

CaesarStone Sdot-Yam Ltd.  
Form 424B3  
April 12, 2013

**Filed Pursuant to Rule 424(b)(3)  
Registration No. 333-187645**

**Prospectus supplement**  
*(To prospectus dated April 5, 2013)*

***7,775,000 Ordinary Shares***

**Caesarstone Sdot-Yam Ltd.**

The selling shareholders are offering 7,775,000 of our ordinary shares in this offering. We will not receive any proceeds from the sale of ordinary shares by the selling shareholders.

Our ordinary shares trade on the Nasdaq Global Select Market under the symbol CSTE. On April 11, 2013, the last sale price of the ordinary shares as reported on the Nasdaq Global Select Market was \$23.91 per share.

|  | Per Share  | Total          |
|--|------------|----------------|
| Public offering price                              | \$ 23.25   | \$ 180,768,750 |
| Underwriting discount <sup>(1)</sup>               | \$ 1.1625  | \$ 9,038,438   |
| Proceeds, before expenses, to selling shareholders | \$ 22.0875 | \$ 171,730,313 |

(1) See Underwriting for a description of the compensation payable to the underwriters.

The underwriters may also purchase up to an additional 1,166,250 ordinary shares from the selling shareholders at the public offering price, less underwriting discounts and commissions, within 30 days from the date of this prospectus supplement.

**Investing in these securities involves certain risks. Please carefully consider the Risk Factors beginning on page S-18 of this prospectus supplement, on page 2 of the accompanying prospectus and in the documents incorporated by reference.**

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the securities being offered by this prospectus supplement or accompanying prospectus, or determined if this prospectus supplement or accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

The ordinary shares will be ready for delivery on or about April 17, 2013.

**J.P. Morgan**

**Barclays**

**Credit Suisse**

**Stifel**

**Baird**

April 11, 2013

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## About this prospectus supplement

This prospectus supplement and the accompanying prospectus are part of a registration statement that we filed with the Securities and Exchange Commission, or SEC, utilizing a shelf registration process. The document is in two parts. The first part is the prospectus supplement, which describes the specific terms of this offering. The second part is the prospectus, which provides more general information about securities the selling shareholders may offer from time to time, some of which may not apply to this offering. Generally, when we refer to this prospectus, we are referring to both parts of this document combined. We urge you to carefully read this prospectus supplement and the prospectus, and the documents incorporated by reference herein and therein, before buying any of the securities being offered under this prospectus supplement. This prospectus supplement may add or update information contained in the prospectus and the documents incorporated by reference therein. To the extent that any statement we make in this prospectus supplement is inconsistent with statements made in the accompanying prospectus or any documents incorporated by reference therein that were filed before the date of this prospectus supplement, the statements made in this prospectus supplement will be deemed to modify or supersede those made in the accompanying prospectus and such documents incorporated by reference therein.

You should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus, or contained in any free writing prospectus prepared by or on our behalf. We have not, and the underwriters have not, authorized anyone to provide you with different information. The distribution of this prospectus supplement and sale of these securities in certain jurisdictions may be restricted by law. The selling shareholders are not making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. This prospectus supplement and the accompanying prospectus are not, and under no circumstances are to be construed as an advertisement or a public offering of securities in Israel. Any public offer or sale of securities in Israel may be made only in accordance with the Israeli Securities Law 1968 (which requires, among other things, the filing of a prospectus in Israel or an exemption therefrom). Persons in possession of this prospectus supplement or the accompanying prospectus are required to inform themselves about and observe any such restrictions. You should assume that the information appearing in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference in this prospectus supplement and the accompanying prospectus, and in any free writing prospectus that we have authorized for use in connection with this offering, is accurate only as of the date of those respective documents.

Unless otherwise mentioned or unless the context requires otherwise, all references in this prospectus supplement or prospectus to the Company, we, us, our and Caesarstone refer to Caesarstone Sdot-Yam Ltd.

## Market and industry data and forecasts

This prospectus supplement and the accompanying prospectus and the documents incorporated by reference herein and therein include 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 prospectus supplement and the accompanying prospectus and the documents incorporated by reference herein and therein 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 in this prospectus supplement or the accompanying prospectus or in the documents incorporated by reference herein and therein, 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 "Risk factors" in this prospectus supplement.

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Unless otherwise noted in this prospectus supplement and the accompanying prospectus or the documents incorporated by reference herein and therein, Freedonia Custom Research, Inc. ( Freedonia ) is the source for third-party industry data and forecasts. The Freedonia Report, dated March 13, 2013, that we commissioned represents data, research opinion or viewpoints developed on our behalf and does not constitute a specific guide to action. 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. We have inquired of Freedonia, and been informed that as of the date of this filing, there has been no change in the Freedonia Report.

## **Forward-looking statements**

This prospectus supplement, the accompanying prospectus and the documents incorporated by reference herein and therein contain forward-looking statements which involve known and unknown risks and uncertainties. We include this notice for the express purpose of permitting us to obtain the protections of the safe harbor provided by the Private Securities Litigation Reform Act of 1995 with respect to all such forward-looking statements. Examples of forward-looking statements include: projections of capital expenditures, competitive pressures, revenues, growth prospects, product development, financial resources and other financial matters. You can identify these and other forward-looking statements by the use of words such as may, plans, expects, anticipates, believes, estimates, intends, potential or the negative of such terms, or other comparable terminology.

Our ability to predict the results of our operations or the effects of various events on our operating results is inherently uncertain. Therefore, we caution you to consider carefully the matters described under the caption Risk factors and certain other matters discussed in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference in any of the foregoing, and other publicly available sources. Such factors and many other factors which are beyond the control of our management could cause our actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by the forward-looking statements. Unless we are required to do so under U.S. federal securities laws or other applicable laws, we do not intend to update or revise any forward-looking statements

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## Prospectus supplement summary

*This summary is not complete and does not contain all of the information that you should consider before investing in the securities offered by this prospectus supplement. You should read this summary together with the entire prospectus supplement and the accompanying prospectus, including our financial statements, the notes to those financial statements and the other documents that are incorporated by reference in this prospectus supplement and the accompanying prospectus, before making an investment decision. See Risk Factors beginning on page S-18 of this prospectus supplement for a discussion of the risks involved in investing in our securities.*

### Caesarstone overview

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 2012, global engineered quartz sales to end-consumers grew at a compound annual growth rate of 15.8% compared to a 4.4% compound annual growth rate in total global countertop sales to end-consumers during the same period. We believe that our strong brand awareness, leading market position, broad and innovative product offering and comprehensive market support provide us with substantial competitive advantages.

Founded in 1987, Caesarstone is a pioneer in the engineered quartz surfaces industry. Our products consist of engineered quartz slabs that are currently sold in 48 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 new housing end markets. 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. Our products' hardness, as well as their non-porous characteristics, offer superior 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.

Since our initial public offering in March 2012, we have further increased our penetration of the U.S. and Canadian markets, which became direct distribution markets for us in 2011, and continued to invest in elevating consumers' perception of Caesarstone as a premium brand in these markets, including through the introduction of new products and designs. In addition, we have extended our global presence, growing from distributing in 42 countries in 2011 to 48 countries as of March 31, 2013. We have also implemented programs to increase our manufacturing capacity to meet growing consumer demand. We currently expect to complete an approximate 25% capacity increase at our existing manufacturing facilities in Israel in two phases, the first during the fourth quarter of 2013 and the second during the first quarter of 2014. We also expect to construct a new manufacturing facility in the United States with one line that we expect to be operational in the fourth quarter of 2014 and another line subject to the growth of our business. We expect that these lines together would grow our current capacity by approximately 50%.

From 2005 to 2007, our revenue grew at a compound annual growth rate of 37.9%, and during the more challenging global economic environment from 2007 to 2012, at a compound annual growth rate of 17.8%. In 2012, we generated revenue of \$296.6 million, net income attributable to controlling interest of \$39.6 million, adjusted EBITDA of \$69.4 million and adjusted net income attributable to controlling interest of \$44.0 million. See Summary consolidated



financial and other data for a description of how we define adjusted EBITDA and adjusted net income attributable to controlling interest and

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reconciliations of net income to adjusted EBITDA and net income attributable to controlling interest to adjusted net income attributable to controlling interest. In 2012, our four largest markets, Australia, the United States, Canada and Israel accounted for 30.0%, 29.3%, 13.6% and 12.3% of our total revenue, respectively.

### **Industry overview**

The global countertop industry generated \$73.9 billion in sales to end-consumers in 2012 based on average installed price, which includes installation and other related costs. Sales to end-consumers include sales to the end-consumers of countertops as opposed to sales at the wholesale level from manufacturers to fabricators and/or distributors. The largest countertop markets by sales are Asia Pacific, North America and Western Europe each with sales to end-consumers of between \$17.0 billion and \$20.1 billion in 2012. Laminate accounted for the largest portion of global countertop sales by volume in 2012, followed by manufactured solid surfaces and granite. Countertops have both residential and non-residential applications. We believe they are primarily installed in residential kitchens, as well in bathrooms and in other commercial applications.

