41.7%, 23.4%, 16.6% and 7.6% of our revenues in 2017, respectively. We believe that our revenues will continue to be highly concentrated among a relatively small number of geographic regions for the foreseeable future. For further information with respect to our geographic concentration, see “ITEM 3.D: Key Information—Risk Factors—Our revenues are subject to significant geographic concentration and any disruption to sales within one of our key existing markets could materially and adversely impact our results of operations and prospects.”

We experienced annual compound revenue growth of 8.5% between 2015 and 2017, driven mainly by the continued quartz penetration, increased remodeling spending in all our top three markets and growth in residential unit completions in the United States, our largest market and increased portion of innovative products within our offering. From 2015 to 2017, our gross profit margins decreased from 40.1% to 33.5%, adjusted EBITDA margins decreased from 25.2% to 17.1%, and adjusted net income decreased from 16.8% to 8.5% over the same period. We attribute the decrease in margins mainly to the inefficiencies in our Richmond Hill facility which opened in 2015, to lower manufacturing throughput in Israel related mostly to increased component of differentiated products and to our investment in marketing and sales in the United States as well as the initial cost structure related to the shift to direct distribution in the United Kingdom. Our strategy is to continue to be a global market leader of surfaces and quartz surface products, in particular. We believe that a significant portion of our future growth will come from continued penetration of our U.S. market, particularly with the additional manufacturing capacity in our U.S. facility, which began operations during 2015—as well as from our markets in Australia and Canada. We believe our expansion into new markets that exhibit an existing demand for stone products and stone installation capabilities will contribute to our future growth in the long term. We believe there may be consolidation in the quartz surface industry in the future and to remain competitive in the long term, we will need to grow our business both organically and through the acquisition of third-party distributors, manufacturers and/or raw material suppliers and/or the expansion of our product offering.

Factors impacting our results of operations

We consider the following factors to be important in analyzing our results of operations:

- Our sales are impacted by home renovation and remodeling and new residential construction, and to a lesser extent, commercial construction. We estimate that approximately 60% of our revenue is related to renovation and remodeling activities in the United States, Australia and Canada, while 25% to 35% is related to new residential construction. Renovation and remodeling spending increased by single digits in the United State and Canada in 2016 and 2017. In Australia, renovation and remodeling spending experienced a major decline in growth rate in 2016 compare to 2015 growth and a slight decline in 2017. Housing completions increased by higher rates compared to renovation spending in both 2016 and 2017 in the United States and Australia but was much less favorable in Canada. In 2016, our revenues increased by 7.8%. On a constant currency basis, revenues increased by 8.4%. The growth was primarily in Canada and Australia, delivering 25.4% and 19.0% constant currency growth, respectively. Revenues in the United States declined 0.3% despite strong quartz penetration and positive housing environment, reflecting single digit core growth and decline in our revenues from IKEA. In 2017 our revenue increased by 9.2%. On a constant currency basis, revenue grew by 7.4%. The growth was primarily in the United States and Canada, delivering growth of 10.2% and 12.1% on a constant currency basis.

- Our gross profit margins have decreased from a level of 40.1% in 2015 and 39.5% in 2016 to 33.5% in 2017. This margin erosion mainly reflects inefficiencies in our Richmond-Hill facility, lower manufacturing throughput in Israel related mostly to increased component of differentiated products and increased portion of fabrication and installation revenue, that come with lower margins, mainly associated with IKEA business.

- Our operating income margins were 6.9% in 2017, 17.2% in 2016 and 19.3% in 2015. The continuing decrease is mainly related to the gross margin erosion mentioned above, to the increased investment in marketing and sales efforts in the U.S., the initial investment related to direct distribution operations in the United Kingdom and to legal settlement and loss contingencies expense related mainly to Kfar Giladi arbitration result and to silicosis claims.

- Our U.S. manufacturing facility commenced operations in 2015, with a total investment of approximately $135 million incurred mostly during 2014 and 2015.

- As an increasing portion of our products are sold through direct channels, our revenues and results of operations exhibit some quarterly fluctuations as a result of seasonal influences which impact construction and renovation cycles. Due to the fact that certain of our operating costs are fixed, the impact on our adjusted EBITDA, adjusted net income and net income of a change in revenues is magnified. We believe that the third quarter tends to exhibit higher sales volumes than other quarters because demand for quartz surface products is generally higher during the summer months in the northern hemisphere with the effort to complete new construction and renovation projects before the new school year. Conversely, the first quarter is impacted by the winter slowdown in the northern hemisphere in the construction industry and depending on the date of the spring holiday in Israel in a particular year, the first or second quarter is impacted by a reduction in sales in Israel due to such holiday. Similarly, sales in Australia during the first quarter are negatively impacted by fewer construction and renovation projects. The fourth quarter is susceptible to being impacted from the onset of winter in the northern hemisphere.