The strength, durability and appearance of engineered quartz, as well as the low maintenance it requires, make it ideal for kitchen and bathroom applications, as well as for other applications such as floors, sinks, stairs and walls. In July 2012, quartz received the highest overall score among countertop materials from Consumer Reports Magazine, a leading provider of third-party consumer product reviews, based on performance in several tests, including resistance to staining, heat, cutting and abrasions, as well as price. Between 1999 and 2012, global engineered quartz sales to end-consumers grew at a compound annual growth rate of 15.8%. In comparison, global countertop sales to end-consumers grew at a compound annual growth rate of 4.4% during the same period. As of 2012, engineered quartz had penetrated only 5.0% of the global countertop market by volume and is in the early stages of penetration in most markets compared to other countertop materials, such as granite, manufactured solid surfaces and laminate. Engineered quartz penetration of the global countertop market by sales increased from 2.1% in 1999 to 8.2% in 2012. We believe that growth in the engineered quartz surfaces market is being driven by increasing awareness of the material's superior quality and characteristics.

Current penetration of engineered quartz surfaces by geographic region varies considerably. For example, in the United States, which accounted for 20% of global countertop sales to end-consumers in 2012, engineered quartz surfaces have penetrated approximately 6% of the countertop market by volume. In certain markets, including Australia and Israel, engineered quartz surfaces have already significantly penetrated the market and represented 35% and 85% of the total countertop market by volume in these countries in 2012, respectively. These levels highlight the penetration opportunity available to engineered quartz.

The engineered quartz surface manufacturing industry is highly fragmented. Engineered quartz surface manufacturers usually sell quartz slabs to a network of distributors that resell primarily to fabricators. Typically, fabricators are hired by contractors, developers and end-consumers to install the slabs at a project site. The engineered quartz surfaces manufacturing industry is characterized by limited vertical integration with few manufacturers controlling their own distribution or pursuing a global brand strategy.

Demand for countertops is primarily driven by the renovation and remodeling of existing homes and the construction of new homes, which are affected by changes in national and local economic conditions, demographics and unemployment levels. Despite the recent economic downturn, we believe that the home building and renovation and remodeling market has started to recover in the United States, which will help drive long-term demand for countertops. We also believe that rising incomes in developing areas such as China and Latin America will contribute to growing long-term demand for countertops.



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## **Competitive strengths**

Our competitive strengths include:

*Global market leader in the high growth engineered quartz surfaces market.* In 1987, we introduced the first engineered quartz surface to the countertop marketplace. We have grown to become the largest provider of engineered quartz surfaces for countertops in Australia, Canada, Israel, France and South Africa, and have significant market share in the United States. Our products accounted for approximately 12% of global engineered quartz sales by volume in 2012. As a leading global manufacturer, we believe that we are well positioned to benefit from attractive growth and substantial penetration opportunities in the engineered quartz countertop segment.

*Premium global brand with superior product characteristics.* We have invested considerable resources to position Caesarstone as a premium brand and our products as the ultimate surface within the global countertop market. We developed our premium brand through our products innovative designs, aesthetics, quality and strength. By regularly offering new designs, such as our introduction of our supernatural designs in 2012, and frequently being the first to introduce them to the marketplace, we have fostered our brand image as a leading design innovator in the global engineered quartz surfaces industry. The installation of a Caesarstone surface is often viewed as a statement about the quality of an entire kitchen or home, thereby adding value beyond the Caesarstone surface itself.

*Proven ability to enter, develop and lead markets.* We have a proven track-record of achieving leading positions in our key markets, Australia, the United States, Israel and Canada, and entering new markets. We have accelerated the penetration and growth of Caesarstone products by specifically targeting markets with an existing demand for stone products with stone installation capabilities. We are implementing our business model in key growth markets, including the United States and Canada, both of which are now direct distribution markets for us. We have a successful track record of penetrating our markets. For example, when we entered the Australian market in 1998 engineered quartz surfaces represented a de minimis share of the overall countertop market. We have helped increase engineered quartz surfaces to approximately 35% of the Australian countertop market by volume and achieved a 57% share by volume of the Australian engineered quartz market in 2012.

*Strong global distribution platform.* We have developed a strong global distribution platform in 48 countries worldwide. Our sales strategy is tailored to the dynamics of each market in which we operate. In select markets, we have pursued a third-party distribution strategy to accelerate our entry into, and penetration of, multiple markets more rapidly. As a result of our investments in our distribution platform and our success in penetrating markets, we have a significant number of product displays globally, including displays at over 8,000 locations in the United States. We believe that our market infrastructure and significant experience are difficult for competitors to replicate. We believe that expanding our manufacturing footprint into the United States will provide us with a number of competitive and strategic benefits that will serve our long-term growth plans, most significantly the related improvement in delivery times. At the same time, our manufacturing expansion in Israel will enable us to rapidly and efficiently meet the increasing demand for our products.

*Superior manufacturing capabilities.* With over 25 years of manufacturing experience, we have established our position as a leading manufacturer recognized for quality, innovation and design. We have customized our manufacturing processes in order to maximize the consistency, durability, flexibility and crack resistance of our products, while increasing the efficiency of our production lines. Together with our research and development capabilities, our manufacturing expertise has enabled us to develop a number of aesthetically distinct product collections.

*Attractive financial profile.* We have enjoyed strong growth metrics, margins and free cash flow as a result of our proven business model, the success of our Caesarstone branded products, attractive market dynamics for quartz surfaces, our diverse geographic presence and our efficient manufacturing facilities. Despite the challenging global economic conditions, our revenues grew at a compound

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annual growth rate of 17.8% from 2007 to 2012. According to Freedonia, the global countertop market grew at a compounded growth rate of 2.1% during the same period. From 2007 to 2012, our gross profit margins grew from 27.4% to 43.0%, adjusted EBITDA margins grew from 18.4% to 23.4% and adjusted net income margins grew from 9.2% to 14.8%. We attribute this sales and margin growth to the acquisition of the business of our former Australian and U.S. distributors, our transition to direct distribution in Canada, our penetration of new markets, increased operational efficiencies and a change in product mix. We believe we have an attractive long-term financial profile.

*Experienced management team.* Our senior management has extensive experience in manufacturing and global product branding and has an average of 19 years of executive management experience. In addition to substantial operational, marketing and research and development experience, many of our senior executives, including our Chief Executive Officer, Yosef Shiran, have significant experience leading public companies with a global presence.

### **Our strategy**

We intend to pursue the following strategies in order to enhance our product brand and market share, build economies of scale in our business, and grow our revenues and net income:

*Expand awareness of our premium brand.* We intend to continue to strengthen our brand primarily through continued investment in product innovation supported by strong research and development initiatives, marketing activities and the establishment of long-term relationships with distribution partners around the world. Since 2003, we have launched multiple new product collections, including Concetto, Motivo and Supremo, in order to further enhance the profile of our brand and expand our product line within the high end consumer segment. We recently introduced the supernatural design products that are inspired by the look of marble. We intend to continue developing engineered quartz surfaces with new and innovative characteristics related to color, design, texture and thickness as well as promoting other applications for our products, such as high-end flooring and bathroom wall cladding.

*Focus on key markets.* We believe that a significant portion of our future growth will come from continued penetration in our key growth markets, particularly the United States and Canada, which together accounted for 42.9% of our total sales in 2012 and which we have prioritized as key growth markets. We plan to continue to focus on our direct distribution coverage in the United States. We also intend to continue focusing on Australia, our largest market, which accounted for 30.0% of our total sales in 2012. In 2012, engineered quartz countertops represented 35%, 12% and 6% of the overall countertop market by volume in Australia, Canada and the United States, respectively. We believe that we are a leader in these markets with approximately 57%, 36% and 16% market share based on volume in 2012, respectively. We believe the penetration rates of engineered quartz in these key growth markets and our market share in the United States and Canada can reach considerably higher levels in the future.

*Expand our global presence.* We currently distribute our products in 48 countries worldwide. In addition to our key existing markets of Australia, the United States, Israel and Canada, we plan to continue to further penetrate existing markets where we have already developed a presence. We have also identified new markets for future growth that meet our criteria, which may include an existing demand for stone products supported by stone installation capabilities, strong economic growth rates and a high gross domestic product per capita. We intend to continue to invest in educating end-consumers on the benefits of engineered quartz surfaces and strengthening the Caesarstone brand to support our growth.

*Pursue selective acquisitions.* Given the highly fragmented nature of the global engineered quartz surfaces market, we intend to continue to evaluate strategic acquisitions. For example, we may seek to acquire manufacturers, raw material suppliers or third-party distributors. As demonstrated by our prior acquisitions, including, businesses in Australia, Canada, the United States and Singapore, there may be an advantage to us obtaining control over the distribution of our products in existing markets.

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Acquiring a distributor gives us a higher degree of control over sales operations, which may enable us to accelerate penetration of our products and increase our growth and margin profile. Additionally the acquisition of manufacturers could further diversify our product offerings. These acquisitions could also extend our existing sales channels, help us accelerate our global expansion, increase our market share or give us access to new products or technologies as a platform for growth.

*Accelerate quartz penetration.* We believe that quartz penetration can be accelerated by leveraging our sales and marketing capabilities in key growth markets. By continuing to promote our brand and extensive product offering, we advance awareness of the benefits and design impact associated with quartz. Where appropriate, we will identify and partner with retail and distribution partners to accelerate that growth.

### **Our products**

Our products are generally marketed under the Caesarstone brand. Our engineered quartz slabs generally measure 120 inches long by 56½ inches wide with a thickness of ½ of an inch, ¾ of an inch or 1¼ inches. Engineered quartz surfaces are typically comprised of approximately 90% natural crushed quartz and approximately 10% polyester and other polymer resin and pigments. Our products' quartz composition gives them superior strength and resistance to heat, scratches, cracks and chips. Polyester and other polymer resins, which act 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 helps 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 the Caesarstone brand name and foster our image as a leading innovator in the engineered quartz surface industry.

Our product offerings include four collections, each of which is designed to have a distinct aesthetic appeal. 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 substantial majority of our sales. Within this product collection, we offer approximately 70 different colors, with three textures and three thicknesses generally available for each of the collection's colors. We have since introduced three additional product collections, Concetto, Motivo and Supremo, which 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. We launched our Motivo product collection in 2009, which features a range of patterned textures that can be customized. In July 2010, we launched our Supremo product collection that is characterized by unique designs inspired by semi-precious stones. We believe our specialty product families increase our brand's exposure to the entire product supply chain and, through eye-catching aesthetics, raise the profile of all of our products among end-consumers. We also regularly introduce new colors and designs to our product collections based on consumer trends. In 2012, we introduced a total of 12 new colors to our Classico and Supremo collections.

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. Many of our products are accredited by the National Sanitation Foundation (NSF), a U.S. non-profit, non-governmental organization overseeing standards development and product safety certifications. Our NSF Standard 51 certification certifies our products as safe for use in food preparation and easy to clean and sanitize. In addition, our products are certified as a low volatile organic compound





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Air Quality, an independent, non-profit accreditation organization. Our products have been consistently highly ranked by the United States Green Building Council for their compliance with environmental standards, which allows contractors to receive Leadership in Energy and Design (LEED) points for projects incorporating our products.

## **Distribution**

### **Direct distribution markets**

We currently have direct sales channels in Australia, the United States, Canada, Israel and Singapore. The first four of these markets accounts for 85.1% of our sales in 2012. 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 regarding new developments in tastes and preferences, and have greater control over inventory management. Our warehouses in each of these countries maintain inventories of our products and are connected to the subsidiary's sales department. We supply our products primarily to stonemasons, 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 Israel, where our headquarters and manufacturing operations are located, we distribute our products directly to several local distributors who in turn sell 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 distribution market due to the warranty we provide to end-consumers in this market, as well as due to our fabricator technical instruction programs and our robust local sales and marketing activities.

In Canada, the United States and Singapore, we have established direct distribution channels in each country with locations in major urban centers complemented by various sub-distributor arrangements in certain areas of the United States. Similar to Australia, in each of these markets, we and our sub-distributors supply our products generally to stonemasons 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.

### **Indirect distribution 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 on an exclusive or non-exclusive basis in a specific country or region to fabricators. Fabricators sell our products to contractors, developers, builders and consumers. 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. Sales to third-party distributors accounted for 13.4% of our revenues in 2012, after our shift to direct distribution in the United States and Canada in the first half of 2011. 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, stonemasons, builders and contractors within their respective territory.

We work closely with our distributors to assist them in preparing and executing a marketing strategy and comprehensive business plan. 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 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.

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## **Sales and marketing**

### **Sales**

In our direct markets, we primarily sell directly to fabricators (with limited sales to sub-distributors in the United States and Australia), such as in Australia where we sell our products through our Australian subsidiary, in Canada, where we sell our products through our joint venture, in the United States where we sell our products through our U.S. subsidiary and in Singapore, where we sell our products through our Singaporean subsidiary. Similar to our indirect markets, in Israel, we sell to a limited number of distributors who sell our products to fabricators; however, we consider this a direct market due to our warranty program, our fabricator technical instruction program and our sales and marketing operations in this country. In our indirect markets we sell to third-party distributors who in turn sell our products to fabricators for sizing, fabricating and installation at a project site. In both cases, we manufacture engineered quartz slabs on a purchase order basis and ship our products from our two manufacturing facilities in Israel.

In our indirect sales markets, we sell our products to distributors who are responsible for selling our products to fabricators. In some cases, our distributors sell to sub-distributors located within the territory who in turn sell to fabricators. Unlike distributors, 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 vary among markets.

In recent years, our sales department, which is based in Israel, has focused on penetrating new markets, as well as further developing our key growth markets. We have developed a comprehensive methodology for evaluating and entering new markets. In particular, we analyze several factors within a market, including existing demand for stone products supported by stone installation capabilities, gross domestic product per capita, the competitive landscape and the economic growth rate. We focus our efforts on those markets that we believe offer significant growth opportunity for our products. Potential distributors are evaluated based on their experience in the surface products industry, logistics and distribution capabilities and suitability to market our products. During the past two years, we significantly increased the number of countries where our distributors operate by appointing distributors in several new countries on an exclusive or non-exclusive basis, including Brazil, Russia and Turkey. We intend to continue to penetrate new markets in collaboration with distributors.

During the past eight years, we have also significantly increased our revenues within our key existing markets, Australia, the United States, Canada and Israel. We believe our products still have significant growth opportunities in Australia, Canada and the United States. We intend to continue to invest resources to further strengthen and increase our penetration in each of these markets.

In the future, we may enter into agreements with home furnishing retailers to be their supplier of quartz countertops and may agree to do so without placing our brand on such products. Pursuant to such agreements, we may also agree to acquire other countertop materials from third parties and to be responsible for fabricating and installing countertops.

### **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 or

end-consumers come in contact with our brand. We also aim to communicate our position as a global leader in engineered quartz surface innovation and technology.

The goal of our marketing activities is to drive marketing and sales efforts through our distributors while creating demand for our products from fabricators and end-consumers, which we refer to as a push-and-pull demand strategy. We believe that the combination of both pushing our products through all levels

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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, 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 retail stores and our company website. Through our Caesarstone University program we educate fabricators and stonemasons about our products, their capabilities and installation methods through manuals and seminars. As a result, our markets benefit from highly trained fabricators and stonemasons 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 central marketing department in Israel and the substantial majority of our distributors use these materials in their respective local market, which helps ensure the consistency of the Caesarstone brand globally. 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. Local marketing departments in Australia and in the United States develop their own marketing materials, in addition to using our marketing materials, due to the size and particular characteristics of these territories. In 2012, we spent \$14.9 million on advertising.

Our websites are a key part of our marketing strategy. We operate a global company website that serves as the website for all of our distributors. Certain of our third-party distributors and subsidiaries maintain their own websites, which are in accordance with our brand guidelines and link 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. We also seek to attract positive attention to our brand and products through a range of other methods, such as home design shows, design competitions, social media and through our products use in high profile projects and iconic buildings.

## **Raw materials and service provider relationships**

Quartz, pigment and polyester and other polymer resins 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 and all of our raw materials are inspected at the suppliers facilities and upon arrival at our manufacturing facilities in Israel. We believe our strict raw material quality control procedures differentiate our products from our competitors because they contribute to our products limited number of product defects and the superior quality and appearance of our products.

Our principal raw material, quartz, is acquired from manufacturers generally in Turkey, India, Israel and a number of European countries. We require supplies of particular grades of quartz, including quartzite, for our products. One

supplier in Turkey, Mikroman, supplied approximately 55% of our quartzite in 2012. Mikroman has committed to supply us with quartzite at agreed upon prices through the end of 2013 and, thereafter, at prices that will be agreed upon based on then effective market prices through the end of 2014. If we are unable to agree upon prices with Mikroman, Mikroman ceases supplying us with quartzite or if our supply of quartz generally from Turkey is adversely impacted, we would need to locate and

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qualify alternate suppliers, which could take time, increase costs and require adjustments to the appearance of our products. We typically transact business with our suppliers on a purchase order basis. Other than with respect to the quartzite that we obtain from our Turkish supplier, we believe that the raw materials we use are available from additional sources within a relatively short period of time.

Raw quartz must be processed into finer grades of sand and powder before we use it in our manufacturing process. We purchase quartz in two forms: quartz already processed by quartz suppliers and quartz boulders from quartz suppliers, which are then processed by a processor prior to their use in the manufacturing process. We receive such processing services exclusively from our quartz suppliers.

In most cases, we purchase polyester and other polymer resins based on monthly and up to quarterly purchase orders with several suppliers outside of Israel. However, currently, suppliers are unwilling to agree to preset prices for periods longer than one or two months. The cost of polyester and other polymer resins, which generally correlates with oil prices, has fluctuated significantly over the past two years. In the past, we have minimized the impact of these fluctuations on our results of operations through advance purchases of inventory whenever possible and through implementing cost control measures and programs to enhance the efficiency of other elements of our manufacturing operations. From December 2010 to April 2011, there were significant cost increases for future purchases of polyester and other polymer resins although prices have subsequently declined moderately.

Our pigments are purchased in Israel and from suppliers abroad. We are exposed, although to a lesser extent than with resins, to fluctuations in the prices of pigments. 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.