- We conduct business in multiple countries in North America, South America, Europe, Asia-Pacific, Australia and the Middle East and as a result, we are exposed to risks associated with fluctuations in currency exchange rates between the U.S. dollar and certain other currencies in which we conduct business. A significant portion of our revenues is generated in U.S dollar, and to a lesser extent the Australian dollar, the Canadian dollar, the euro and the new Israeli shekel. In 2017, 43.5% of our revenues were denominated in U.S. dollars, 23.4% in Australian dollars, 16.6% in Canadian dollars, 7.6% in NIS and 6.8% in euros. As a result, devaluations of the Australian dollars, and to a lesser extent, the Canadian dollar relative to the U.S. dollar may unfavorably impact our profitability. Our expenses are largely denominated in U.S. dollars, NIS and euro, with a smaller portion in Canadian dollars and Australian dollars.

As a result, appreciation of the NIS, and to a lesser extent, the euro relative to the U.S. dollar may unfavorably affect our profitability. We attempt to limit our exposure to foreign currency fluctuations through forward and option contracts, which, except for U.S. dollar/NIS forward contracts, are not designated as hedging accounting instruments under ASC 815, Derivatives and Hedging. As of December 31, 2017, we had outstanding contracts with a notional amount of $115 million. These transactions were for a period of up to 12 months. The fair value of these foreign currency derivative contracts was negative ($0.2) million, which is included in current assets and current liabilities, at December 31, 2017. For further discussion of our foreign currency derivative contracts, see “ITEM 11: Quantitative and Qualitative Disclosures About Market Risk.”

Components of statements of income

Revenues

We derive our revenues from sales of quartz surfaces, mostly to fabricators in our direct markets and to third-party distributors in our indirect markets. In the United States, Australia, Canada, Singapore the initial purchasers of our products are primarily fabricators. In Israel, the purchasers are local distributors who in turn sell to fabricators. In the United States, we also sell our products to a small number of sub-distributors, stone resellers as well as to IKEA. We consider Israel to be a direct market due to the warranty we provide to end-consumers, our local fabricator technical instruction programs and our local sales and marketing activities. The purchasers of our products in our other markets are our third-party distributors who in turn sell to sub-distributors and fabricators. Our direct sales accounted for 90.2%, 89.1%, and 88.5% for the years ended December 31, 2017, 2016 and 2015, respectively.

We recognize revenues upon sales to an initial purchaser when persuasive evidence of an agreement exists, delivery of the product has occurred, the fee is fixed or determinable and collection is probable. Delivery occurs when title is transferred under the applicable international commerce terms, or Incoterms, to the purchaser.

The warranties that we provide vary by market. In our indirect markets, we provide all of our distributors with a limited direct manufacturing defect warranty. In all of our indirect markets, distributors are responsible for providing warranty coverage to end-customers. In Australia, Canada, the United States and Singapore we provide end-consumers with a limited warranty on our products for interior countertop applications. In Israel, we typically provide end-consumers with a direct limited manufacturing defect warranty on our products. Based on historical experience, warranty issues are generally identified within one and a half years after the shipment of the product and a significant portion of defects are identified before installation. We record a reserve on account of possible warranty claims, which increases our cost of revenues. Historically, warranty claims expenses have been low, accounting for approximately 0.2% of our total goods sold in 2017.

The following table sets forth the geographic breakdown of our revenues during the periods indicated:

	Year ended December 31,					
	2017		2016		2015	
Geographical Region	% of total revenues	Revenues in thousands of USD	% of total revenues	Revenues in thousands of USD	% of total revenues	Revenues in thousands of USD
United States	41.7 %	$ 245,361	41.3 %	$ 222,597	44.7 %	$ 223,341
Australia (incl. New Zealand)	23.4	137,559	24.3	130,910	22.1	110,290
Canada	16.6	97,838	15.9	85,740	14.2	70,739
Israel	7.6	44,489	7.9	42,545	7.9	39,645
Europe	4.9	28,679	4.8	25,606	4.8	23,949
Rest of world	5.8	34,221	5.8	31,145	6.3	31,551
Total	100.0%	$ 588,147	100.0%	$ 538,543	100.0%	$ 499,515