## **Manufacturing and facilities**

Our products are manufactured at our two manufacturing facilities located in Kibbutz Sdot-Yam in central Israel and Bar-Lev Industrial Park in northern Israel. 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, which doubled our production capacity. Finished slabs are shipped from our facilities to distributors and customers worldwide. We maintain two fully automated production lines at each facility. In the near term, we plan to expand our existing production capacity to meet anticipated demand through the construction of a fifth production line at our Bar-Lev manufacturing facility in Israel and the construction of a new manufacturing facility with capacity for two production lines in the United States. The fifth production line in the Bar-Lev facility is planned to be operational in two phases, the first during the fourth quarter of 2013 and the second during the first quarter of 2014. The first production line in the new U.S. facility is planned to be operational in the fourth quarter of 2014, and the timing of the second production line's construction is subject to the growth of our business. During the interim period until the expansion projects are complete, we expect to acquire a limited number of basic slab models from third party engineered stone manufacturers to meet demand for our products.

The manufacturing process for our products involves blending approximately 90% natural crushed quartz with approximately 10% polyester and other polymer resins and pigments. Using machinery acquired primarily from Breton S.p.A., 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 resin 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. As a result, we believe that utilizing in-house manufacturing facilities are the most effective way to ensure that our end-consumers receive high quality products. 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.

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### **Research and development**

Our research and development department is located in Israel and is comprised of 12 employees with extensive experience in engineered quartz surface manufacturing, polymer science, engineering, product design and engineered quartz surface applications. A small portion of our research and development efforts has benefited from grants from the Office of the Chief Scientist in the Israeli Ministry of Industry, Trade and Labor. In 2012, research and development costs, net of participation by the OCS, accounted for approximately 0.7% of our total 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 key exhibitions and hosting international design workshops in-house with market and design specialists from around the world. For example, in March 2010, our research and development team developed our Pure White product in response to the increasing demand for white surfaces in residential and non-residential applications. In addition, the introduction of our Supremo collection in July 2010 and our supernatural designs within our Classico collection at the end of 2012 were the result of a new proprietary technologies developed by our research and development department, which allows for the creation of unique designs inspired by natural stones.

### **Competition**

We believe that we compete principally based upon product quality, new product development, brand awareness, pricing, customer service and breadth of product offerings. We believe that we differentiate ourselves from competitors on the basis of 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 technical ceramic, 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 as a result, may adapt to changes in consumer preferences and demand more quickly, 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 competition from low-cost manufacturers in Asia, particularly in Australia, and the United States. Large multinational companies have also invested in their engineered quartz surface production capabilities. We believe that we are likely to encounter strong competition from these competitors as a result of consolidation in the industry in the future. Such consolidation is likely to occur as a result of the economies of scale associated with engineered quartz manufacturing that are becoming important to remain competitive in an increasingly global engineered quartz surface market and will be increasingly important as the engineered quartz market matures in the future.

## **Risk factors**

Investing in our ordinary shares involves risks. You should carefully consider the risks described in **Risk Factors** in **ITEM 3: Key Information Risk Factors** of our Annual Report on Form 20-F incorporated by reference in this prospectus supplement, before making a decision to invest in our ordinary shares. If any of these risks actually occurs, our business, financial condition or results of operations would likely be

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materially adversely affected. In such case, the trading price of our ordinary shares would likely decline, and you may lose all or part of your investment. The following is a summary of some of the principal risks we face:

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 adversely impact end-consumers and lower demand for our products, which in turn could cause our revenues and net income to decrease.

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 face intense competition and competitive pressures, which could adversely affect our results of operations and financial condition.

We face competition from providers of quartz surfaces that set prices considerably lower than the prices of our premium products, which could adversely impact our sales and margins.

Changes in the prices of our raw materials, particularly polyester and other polymer resins and pigments, have increased our costs and decreased our margins and net income in the past and may do so again in the future.

We are working to increase our production capacity for our quartz surface products in order to meet anticipated demand through expanding our manufacturing facilities. 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.

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. We expect that such quarterly fluctuations will increase in the future as we shift to selling through direct channels, which may increase the volatility of our share price and cause declines in our share price.

Silicosis claims could have a material adverse effect on our business, operating results and financial condition.

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

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

We currently expect that payments of dividends will be made from time to time based on the recommendation of our board of directors; however, we cannot provide assurances regarding the amount or timing of any dividend payments and may decide not to pay dividends in the future.

### **Our principal shareholders**

Kibbutz Sdot-Yam is a communal society located in Israel that was established in 1940 and founded our company in 1987. As of March 31, 2013, Kibbutz Sdot-Yam beneficially owned 54.1% of our outstanding shares. Affiliates of Tene Investment Funds, an Israeli private equity firm, or Tene, invested in our company in 2006 and, as of March 31, 2013, beneficially owned 23.1% of our outstanding shares.

Following the completion of this offering, Kibbutz Sdot-Yam will beneficially own approximately 52.7% of our outstanding ordinary shares, or 51.4% if the underwriters exercise in full their option to purchase additional shares from the selling shareholders, and Tene will beneficially own approximately 2.0% of our outstanding ordinary shares, or no shares if the underwriters exercise such option in full.

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**Other information**

We have been informed that Tene Investment Funds intends to pay to certain of our executive officers, including our CEO, as a bonus in recognition of the increase in the value of Tene's investment in us, an amount equal to 0.5% of the net proceeds received by Tene, or approximately \$0.8 million, assuming no exercise of the underwriters' option to purchase additional shares.

**Corporate information**

Our principal executive offices are located at Kibbutz Sdot-Yam, MP Menashe, Israel and our telephone number is +972 (4) 636-4555. Our website address is [www.caesarstone.com](http://www.caesarstone.com). The information contained therein or connected thereto shall not be deemed to be incorporated into this prospectus or the registration statement of which it forms a part.

Throughout this prospectus supplement, we refer to various trademarks, service marks and trade names that we use in our business. Caesarstone® is one of our registered trademarks. Supremo™ is one of our trademarks. We also have several other registered trademarks, service marks and pending applications relating to our products. Other trademarks and service marks appearing in this prospectus are the property of their respective holders.

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## The offering

Number of ordinary shares offered by the selling shareholders

7,775,000 ordinary shares (or 8,941,250 ordinary shares if the underwriters exercise in full their option to purchase additional shares).

Ordinary shares outstanding immediately before and following this offering

34,593,529 ordinary shares.

Use of proceeds

We will not receive any of the proceeds from the sale of the shares by the selling shareholders. See Use of Proceeds. NASDAQ Global Select Market symbol

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Dividend policy

We currently expect that payments of dividends will be made from time to time based on the recommendation of our board of directors, after taking into account legal limitations, growth plans and contractual limitations under our credit agreements, and other factors that our board of directors may deem relevant.

Risk factors

See Risk Factors beginning on page S-18 of this prospectus supplement and beginning on page 2 of the accompanying prospectus for a discussion of factors you should carefully consider before deciding to invest in our ordinary shares.

The number of our outstanding ordinary shares to be outstanding immediately before and following this offering is based on shares outstanding as of March 31, 2013 and excludes, as of that date 1,955,850 ordinary shares reserved for issuance under our 2011 Incentive Compensation Plan of which options to purchase 1,126,050 ordinary shares were outstanding with a weighted average exercise price of \$11.17 per share.

Unless specifically stated, the information in this prospectus supplement does not give effect to the exercise of the underwriters' option to purchase up to an additional 1,166,250 ordinary shares from the selling shareholders.

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The following table sets forth our summary consolidated financial and other data. You should read the following summary consolidated financial data in conjunction with ITEM 3: Key Information Selected Financial Data, ITEM 5: Operating and Financial Review and Prospects and our consolidated financial statements and the related notes found in our Annual Report on Form 20-F for the year ended December 31, 2012. The consolidated income statement data for the years ended December 31, 2010, 2011 and 2012 and the consolidated balance sheet data as of December 31, 2011 and 2012 are derived from our audited consolidated financial statements included in ITEM 18: Financial Statements, in our Annual Report on Form 20-F for the year ended December 31, 2012, which have been prepared in accordance with generally accepted accounting principles in the United States. The consolidated balance sheet data as of December 31, 2010 has been derived from our audited consolidated financial statements which were not included in our Annual Report on Form 20-F for the year ended December 31, 2012.

| (In thousands, except per share and share data)                                       | Year ended December 31, |             |            |
|---|-------------------------|-------------|------------|
|   | 2010                    | 2011        | 2012       |
| Consolidated statements of operations:  |                         |             |            |
| Revenues:   | \$ 198,791              | \$ 259,671  | \$ 296,564 |
| Cost of revenues  | 120,503                 | 155,377     | 169,169    |
| Gross profit  | 78,288                  | 104,294     | 127,395    |
| Operating expenses:   |                         |             |            |
| Research and development, net <sup>(1)</sup>  | 2,273                   | 2,487       | 2,100      |
| Marketing and selling   | 16,048                  | 34,043      | 46,911     |
| General and administrative  | 20,896                  | 30,018      | 28,423     |
| Total operating expenses  | 39,217                  | 66,548      | 77,434     |
| Operating income  | 39,071                  | 37,746      | 49,961     |
| Finance expenses, net   | 2,370                   | 4,775       | 2,773      |
| Income before taxes on income   | 36,701                  | 32,971      | 47,188     |
| Taxes on income   | 7,399                   | 3,600       | 6,821      |
| Income after taxes on income  | 29,302                  | 29,371      | 40,367     |
| Equity in losses of affiliate <sup>(2)</sup>  | 296                     | 67          |            |
| Net income  | \$29,006                | \$29,304    | \$ 40,367  |
| Net income attributable to non-controlling interest                                   | 348                     | 252         | 735        |
| Net income attributable to controlling interest                                       | \$28,658                | \$29,052    | \$ 39,632  |
| Dividend attributable to preferred shareholders                                       | (8,312 )                | (8,376 )    |            |
| Net income attributable to the Company's ordinary shareholders                        | \$20,346                | \$20,676    | \$ 39,632  |
| Basic and diluted net income per ordinary share                                       | \$1.04                  | \$1.06      | \$ 1.21    |
| Weighted average number of ordinary shares used in computing diluted income per share | 19,565                  | 19,565      | 32,700     |
| Dividends declared per share:   |                         |             |            |
| Shekels   | NIS<br>2.32             | NIS<br>0.50 | NIS        |
| Dollars   | \$0.65                  | \$0.14      | \$         |

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| (In thousands)  | At December 31, |           |           |
|---|-----------------|-----------|-----------|
|   | 2010            | 2011      | 2012      |
| Consolidated balance sheet data:  |                 |           |           |
| Cash, cash equivalents and short term bank deposits                     | \$ 43,737       | \$ 11,950 | \$ 72,733 |
| Working capital <sup>(3)</sup>  | 40,201          | 28,592    | 117,712   |
| Total assets  | 236,403         | 246,317   | 321,049   |
| Total liabilities   | 115,450         | 103,661   | 90,026    |
| Redeemable non-controlling interest                                     | 5,662           | 6,205     | 7,106     |
| Shareholders' equity  | 115,291         | 136,451   | 223,917   |
| Other Financial Data:   |                 |           |           |
| Adjusted EBITDA <sup>(4)</sup>  | \$ 50,489       | \$ 58,774 | \$ 69,445 |
| Adjusted net income attributable to controlling interest <sup>(4)</sup> | 29,763          | 34,765    | 44,008    |
| Capital expenditures  | 5,486           | 8,785     | 13,481    |
| Depreciation and amortization   | 10,034          | 14,615    | 14,368    |

(1) Research and development expenses are presented net of grants that we receive from the Office of the Chief Scientist of the Ministry of Industry and Trade of the State of Israel.

(2) Reflects our proportionate share of the net loss of our U.S. distributor, Caesarstone USA, Inc. ( Caesarstone USA ), in which we acquired a 25% equity interest on January 29, 2007. We accounted for our investment using the equity method. In 2011, the amount represents a loss through May 18, 2011, the date on which we acquired the remaining 75% equity interest in Caesarstone USA and began to consolidate its results of operations.

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

(4) The following tables 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:

| (In thousands)   | Year ended December 31, |           |           |
|--|-------------------------|-----------|-----------|
|  | 2010                    | 2011      | 2012      |
| Reconciliation of net income to adjusted EBITDA:                   |                         |           |           |
| Net income   | \$ 29,006               | \$ 29,304 | \$ 40,367 |
| Finance expenses, net  | 2,370                   | 4,775     | 2,773     |
| Taxes on income  | 7,399                   | 3,600     | 6,821     |
| Depreciation and amortization                                      | 10,034                  | 14,615    | 14,368    |
| Equity in losses of affiliate, net <sup>(a)</sup>                  | 296                     | 67        |           |
| Excess cost of acquired inventory <sup>(b)</sup>                   |                         | 4,021     | 885       |
| Share-based compensation expense <sup>(c)</sup>                    | 1,384                   | 1,259     | 3,007     |
| IPO bonus <sup>(d)</sup>   |                         |           | 1,970     |
| Caesarstone USA contingent consideration adjustment <sup>(e)</sup> |                         |           | 255       |
| Litigation gain <sup>(f)</sup>                                     |                         | (1,783 )  | (1,001 )  |
| Microgil loan and inventory write down <sup>(g)</sup>              |                         | 2,916     |           |
| Adjusted EBITDA  | \$ 50,489               | \$ 58,774 | \$ 69,445 |

(a) Consists of our portion of the results of operations of Caesarstone USA prior to its acquisition by us in May 2011.

(b) 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 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.

(c) Share-based compensation consists primarily of changes in the value of share-based rights granted in January 2009 to our Chief Executive Officer. In 2012, share-based compensation consists primarily of expenses related to stock options granted to our employees as well as changes in the value of share-based rights granted in January 2009 to our Chief Executive Officer.

(d) Consists of the payment of \$1.72 million to certain of our employees and \$0.25 million to our Chairman for their contribution to the completion of our initial public offering, or IPO.

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(e) Relates to the change in fair value of the contingent consideration that was part of the consideration transferred in connection with the acquisition of Caesarstone USA.

(f) In 2011, litigation gain consists of a mediation award in our favor pursuant to two trademark infringement cases brought by Caesarstone Australia Pty Limited. In 2012, litigation gain resulted from a settlement agreement with the former chief executive officer of Caesarstone Australia Pty Limited related to litigation that had been commenced in 2010. Pursuant to the settlement, he transferred to us the ownership of all his shares in Caesarstone Australia Pty Limited received in connection with his employment. We did not make any payments in connection with such transfer or other payments to the former chief executive officer. As a result of the settlement, we reversed the liability provision in connection with the litigation and the adjustment is presented net of the related litigation expenses incurred in connection with the settlement.

(g) Relates to our writing down to zero the cost of inventory provided to Microgil Agricultural Cooperative Society Ltd. ( Microgil ), our former third-party quartz processor in Israel, in 2011 in the amount of \$1.8 million and our writing down to zero our \$1.1 million loan to Microgil, in each case, in connection with a dispute. See ITEM 8: Financial Information Consolidated Financial Statements and Other Financial Information Legal proceedings of our Annual Report on Form 20-F for the year ended December 31, 2012.

| (In thousands)   | Year ended December 31, |          |          |
|--|-------------------------|----------|----------|
|  | 2010                    | 2011     | 2012     |
| Reconciliation of net income attributable to controlling interest to adjusted net income attributable to controlling interest: |                         |          |          |
| Net income attributable to controlling interest  | \$28,658                | \$29,052 | \$39,632 |
| Excess cost of acquired inventory <sup>(a)</sup>   |                         | 4,021    | 885      |
| Litigation gain <sup>(b)</sup>   |                         | (1,783 ) | 1,001    |
| IPO bonus <sup>(c)</sup>   |                         |          | 1,970    |
| Caesarstone USA contingent consideration adjustment <sup>(d)</sup>   |                         |          | 255      |
| Microgil loan and inventory write down <sup>(e)</sup>  |                         | 2,916    |          |
| Share-based compensation expense <sup>(f)</sup>  | 1,384                   | 1,259    | 3,007    |
| Total adjustments before tax   | 1,384                   | 6,413    | 5,116    |
| Less tax on above adjustments  | 279                     | 700      | 740      |
| Total adjustments after tax  | 1,105                   | 5,713    | 4,376    |
| Adjusted net income attributable to controlling interest   | \$29,763                | \$34,765 | \$44,008 |

(a) 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 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.

(b) In 2011, litigation gain consists of a mediation award in our favor pursuant to two trademark infringement cases brought by Caesarstone Australia Pty Limited. In 2012, litigation gain resulted from a settlement agreement with the former chief executive officer of Caesarstone Australia Pty Limited related to litigation that had been commenced in 2010. Pursuant to the settlement, he transferred to us the ownership of all his shares in Caesarstone Australia Pty Limited received in connection with his employment. We did not make any payments in connection with such transfer or other payments to the former chief executive officer. As a result of the settlement, we reversed the liability provision in connection with the litigation and the adjustment is presented net of the related litigation expenses incurred in connection with the settlement.

- (c) Consists of the payment of \$1.72 million to certain of our employees and \$0.25 million to our Chairman for their contribution to the completion of our IPO.
- (d) Relates to the change in fair value of the contingent consideration that was part of the consideration transferred in connection with the acquisition of Caesarstone USA.
- (e) Relates to our writing down to zero the cost of inventory provided to Microgil, our former third-party quartz processor in Israel, in 2011 in the amount of \$1.8 million and our writing down to zero our \$1.1 million loan to Microgil, in each case, in connection with a dispute. See ITEM 8: Financial Information Consolidated Financial Statements and Other Financial Information Legal proceedings of our Annual Report on Form 20-F for the year ended December 31, 2012.
- (f) Share-based compensation consists primarily of changes in the value of share-based rights granted in January 2009 to our Chief Executive Officer. In 2012, share-based compensation consists primarily of expenses related to stock options granted to our employees as well as changes in the value of share-based rights granted in January 2009 to our Chief Executive Officer.