In 2017, U.S. revenue increased by 10.2%, reflecting a single-digit core growth rate and stronger IKEA sales. In 2016, U.S. revenues decreased by 0.3%, reflecting a lower single-digit core growth rate, offset with lower sales in IKEA related to temporary changes of their promotional events that started in 2015 and impacted 2016 as well. Revenue in Australia grew by 5.1% in 2017, following 18.7% growth in 2016. On a constant currency basis, revenues in Australia grew by 2.1% in 2017 and 19.0% in 2016. The reduced growth rate in 2017 in comparison to 2016 reflects mainly the weakness in the Australian housing market relative to 2016. In Canada, revenues grew 14.1% in 2017 and 21.2% in 2016, representing a 12.0% and 25.4% increase on a constant-currency basis, respectively. Our growth rate in Canada

was the strongest among all regions in both years, with a decrease between 2016 and 2017, partly related to a lesser IKEA ramp-up. Revenues in Israel increased by 4.6% in 2017 and by 7.3% in 2016. On a constant-currency basis, revenues declined by 2.6% in 2017 and grew by 6.3% in 2016. The rate of revenue growth in Israel is generally less than other regions given the significant and longer standing penetration of quartz and our large countertop market share. Revenues in Europe grew by 12.0% in 2017 and 6.9% in 2016. On a constant-currency basis, growth in Europe was 11.2% in 2017 and 7.1% in 2016. The improved growth rate was mainly associated with the commencement of direct distribution operations in the U.K. Our revenue performance in Europe was negatively impacted in the second half of 2016 by the advance notice termination given to our previous distributor in the United Kingdom as part of our early preparations to commence direct distribution in this market. Our revenues for the rest of the world grew by 9.9% in 2017 and declined by 1.3% in 2016. On a constant-currency-basis, revenues grew by 7.6% in 2017 and declined by 1.0% in 2016.

In 2017, we had one customer which accounted for approximately 11% of our revenues (see also note 14 to our financial statements included elsewhere in this report). For the year ended December 31, 2016 and 2015, there was no customer that accounted for more than 10%.

Some of our initial engagements with distributors are pursuant to an agreement or terms of sale, as applicable, granting that distributor one year of exclusivity in consideration for meeting minimum sales targets. After the initial one-year period, we may enter into a distribution agreement for a multi-year period. However, in the majority of cases, we continue to operate on the basis of an agreement or terms of sale, or without any operative agreement. Some distributors operate on nonexclusive terms of sale agreements or entirely without agreements but rather on a purchase order basis. In all cases, we only supply our products to distributors upon the receipt of a purchase order from the distributor.

Cost of revenues and gross profit margin

Approximately 42% of our cost of revenues is raw material costs. The cost of our raw materials consists of the purchase prices of such materials and costs related to the logistics of delivering the materials to our manufacturing facilities. Our raw materials costs are also impacted by changes in foreign exchange rates. Our principal raw materials, quartz and polyester, jointly accounted for approximately 70% of our total raw material cost in 2017. The balance of our cost of revenues consists primarily of manufacturing costs and related overhead. Cost of revenues in our direct distribution channels also includes the cost of delivery from our manufacturing facilities to our warehouses, warehouse operational costs, as well as additional delivery costs associated with the shipment of our products to customer sites in certain markets. In the U.S. and Canada, we also incur fabrication and installation costs related mainly to IKEA. In the case of our indirect distribution channels, we bear the cost of delivery to the seaport closest to our production plants and our distributors bear the cost of delivery from the seaport to their warehouses.

Quartz is one of our principal raw materials. In 2017, approximately 69% of our total quartz was from four suppliers in Turkey, with the major part acquired from Mikroman and Polat.

Quartz accounted for approximately 35% of our raw materials cost in 2017. Accordingly, our cost of sales and overall results of operations are impacted significantly by fluctuations in quartz prices. In 2016 the average cost of quartz decreased by 1.3% as a result of lower transportation cost, given the drop in oil prices. In 2017, the average cost of quartz increased by 10.6%, mainly as a result of higher portion of production in our U.S. manufacturing facility, where import of quartz from non-domestic suppliers involves higher transportation costs, and as a results of increase of transportation due to oil prices. Any future increases in quartz costs may adversely impact our margins and net income.