Adjusted EBITDA and adjusted net income attributable to controlling interest are metrics used by management to measure operating performance. Adjusted EBITDA represents net income excluding finance expenses, net, taxes on income, depreciation and amortization, equity in losses of affiliate, net, excess cost of acquired inventory, share-based compensation expense, IPO bonus, Caesarstone USA contingent consideration adjustment, litigation gain and Microgil loan and inventory write down.

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Adjusted net income attributable to controlling interest represents net income attributable to controlling interest excluding excess cost of acquired inventory, litigation gain, IPO bonus, Caesarstone USA contingent consideration adjustment, Microgil loan and inventory write down, share-based compensation expense plus adjustment for the related tax impact. We present adjusted EBITDA as a supplemental performance measure because we believe it facilitates operating performance comparisons from period to period and company to company by backing out potential differences caused by variations in capital structures (affecting interest expenses, net), changes in foreign exchange rates that impact financial asset and liabilities denominated in currencies other than our functional currency (affecting finance expenses, net), tax positions (such as the impact on periods or companies of changes in effective tax rates) and the age and book depreciation of fixed assets (affecting relative depreciation expense). Adjusted EBITDA also excludes equity in losses of affiliate, net, because we believe it is helpful to view the performance of our business excluding the impact of our U.S. distributor, which we did not control, and because our share of the net income (loss) of the U.S. distributor includes items that have other been excluded from adjusted EBITDA (such as finance expenses, net, tax on income and depreciation and amortization). In addition, adjusted EBITDA and adjusted net income attributable to controlling interest exclude the impact of share-based compensation and a number of items that we do not believe reflect the underlying performance of our business. Because adjusted EBITDA and adjusted net income attributable to controlling interest facilitate internal comparisons of operating performance on a more consistent basis, we also use adjusted EBITDA and adjusted net income in measuring our performance relative to that of our competitors. Adjusted EBITDA and adjusted net income attributable to controlling interest are not measures of our financial performance under GAAP and should not be considered as alternatives to net income, operating income or any other performance measures derived in accordance with GAAP or as alternatives to cash flow from operating activities as measures of our profitability or liquidity. We understand that although adjusted EBITDA and adjusted net income attributable to controlling interest are frequently used by securities analysts, lenders and others in their evaluation of companies, adjusted EBITDA and adjusted net income have limitations as analytical tools, and you should not consider them in isolation, or as substitutes for analysis of our results as reported under GAAP. Some of these limitations are:

adjusted EBITDA and adjusted net income attributable to controlling interest do not reflect our cash expenditures or future requirements for capital expenditures or contractual commitments;

adjusted EBITDA and adjusted net income attributable to controlling interest do not reflect changes in, or cash requirements for, our working capital needs;

although depreciation is a non-cash charge, the assets being depreciated will often have to be replaced in the future, and adjusted EBITDA does not reflect any cash requirements for such replacements; and

other companies in our industry may calculate adjusted EBITDA and adjusted net income attributable to controlling interest differently than we do, limiting its usefulness as a comparative measure.

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## **Risk factors**

*Investing in our ordinary shares involves a high degree of risk. You should consider carefully the following risk factors and the risk factors discussed under the section captioned **ITEM 3: Key Information Risk Factors** in our Annual Report on Form 20-F for the year ended December 31, 2012, in addition to all of the other information included in this prospectus supplement, the accompanying prospectus, the documents incorporated by reference in this prospectus supplement and the accompanying prospectus, and any free writing prospectus that we have authorized for use in connection with this offering, before investing in our ordinary shares. Please also refer to the section in this prospectus supplement entitled **Forward-looking statements**. Each of these risk factors could harm our business, financial condition or operating results, as well as decrease the value of an investment in our ordinary shares.*

### **Risks related to our ordinary shares and the offering**

#### **The controlling share ownership position of Kibbutz Sdot-Yam will limit your ability to influence corporate matters.**

Following this offering, Kibbutz Sdot-Yam will beneficially own 52.7% of our ordinary shares and will have the voting power to control the entire composition of our board of directors, which currently has 10 members and may have a maximum of 11 members (other than our two external directors and two independent directors, each of whom was nominated for a three-year period ending in June 2015 and November 2014, respectively). Kibbutz Sdot-Yam has the right to propose for nomination an additional member to our board of directors. If Kibbutz Sdot-Yam proposes such member, and he or she is elected at a general meeting of our shareholders, our board of directors will consist of 11 members. As a result of this concentration of share ownership, Kibbutz Sdot-Yam acting on its own has sufficient voting power to control all matters submitted to our shareholders for approval that do not require a special majority vote, including:

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, 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 may not always coincide with the interests of our other shareholders. This concentration of ownership may also adversely affect our share price.

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

As of March 31, 2013, we had 34,593,529 ordinary shares outstanding of which, immediately following this offering, 18,931,250 will not be freely tradeable (or 17,765,000 ordinary shares if the underwriters exercise in full their option to purchase additional shares from the selling shareholders). Sales by us or our 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 impair our ability to raise capital through a future sale of, or pay for acquisitions using, our equity securities. Immediately following this offering, approximately 52.7% of our ordinary

shares will be beneficially owned by Kibbutz Sdot-Yam, and can be resold into the public markets in accordance with the requirements of Rule 144, including volume limitations, or pursuant to the registration statement of which this prospectus supplement forms a part.

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In connection with this offering, we have agreed to lock-up restrictions, pursuant to which we, our directors and officers and the selling shareholders will not be permitted to sell any of our ordinary shares for 90 days after the date of this prospectus supplement without the prior consent of J.P. Morgan Securities LLC and Barclays Capital Inc., subject to the exceptions discussed in Underwriting, which include the right of our officers to sell up to an aggregate of 245,975 ordinary shares commencing 30 days after the date of this prospectus supplement. Although we have been advised that there is no present intention to do so, J.P. Morgan Securities LLC and Barclays Capital Inc. may, in their sole discretion and without notice, release us, our directors and officers or the selling shareholders from all restrictions in any of the lock-up agreements described above. See Underwriting.

Following this offering and the expiration of the lock-up agreement entered into with the underwriters, Kibbutz Sdot-Yam may require us to register an additional 16,415,000 shares under the Securities Act for resale into the public markets (in addition to the 1,825,000 remaining shares registered pursuant to the registration statement of which this prospectus supplement forms a part). All shares sold pursuant to an offering covered by such registration statement or statements will be freely transferable. See ITEM 7: Major Shareholders and Related Party Transactions Related Party Transactions Registration rights agreement in our Annual Report on Form 20-F for the year ended December 31, 2012.

In addition to these registration rights, as of March 31, 2013, 1,126,050 ordinary shares were issuable under stock options granted to employees and office holders and an additional 829,800 ordinary shares were available for future grant. On March 23, 2012, we filed a registration statement on Form S-8 registering the ordinary shares that we may issue under our stock incentive plans. Shares included in such registration statement 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.

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## **Use of proceeds**

We will not receive any proceeds from the sale of ordinary shares by the selling shareholders. All the proceeds from the sale of the selling shareholders' shares will be solely for the account of the selling shareholders.

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The following table sets forth our total capitalization as of December 31, 2012.

There has been no material change in our capitalization from debt or equity issuances, re-capitalizations or special dividends between December 31, 2012 and the date of this prospectus supplement. This table should be read in conjunction with ITEM 5: Operating and Financial Review and Prospects, ITEM 3: Key Information Risk Factors and our consolidated financial statements and the related notes incorporated by reference from our Annual Report on Form 20-F for the year ended December 31, 2012. See Where you can find more information.

| (In thousands, except per share data)  | As of<br>December 31,<br>2012 |
|--|-------------------------------|
| Cash, cash equivalents and short term bank deposits  | \$ 72,733                     |
| Total debt   | \$ 22,936                     |
| Redeemable non-controlling interest <sup>(1)</sup>   | 7,106                         |
| Ordinary shares, par value NIS 0.04 per share; 200,000,000 shares authorized; 34,365,250 shares issued and outstanding | 360                           |
| Additional paid-in capital   | 135,437                       |
| Accumulated other comprehensive income   | 8,517                         |
| Retained earnings  | 79,603                        |
| Total shareholders' equity   | 223,917                       |
| Total capitalization   | \$ 253,959                    |

(1) Redeemable non-controlling interest consists of 45% of the common stock of our Canadian joint venture, Caesarstone Canada Inc., in which we own a 55% interest. The 45% interest that we do not own is subject to a put option exercisable by the holder to us. Following the formation of our joint venture in October 2010, we measured all of the assets contributed to Caesarstone Canada Inc. by our former distributor in Eastern Canada, Canadian Quartz Holdings Inc., at their fair value to determine the redeemable non-controlling interest due to the put option granted to Canadian Quartz Holdings Inc. to sell its 45% ownership interest in Caesarstone Canada Inc. to us.

The foregoing table excludes as of December 31, 2012, 2,375,000 ordinary shares reserved for issuance under our 2011 Incentive Compensation Plan of which options to purchase 1,545,200 ordinary shares were outstanding with a weighted average exercise price of \$11.13 per share.

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Our ordinary shares began trading publicly on the Nasdaq Global Select Market on March 22, 2012. Prior to that date, there was no public market for our ordinary shares. The following table lists the high and low sales prices for our ordinary shares for the periods indicated as reported by the Nasdaq Global Select Market.

| Year   | High    | Low     |
|--|---------|---------|
| 2013 (through April 11, 2013)                    | \$27.86 | \$16.15 |
| 2012 (beginning on March 22, 2012)               | \$17.39 | \$10.08 |
|  |         |         |
| Quarter  | High    | Low     |
| 2013   |         |         |
| Second quarter 2013 (through April 11, 2013)     | \$27.49 | \$22.57 |
| First quarter 2013                               | \$27.86 | \$16.15 |
| 2012   |         |         |
| Fourth quarter 2012                              | \$17.39 | \$14.01 |
| Third quarter 2012                               | \$14.52 | \$10.08 |
| Second quarter 2012                              | \$13.88 | \$10.75 |
| First quarter 2012 (beginning on March 22, 2012) | \$12.33 | \$10.70 |
|  |         |         |
| Most Recent Six Months                           | High    | Low     |
| April 2013 (through April 11, 2013)              | \$27.49 | \$22.57 |
| March 2013                                       | \$27.86 | \$21.25 |
| February 2013                                    | \$25.25 | \$18.71 |
| January 2013                                     | \$20.02 | \$16.15 |
| December 2012                                    | \$17.39 | \$15.41 |
| November 2012                                    | \$16.17 | \$14.59 |
| October 2012                                     | \$16.24 | \$14.01 |

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The following table sets forth the name, age and position of each of our executive officers and directors as of the date of this prospectus supplement.

| Name                            | Age | Position  |
|---------------------------------|-----|---|
| Executive officers              |     |   |
| Yosef Shiran                    | 51  | Chief Executive Officer                                 |
| Yair Averbuch                   | 52  | Chief Financial Officer                                 |
| David Cullen                    | 53  | Chief Executive Officer Caesarstone Australia           |
| Sagi Cohen                      | 44  | Chief Executive Officer Caesarstone USA                 |
| Giora Wegman                    | 61  | Deputy Chief Executive Officer                          |
| Michal Baumwald Oron            | 40  | Vice President Business Development and General Counsel |
| Eli Feiglin                     | 46  | Vice President Marketing                                |
| Erez Schweppe                   | 48  | Vice President Sales                                    |
| Harel Boker                     | 63  | Vice President of Operations                            |
| Tzvika Rimon                    | 61  | Israel Country Manager                                  |
| Dr. Ramon Albalak               | 53  | Vice President Research and Development                 |
| Lilach Gilboa                   | 40  | Vice President Human Resources                          |
| Directors                       |     |   |
| Maxim Ohana                     | 62  | Chairman  |
| Yonathan Melamed <sup>(1)</sup> | 69  | Director  |
| Moshe Ronen <sup>(2)</sup>      | 62  | Director  |
| Ariel Halperin                  | 58  | Director  |
| Eitan Shachar                   | 63  | Director  |
| Boaz Shani                      | 59  | Director  |
| Shachar Degani                  | 46  | Director  |
| Gal Cohen                       | 50  | Director  |
| Irit Ben-Dov <sup>(1)(2)</sup>  | 42  | Director  |
| Ofer Borovsky <sup>(1)(2)</sup> | 58  | Director  |

(1) Member of our audit committee.

(2) Member of our compensation committee.

**Executive officers**

**Yosef Shiran** has served as our Chief Executive Officer since January 2009 and serves as the chairman of our subsidiaries in the United States, Canada, Singapore and Australia. Prior to joining us, in August 2008, Mr. Shiran established operations for a company wholly-owned by him in the textile industry. From January 2001 to August 2008, Mr. Shiran served as Chief Executive Officer and director of Tefron Ltd., an Israeli manufacturer of intimate apparel and activewear that was listed on the New York Stock Exchange and is currently listed on the Tel Aviv Stock Exchange. From 1995 to 2000, Mr. Shiran served as Chief Executive Officer of Technoplast Industries Ltd., an injection molding and plastic extrusion manufacturing company that was listed on the Tel Aviv Stock Exchange and the London Stock Exchange. Between 1989 and 1995, Mr. Shiran held different managerial positions in the building and electric infrastructures industries. Between 2002 and 2006, Mr. Shiran served as the Chairman of the Board of Directors of Alba Health, LLC, a U.S. affiliate of Tefron Ltd. that developed and manufactured textile products for the

healthcare industry. Between 2001 and 2008, Mr. Shiran served as Chairman and a director in other private companies. From June 2007 to December 2008, Mr. Shiran served as the chairman of the Textile

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Manufacturers Association of Israel. Mr. Shiran holds a B.Sc. degree in Industrial Engineering from Ben Gurion University, Israel and an M.B.A. from Bar Ilan University, Israel.

**Yair Averbuch** has served as our Chief Financial Officer since April 2010. Prior to joining us, from September 2005 to April 2010, Mr. Averbuch served as Chief Financial Officer and Chief Administrative Officer for the Israeli operations of Applied Materials, Inc., a semiconductor capital equipment company (NASDAQ: AMAT). From 1997 to 2005, Mr. Averbuch served as a business unit controller of various applied Materials Product Business Groups. From 1995 to 1997, Mr. Averbuch served as Chief Financial Officer of Orbot Instruments Ltd., an Israeli provider of diagnostic and control tools to semiconductor manufacturers, acquired by Applied Materials in 1997. Mr. Averbuch holds a B.A., M.A. and MBA in Business Administration and Economics, each from Hebrew University, Jerusalem.

**David Cullen** has served as our Chief Executive Officer for Caesarstone Australia since April 2010. Prior to joining us, from January 2009 to March 2010, Mr. Cullen served as General Manager in Australia of Komatsu Ltd., a Japanese manufacturer of industrial and mining equipment. From January 2006 to November 2008, he served as Chief Executive Officer of Global Food Equipment Pty Ltd., an Australian importer and distributor of commercial food equipment. From 2004 to 2006, he served as Chief Executive Officer of White International Pty Ltd., an Australian supplier of industrial and residential pump products. From 2003 to 2004, Mr. Cullen served as Chief Executive Officer of Daisytek Australia Pty Ltd, a subsidiary of Daisytek International Corporation. From 1996 to 2002, he served as Chief Executive Officer of Tech Pacific Australia Pty Ltd., the largest distributor of IT equipment in the Asia-Pacific region. Mr. Cullen has held various other management positions in other companies since 1985. Mr. Cullen has a Bachelor of Commerce degree from the University of New South Wales.

**Sagi Cohen** has served as Chief Executive Officer for Caesarstone USA since September 2011. From 2006 to 2010, Mr. Cohen served as Chief Operating Officer for Caesarstone USA. From November 2003 to August 2006, Mr. Cohen served as Chief Executive Officer of Yellow Convenience Stores Chain and from 2000 to 2003, he served as Vice President of Marketing and Sales of Paz Oil Company Ltd. From 2001 to 2003, he served as Vice President of Sales and Marketing of Pazomat, a part of Paz Oil Group Ltd. From 1998 to 2001, Mr. Cohen served as National Sales and Distribution Director of Strauss Marketing Ltd., and from 1995 to 1998, he served as Sales and Distribution Manager of the private sector of Strauss Marketing Ltd. Mr. Cohen holds a B.A. in Business Administration and Political Science from Tel Aviv Open University and Executive Retail and Marketing Studies from Oxford Princeton College, United Kingdom.

**Giora Wegman** has served as our Deputy Chief Executive Officer since August 2010. From June 2008 to July 2010, Mr. Wegman served as a member of our board of directors, and from June 2008 he has served as the Manager of Business of Kibbutz Sdot-Yam. From 1988 to July 2008, Mr. Wegman held various management positions in our Company. From 2000 to February 2006, he served as Co-CEO, and from February 2006 to July 2008, he served as our Deputy CEO. Mr. Wegman holds a B.A. in Mechanical Engineering from Rupin College, Israel.

**Michal Baumwald Oron** has served as our General Counsel since September 2009 and since January 2013, also as our Vice President Business Development. Prior to joining us, from August 2004 to June 2009, Ms. Baumwald Oron served as Secretary and General Counsel of Tefron Ltd., an Israeli manufacturer of intimate apparel and activewear that was listed on the New York Stock Exchange and is currently listed on the Tel Aviv Stock Exchange, and from May 2003 to August 2004, Ms. Baumwald Oron served as the Legal Counsel of Tefron. From 2001 to May 2003, Ms. Baumwald Oron managed a private legal practice, and from October 1998 to December 2000, she practiced law at a private commercial law firm in Tel-Aviv, Israel. From 1995 to October 1998, Ms. Baumwald Oron served as legal counsel in the Israel Defense Forces. Ms. Baumwald Oron holds an LL.B. from Tel-Aviv University, Israel and an LL.M. from Bar-Ilan University, Israel, and was admitted to the Israeli Bar in 1996.