Given the significance of polyester costs relative to our total raw material expenditures, our cost of sales and overall results of operations are impacted significantly by fluctuations in their prices, which generally correlate with oil prices. In 2016 average polyester costs decreased by approximately 12%, of which only 0.3% were related to devaluation of the Euro compared to the U.S. dollar. In 2017, average polyester costs increased by approximately 21%. Any future increases in polyester costs may adversely impact our margins and net income.

We are exposed to fluctuations in the prices of pigments, although to a lesser extent than with polyester. For example, the cost of titanium dioxide, our principal white pigmentation agent, increased by approximately 33% in 2017. Any future increases in pigments costs may adversely impact our margins and net income.

The gross profit margins on sales in our direct markets are generally higher than in our indirect markets in which we use third-party distributors, due to the elimination of the third-party distributor's margin. In many markets, our expansion strategy is to work with third-party distributors who we believe will be able to increase sales more rapidly in their market than if we distributed our products directly. However, in several markets we distribute directly, including the United States, Australia, Canada and, as of January 1, 2017, in the United Kingdom. In the future, we

intend to evaluate other potential markets to distribute directly.

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Research and development, net

Our research and development expenses consist primarily of salaries and related personnel costs, as well as costs for subcontractor services and costs of materials consumed in connection with the design and development of our products. We expense all of our research and development costs as incurred.

Marketing and selling

Marketing and selling expenses consist primarily of compensation and associated costs for personnel engaged in sales, marketing, distribution and advertising and promotional expenses. Between 2015 and 2017, our expenses increased both in absolute spending and as a percentage of revenues. This was mainly attributed to increased marketing and sales spending in the U.S., partly labor cost increase aimed to strengthen our U.S. marketing and sales organization and other direct marketing spending in the same region to drive revenue growth, as well as to the newly established direct distribution operations in the United Kingdom.

General and administrative

General and administrative expenses consist primarily of compensation and associated costs for personnel engaged in finance, human resources, information technology, legal and other administrative activities, as well as fees for legal and accounting services. See "—Other factors impacting our results of operations—Agreements with Kibbutz Sdot-Yam" and "ITEM 7: Major Shareholders and Related Party Transactions—Related Party Transactions."

Legal settlements and loss contingencies, net

Legal settlements and loss contingencies, net consist of expenses related to settlements expenses and estimated exposure not covered by the Company's insurance applicable to individual silicosis claims. In 2017, we recorded $24.8 million related primarily to the outcome of arbitration with Kfar Giladi and, to a lesser extent, to new silicosis claims and other adjustments ongoing legal claims. In 2016, we recorded $5.9 million related to silicosis claims.

Finance expenses, net

Finance expenses, net, consist primarily of, bank and credit card fees, borrowing costs, losses on derivative instruments and exchange rate differences arising from changes in the value of monetary assets and monetary liabilities stated in currencies other than the functional currency of each entity. These expenses are partially offset by interest income on our cash balances and gains on derivative instruments. Our finance expenses, net were $3.1 million in 2015 and $3.3 million in 2016, an increase mostly related to increased bank and credit card fees associated with our growth. In both years, net gains related to exchange rate fluctuation were minimal. In 2017, our finance expenses increased to $5.6 million despite significantly higher income from bank deposits, given $2.5 million losses related to exchange rate fluctuations.

Corporate taxes

As we operate in a number of countries, our income is subject to taxation in different jurisdictions with a range of tax rates. Our effective tax rate was 21.2% in 2017, 14.5% in 2016, and 14.8% in 2015.

The standard corporate tax rate for Israeli companies was 26.5% in 2015 and decreased to 25% in 2016 and 24% in 2017. Our non-Israeli subsidiaries are taxed according to the tax laws in their respective countries of organization.

Effective January 1, 2011, with the enactment of Amendment No. 68 to the Israeli Tax Law, both of our Israeli facilities operate under a consolidated "Preferred Enterprise" status. The "Preferred Enterprise" status provides the portion related to the Bar-Lev manufacturing facility with the potential to be eligible for grants of up to 20% of the investment

value in approved assets and a reduced flat corporate tax rate, which applies to the industrial enterprise's entire preferred income, of 9% in the three years of 2014 through 2016 and 7.5% in 2017 onward. For the portion related to the Sdot-Yam facility, this status provides us with a reduced flat corporate tax rate, which applies to the industrial enterprise's entire preferred income, which was 16% during the same period.

For more information about the tax benefits available to us as an Approved Enterprise or as a Beneficiary Enterprise or as Preferred Enterprise, see "ITEM 10.E: Additional Information—Taxation—Israeli tax considerations and government programs."

Net income attributable to non-controlling interest

In October 2010, we closed a transaction for the establishment of a joint venture with our former third-party distributor in Eastern Canada, Canadian Quartz Holdings Inc. (“Ciot”). Ciot acquired a 45% ownership interest in the new subsidiary, Caesarstone Canada Inc., and 45% of Caesarstone Canada Inc.’s net income is attributed to Ciot.

Other factors impacting our results of operations

Share based compensation

We granted over the last years to certain of our key employees, including our executive officers and directors options and RSUs to purchase our ordinary shares with different exercise prices. During 2015 we granted options to purchase 360,000 of our ordinary shares to our former CEO vesting through December 31, 2018 and with an exercise price of $41.37, and options to purchase 424,000 of our ordinary shares to certain other employees vesting through April 1, 2020 and with an average exercise price of $34.99. In addition, during 2015 we granted also 55,100 RSUSs to certain other employees with a weighted average fair value of $35.04 and vesting through April 1, 2020. In 2016, we granted to certain of our key employees and executive officers options to purchase 38,000 of our ordinary shares at a weighted average exercise price of $36.08 per share. In addition, during 2016 we granted to our key employees and executive officers 3,200 RSUs at a weighted average fair value of $36.70 per share. In 2017, we granted to certain of our key employees and executive officers (including to our CEO) options to purchase 549,000 of our ordinary shares at a weighted average exercise price of $30.49 per share. In addition, during 2017 we granted to our key employees and executive officers (including our CEO) 46,000 RSUs at a weighted average fair value of $32.13 per share.

We recorded share-based compensation expenses related to the above grants of $5.3 million in 2017, $3.5 million in 2016 and $2.6 million in 2015, and expect to record $7.1 million over a weighted average period of 1.1 years. For more information, see also Note 12 to our financial statements included elsewhere in this report.

Agreements with Kibbutz Sdot-Yam

We are party to a series of agreements with our largest shareholder, Kibbutz Sdot-Yam, which govern different aspects of our relationship. Pursuant to these agreements, in consideration for using facilities leased to us or for services provided by Kibbutz Sdot-Yam, we paid to the Kibbutz an aggregate of $9.2 million in 2017, $9.7 million in 2016 and $11.1 million in 2015 (excluding VAT).

For more information on these agreements, see “ITEM 7.B: Major Shareholders and Related Party Transactions—Related Party Transactions.”

Comparison of period-to-period results of operations

The following table sets forth our results of operations as a percentage of revenues for the periods indicated:

	Year ended December 31,								
	2017			2016			2015		
	Amount	% of Revenue		Amount	% of Revenue		Amount	% of Revenue	
	(in thousands of U.S. dollars)								
Consolidated Income Statement Data:									
Revenues:	$588,147	100.0	%	$538,543	100.0	%	$499,515	100.0	%
Cost of revenues	390,924	66.5		326,057	60.5		299,290	59.9	
Gross profit	197,223	33.5		212,486	39.5		200,225	40.1	
Operating expenses:									

Research and development, net	4,164	0.7		3,290	0.6		3,052	0.6	
Marketing and selling	81,789	13.9		70,343	13.1		59,521	11.9	
General and administrative	45,930	7.8		40,181	7.5		36,612	7.4	
Legal settlements and loss contingencies, net	24,797	4.2		5,868	1.1		4,654	0.9	
Total operating expenses	156,680	26.6		119,682	22.2		103,839	20.8	
Operating income	40,543	6.9		92,804	17.3		96,386	19.3	
Finance expenses, net	5,583	0.9		3,318	0.6		3,085	0.6	
Income before taxes on income	34,960	5.9		89,486	16.7		93,301	18.7	
Taxes on income	7,402	1.3		13,003	2.4		13,843	2.8	
Net income	$27,558	4.7	%	$76,483	14.3	%	$79,458	15.9	%
Net income attributable to non-controlling interest	1,356	0.2		1,887	0.4		1,692	0.3	
Net income attributable to controlling interest	$26,202	4.5	%	$74,596	13.9	%	$77,766	15.6	%

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Year ended December 31, 2017 compared to year ended December 31, 2016

Revenues

Revenues increased by $49.6 million or 9.2%, to $588.1 million in 2017 from $538.5 million in 2016. The increase resulted primarily from a 4.0% increase in volume of sales contributing approximately $20 million to revenues. Other notable driver was Fabrication and Installation revenue, which contributed approximately $12 million to revenues. Favorable exchange rates, primarily related to the appreciation of all currencies against the U.S. dollar, contributed approximately $9 million to revenues. Despite some price erosion related to the increased competition, mainly in the United States, our average selling prices increased due to higher portion of differentiated products and increased portion of revenue coming from direct distribution markets, which contributed approximately $8 million to revenues. On a constant currency basis, revenues grew by $40 million in 2017, representing 7.4% growth compared to 2016. The growth was primarily driven by double-digit growth in Canada and the U.S., which grew on a constant currency basis by 12.0% and 10.2%, respectively. The growth rate in both regions benefited from the ramp-up of the IKEA business.

Cost of revenues and gross profit margins

Cost of revenues increased by $64.9 million, or 19.9%, to $390.9 million in 2017 from $326.1 million in 2016, primarily due to increased higher spending in our Richmond-Hill and Israel manufacturing facilities. Other notable drivers were sales volume, increased IKEA fabrication and installation cost related mainly to the increased business with IKEA, higher raw material costs related to polyester prices, the strengthening of all currencies against the U.S. dollar and the newly established direct distribution operations in the U.K.

Gross profit decreased from $212.5 million in 2016 to $197.2 million in 2017, with a decrease in gross margin of 590 basis points. The margin decrease was driven primarily by lower manufacturing throughput in Israel, partly related to our increased portion of differentiated products as well as their complexity level, which impacted gross margin by approximately 210 basis points. Higher material cost, related mainly to polyester prices, reduced gross margin by 160 basis points. Further, our increased portion of production in Richmond Hill plant offset with throughput and yield improvements, reduced gross margin by approximately 110 basis points. Increased component of fabrication and installation revenue, which comes with lower margins, eroded our margin by 70 basis points.

Operating expenses

Research and development, net. Research and development expenses increased by $0.9 million, or 26.6%, to $4.2 million in 2017 from $3.3 million in 2016. The increase was mainly driven by accelerated development activities.

Marketing and selling. Marketing and selling expenses increased by $11.5 million, or 16.3%, to $81.8 million in 2017 from $70.3 million in 2016. Marketing expenses as percent of revenue increased from 13.1% in 2016 to 13.9% in 2017. This was mainly attributed to continued increasing marketing and sales spending in the U.S. and to the newly established direct distribution operations in the U.K.

General and administrative. General and administrative expenses increased by $5.7 million, or 14.3%, to $45.9 million in 2017 from $40.2 million in 2016. This increase included $1.2 million related to exchange rate fluctuation. Other increases were mainly related to a $1.9 million increase in shared based compensation and a $1.1 million related to the newly established direct distribution operations in the U.K.

Legal settlements and loss contingencies, net. increased by $18.9 million to $24.8 million in 2017, This increase was mainly attributable to the arbitration result of $13.9 million compensation to Kfar Giladi and, to a lesser extent, to silicosis claims.

Finance expenses, net

Finance expenses, net increased by $2.3 million, or 68.3%, to $5.6 million in 2017 from $3.3 million in 2016. This is mostly related to an increase of $2.5 million in expenses related to exchange rate fluctuations, partially offset with increase in income from bank deposits interest.

Taxes on income

Taxes on income decreased by $5.6 million to $7.4 million in 2017 from $13.0 million in 2016. Our effective tax rate was 21.2% in 2017 compared with 14.5% in 2016. This was mostly a result of higher portion of taxable income generated outside of Israel, primarily in the United States, where tax rates are higher. In addition, the proportion of non-deductible expenses out of the taxable income was significantly higher in 2017.

Net income attributable to non-controlling interest

Net income attributable to non-controlling interest decreased by $0.5 million from $1.9 million in 2016 to $1.4 million in 2017. This decrease was due to lower income generated by Caesarstone Canada Inc. in 2017 compared to 2016 despite its revenue growth.

Year ended December 31, 2016 compared to year ended December 31, 2015

Revenues

Revenues increased by $39.0 million, or 7.8%, to $538.5 million in 2016 from $499.5 million in 2015. The increase in revenues resulted mainly from a 7.3% increase in volume of sales contributing approximately $34 million to revenues. Increased average selling prices related to a higher portion of differentiated products contributed approximately $6 million to revenues. These factors were partially offset by unfavorable exchange rates, primarily related to the weakening of the Canadian and the Australian dollar against the U.S. dollar. On a constant currency basis, revenues grew by $41.7 million in 2016, representing 8.4% growth compared to 2015. The growth was primarily driven by double-digit growth in Canada and Australia, which grew on a constant currency basis by 25.4% and 19.0% respectively. Growth in Canada and Australia was primarily driven by continued quartz penetration and improved product offerings and was achieved despite weakening housing environment. The growth rate in Canada also benefited from the ramp-up of the IKEA business in the first six months of 2016. In the United States, our revenue dropped 0.3% compared to 2015. This reduction was a result of a single digit core growth along with revenue drop from IKEA business.

Cost of revenues and gross profit margins

Cost of revenues increased by $26.8 million, or 8.9%, to $326.1 million in 2016 from $299.3 million in 2015, primarily due to increased sales volumes and higher spending in our new manufacturing facility in Richmond-Hill.

Gross profit increased from $200.2 million in 2015 to $212.5 million in 2016, with a decrease in gross margin of 60 basis points. The margin decrease was driven primarily by inefficiencies related to our production in Richmond-Hill plant which impacted gross margin by approximately 260 basis points. Further, negative exchange rates fluctuations and higher revenue component from fabrication and installation, which generate lower margin, reduced gross margin by 30 basis points each. These factors were partially offset by lower raw material costs, mainly polyester, which increased gross margin by approximately 150 basis points. Increased efficiencies in our production in Israel and the higher portion of differentiated product increased approximately 50 basis points each.

Operating expenses

Research and development, net. Research and development expenses increased by $0.2 million, or 7.8%, to $3.3 million in 2016 from $3.1 million in 2015. The increase was mainly driven by accelerated development activities.

Marketing and selling. Marketing and selling expenses increased by $10.8 million, or 18.2%, to $70.3 million in 2016 from $59.5 million in 2015. This increase resulted primarily from our increased marketing and selling activities in the U.S., where we added approximately 20% to our workforce and engaged in intensive marketing activities to resume our growth in this region.

General and administrative. General and administrative expenses increased by $3.6 million, or 9.7%, to $40.2 million in 2016 from $36.6 million in 2015. This increase was driven primarily by the appointment of a new executive management team in the U.S. and an increase in our legal expenses.

Legal settlements and loss contingencies, net. Legal settlements and loss contingencies expenses were $5.9 million in 2016, related to silicosis claims. This compared with $4.7 million in 2015, when we initially provided for silicosis claims.

Finance expenses, net

Finance expenses, net increased by $0.2 million, or 7.6%, to $3.3 million in 2016 from $3.1 million in 2015. Most of the increase resulted from increased credit card and bank fees associated with our increased activities and the additional interest expenses related to our increased credit line utilization by Caesarstone Canada Inc. Finance income related to interest gains on deposits increased by approximately $0.1 million as our cash balances increased.

Taxes on income

Taxes on income decreased by $0.8 million to $13.0 million in 2016 from $13.8 million in 2015. Our effective tax rate was 14.5% in 2016 compared with 14.8% in 2015. Higher taxable income outside of Israel, where tax rates are higher, was offset by a favorable tax audit settlement with the Israeli tax authority related to 2012 through 2014.

Net income attributable to non-controlling interest

Net income attributable to non-controlling interest increased by $0.2 million from $1.7 million in 2015 to $1.9 million in 2016. This increase was due to higher income generated by Caesarstone Canada Inc. in 2016 compared to 2015 given its revenue growth.

Quarterly results of operations and seasonality

The following table presents our unaudited condensed consolidated quarterly results of operations for the eight quarters in the period from January 1, 2016 to December 31, 2017. We also present reconciliations of net income to adjusted EBITDA and net income attributable to controlling interest to adjusted net income attributable to controlling interest for the same periods. This information should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this annual report. For more information on our use of non-GAAP financial measures, see "ITEM 3.A. Key Information—Selected Financial Data." We have prepared the unaudited condensed consolidated quarterly financial information for the quarters presented below on the same basis as our audited consolidated financial statements. The historical quarterly results presented below are not necessarily indicative of the results that may be expected for any future quarters or periods.

	Three months ended							
	Dec. 31, 2017	Sept. 30, 2017	June 30, 2017	Mar. 31, 2017	Dec. 31, 2016	Sept. 30, 2016	June 30, 2016	Mar. 31, 2016
	(in thousands of U.S. dollars)							
Consolidated Income Statement Data:								
Revenues:	$148,140	$154,682	$148,914	$136,411	$134,975	$144,306	$142,348	$116,914
Revenues as a percentage of annual revenue	25.2 %	26.3 %	25.3 %	23.2 %	25.1 %	26.8 %	26.4 %	21.7 %
	$46,343	$49,718	$51,921	$49,241	$51,433	$58,461	$59,974	$42,618

Gross profit								
Operating income (loss)	(4,912)	11,004	19,314	15,137	19,108	28,175	31,286	14,235
Net income (loss)	(6,021)	7,442	14,872	11,265	15,316	22,773	26,284	12,110
Other financial data:								
Adjusted EBITDA	$20,964	$25,575	$29,613	$24,277	$29,969	$37,521	$39,767	$23,003
Adjusted EBITDA as a percentage of annual adjusted EBITDA	20.9 %	25.5 %	29.5 %	24.2 %	23.0 %	28.8 %	30.5 %	17.7 %
Adjusted net income attributable to controlling interest	$7,724	$12,722	$16,860	$12,512	$18,147	$24,255	$25,448	$13,334
Adjusted net income attributable to controlling interest as a percentage of annual adjusted net income	15.5 %	25.5 %	33.8 %	25.1 %	22.4 %	29.9 %	31.3 %	16.4 %

	Three months ended							
	Dec. 31, 2017	Sept. 30, 2017	June 30, 2017	Mar. 31, 2017	Dec. 31, 2016	Sept. 30, 2016	June 30, 2016	Mar. 31, 2016
	(in thousands of U.S. dollars)							
Reconciliation of Net Income (loss) to Adjusted EBITDA:								
Net income (loss)	$(6,021)	$7,442	$14,872	$11,265	$15,316	$22,773	$26,284	$12,110
Finance expenses (income), net	1,074	1,594	1,391	1,524	1,001	1,120	1,442	(245)
Taxes on income	35	1,968	3,051	2,348	2,790	4,282	3,560	2,370
Depreciation and amortization	7,509	7,476	7,512	7,429	7,211	7,074	7,064	6,905
Legal settlements and loss contingencies (a)	16,979	5,727	1,420	671	3,115	1,020	1,000	733
Compensation paid by a shareholder (b)	—	—	—	—	—	266	—	—
Share-based compensation expense (c)	1,388	1,368	1,367	1,154	535	986	417	1,130
Provision for employees fringe benefits (d)	—	—	—	(114)	—	—	—	—
Adjusted EBITDA	$20,964	$25,575	$29,613	$24,277	$29,969	$37,521	$39,767	$23,003

	Three months ended							
	Dec. 31, 2017	Sept. 30, 2017	June 30, 2017	Mar. 31, 2017	Dec. 31, 2016	Sept. 30, 2016	June 30, 2016	Mar. 31, 2016
	(as a % of revenue)							
Consolidated Income Statement Data:								
Revenues:	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Gross profit	31.3	32.1	34.9	36.1	38.1	40.5	42.1	36.5
Operating income (loss)	(3.3)	7.1	13.0	11.1	14.2	19.5	22.0	12.2
Net income (loss)	(4.1)	4.8	10.0	8.3	11.3	15.8	18.5	10.4

(a) Consists of legal settlements expenses and loss contingencies, net, related primarily to Kfar Giladi arbitration, as well as to product liability claims and other adjustments to ongoing legal claims.

(b) One-time bonus paid by a shareholder to Company's employees.

(c) Share-based compensation includes expenses related to stock options and restricted stock units granted to our employees and directors. In addition, includes expenses for phantom awards granted and the related payroll expenses as a result of exercises.

(d) Relates to an adjustment of provision for taxable employee fringe benefits as a result of a settlement with the Israeli Tax Authority and with the National Insurance Institute of Israel.

	Three months ended							
	Dec. 31, 2017	Sept. 30, 2017	June 30, 2017	Mar. 31, 2017	Dec. 31, 2016	Sept. 30, 2016	June 30, 2016	Mar. 31, 2016
	(in thousands of U.S. dollars)							
Reconciliation of Net Income (loss) Attributable to Controlling Interest to Adjusted Net Income Attributable to Controlling Interest:								
Net income (loss) attributable to controlling interest	$(6,385)	$6,943	$14,548	$11,096	$15,068	$22,343	$25,409	$11,776
Legal settlements and loss contingencies (a)	16,979	5,727	1,420	671	3,115	1,020	1,000	733
Compensation paid by a shareholder (b)	—	—	—	—	—	266	—	—
Share-based compensation expense (c)	1,388							