***Eli Feiglin*** has served as our Vice President Marketing since December 2009. Prior to joining us, Mr. Feiglin served as Vice President Marketing of Jafora-Tabori Ltd., a manufacturer and marketer of soft drinks,

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from 2005 to December 2009. From 2004 to 2005, Mr. Feiglin served as Chief Executive Officer of Comutech Ltd., a distributor of Siemens AG mobile handsets in Israel. From 1999 to 2004, Mr. Feiglin served as Marketing Manager of Pelephone Ltd., a cellular communications provider in Israel, and from 1996 to 1999, Mr. Feiglin served as Category Manager of Osem (Nestle Israel), a food manufacturer and distributor. From 1992 to 1996, Mr. Feiglin served as Project Manager of POC Strategic Consulting Ltd., a strategy and marketing consulting company. Mr. Feiglin holds a B.A. in Management and Economics and an M.B.A., each from Tel-Aviv University, Israel.

**Erez Schweppe** has served as our Vice President Sales since August 2007. Prior to joining us, from 1997 to July 2007, Mr. Schweppe served as Vice President Marketing and Sales at Phoenicia America-Israel, an Israeli glass manufacturer, and from 1996 to 1997, Mr. Schweppe served as Budget, Pricing and Control Manager at Finish-Office Furniture. Mr. Schweppe holds a B.A. in Economics and Political Science and an M.B.A., each from Hebrew University, Jerusalem.

**Harel Boker** has served as our Vice President of Operations since February 2012. From April 2005 to March 2011, Mr. Boker served as Vice President Supply Chain of Unilever Israel, and from April 1996 to March 2005, he served as Vice President of Operations of Unilever Israel. From October 1993 to March 1996, Mr. Boker served as Chief Executive Officer of Etz Hazait, a private Israeli manufacturer of oil products. From 1975 to 1993, Mr. Boker served in several managerial positions in the American Israeli Paper Mill Group. Mr. Boker holds a B.Sc. in Industrial and Management Engineering from Ben-Gurion University, Israel.

**Tzvika Rimon** has served as our Israel Country Manager since 1998. Prior to joining us, from 1983 to July 1998, Mr. Rimon served as Marketing and Sales Manager at Carmel Carpets Ltd., a carpet manufacturing company. From 1979 to 1983, Mr. Rimon served as Sales Manager at ELISRA LTD, an Israeli electronic company.

**Dr. Ramon Albalak** has served as our Vice President Research and Development since June 2010 and joined us in November 2007 as our Research and Development Manager. Prior to joining us, from 2003 to October 2007, Dr. Albalak served as Research and Development Manager at ADT Advanced Dicing Technologies Ltd., a manufacturer of dicing saws and laser scribing systems. From 2001 to 2003, Dr. Albalak served as Research and Development Manager at Kulicke and Soffa, a manufacturer of semiconductor assembly equipment. Dr. Albalak holds a B.Sc. and a D.Sc. in Chemical Engineering, both from the Israeli Institute of Technology in Haifa, and a Post-Doctorate in Materials Science and Engineering from the Massachusetts Institute of Technology.

**Lilach Gilboa** has served as our Vice President Human Resources and member of our management since August 2007. From 2002 through July 2007, Ms. Gilboa served as our Manager of Human Resources. Prior to joining us, from 1998 to 2000, Ms. Gilboa served as Recruitment Manager in the operations department of ECI Telecom Ltd., an Israeli manufacturer of network infrastructure equipment, and from 2000 to 2002, Ms. Gilboa served as Manager of Human Resources in the IT department at the same company. Ms. Gilboa holds a B.A. in Behavior Science and Human Resources from The College of Management Academic Studies, Israel and an M.A. in Organizational Sociology from Tel-Aviv University, Israel.

## **Directors**

**Maxim Ohana** has served as the Chairman of our Board of Directors since December 2010. From April 2007 until January 2013, Mr. Ohana served as Chairman of the Economic Council of Kibbutz Sdot-Yam. From 2000 to 2008, Mr. Ohana served as Chief Executive Officer of Sdot-Yam Marble Floors Company (1995) Ltd. From 1997 to 2000, Mr. Ohana served as Chief Executive Officer of Hagor Industries Ltd. From 1993 to 1997, Mr. Ohana served as Chief Executive Officer of Cement Products Caesarea Ltd. From 1990 to 1993, Mr. Ohana served as Chief Executive

Officer of Kibbutz Sdot-Yam's business. Mr. Ohana holds a diploma in general studies from the Kibbutzim Seminar, Israel.

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**Yonathan Melamed** has served as a director since August 2008. Mr. Melamed has served as Chairman of Rahan Meristem 1998 Ltd. since 2004; Miluot Ltd., The Gulf Settlements (1993) Buying Organization Ltd. and Golan Plastic Ltd. since 2006; Polyon Barkai (1993) Industries Ltd. since 2009; and Bio-Bee Sde Eliyahu Ltd. since 2010. Mr. Melamed has also served as a director of Assive Ltd. since 2006 and Sde Eliyahu Spices, Nahsholim Vacations at Dor Beach, Agriculture Nahsholim Agricultural Cooperative Society Ltd. and Tefen Plastic Products Manufacturing & Marketing 1990 Ltd. since 2010. From 2004 to 2011, Mr. Melamed served as Chairman of the Kibbutz Industry Association and also as Chairman of Plastive Packaging Products Ltd. (Yakum). From 2006 to 2011, Mr. Melamed served as director of Toam Import and Expot Ltd., and from 2006 to 2010, as Chairman of Arkval Filtration Systems. Mr. Melamed also served as Chairman of Gvat Agriculture and Business Cooperative Society Ltd. from 2006 to 2008, Chairman of Bashan Radiators Ltd. from 2000 to 2008 and Chairman of Mapal Plastic Products (Mavo Hama) from 2000 to 2007. Mr. Melamed holds a Practical Engineering degree in Electronic Engineering from the Israeli Institute of Technology in Haifa.

**Moshe Ronen** has served as a director since February 2004. From February 1992 to March 1999, Mr. Ronen served as Chief Executive Officer of Golden Channels Ltd. From September 2000 to October 2005, Mr. Ronen served as Chief Executive Officer of Golden Pages Ltd. Since June 2004, Mr. Ronen has served as a director of Knafaim Holding Limited, an Israel-based tourism and air aviation services company, traded on the Tel Aviv Stock Exchange. Since January 2013, Mr. Ronen has served as a member of the board of governors and management committee of The Wingate Institute, an Israeli national center for physical education and sport. Mr. Ronen holds a B.Sc. in Mathematics, Statistics and Complementary Studies from the Hebrew University, Israel.

**Ariel Halperin** has served as a director since December 2006. Mr. Halperin has served as a senior managing partner in Tene Investment Funds Ltd. since 2004 and a founding partner in Tenram Investments Ltd. since 2000. From 1992 to 2000, Mr. Halperin led the Kibbutzim Creditors Agreement serving as trustee for the Israeli government, Israeli banks and the Kibbutzim. Mr. Halperin currently serves as a director of Tene Growth Capital (Management) Ltd., Tene Investment Management F.E Ltd., Tenram Investments (2001) Ltd., Tenram Ltd., Tenram Enterprise and Consulting Ltd., Tenram Funds Management Ltd., Netafim Ltd., Ricor Cryogenic & Vacuum Systems Limited Partnership, Hanita Coatings RCA, Gav Yam Hill Ltd., Magash Top Investments 2001 Ltd., Gaviah Top Investments (2002) Ltd., Dan Tan Geshem Holdings Ltd., G.T.M Investments In Mishmarot Ltd., Naaman Properties Ltd., T.S.I Investments Ltd., D.A.R.E Sdot Shemesh Ltd., D.A.R.E Financing (2010) Ltd. and Tene Investments Management in Kibbutz Industry Ltd. Mr. Halperin holds a B.A. in Mathematics and Economics and Ph.D. in Economics from The Hebrew University of Jerusalem in Israel and a Post-Doctorate in Economics from the Massachusetts Institute of Technology in Cambridge, Massachusetts. Mr. Halperin was appointed as a director by Tene pursuant to a 2006 investment agreement among Kibbutz Sdot-Yam and entities affiliated with it, Tene and us.

**Eitan Shachar** has served as a director since July 2010. Mr. Shachar also serves as the Chief Executive Officer of the Sdot-Yam business and as a director of a few companies owned by Kibbutz Sdot-Yam. From 1999 to February 2009, Mr. Shachar served as the manager of our samples factory where we process our marketing sample slabs. Prior to joining us, from 1997 to 1999, Mr. Shachar managed an agricultural project in India and in 1996, he was engaged in the sale of and instruction on the use of agricultural equipment. In 1992, Mr. Shachar served as the manager of a project in China for the growth of cotton with an advanced technology. From 1974 to 1996, he was employed by Kibbutz Sdot-Yam in its fieldcrops area, twelve years of which he served as the professional and administrative manager of the field-crops area. Mr. Shachar currently serves as a director of Kef-Yam, at Kibbutz Sdot-Yam. Mr. Shachar holds a B.Sc. in Mechanical Engineering from Rupin College, Israel.

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**Boaz Shani** has served as a director since November 2011. Since 1995, Mr. Shani has served as the Managing Director of Nesor for Settlement (1996) Ltd., a private company owned by over 250 kibbutzim. From 1988 to 1990, Mr. Shani served as a member of Kibbutz Sdot-Yam's secretariat. From 1981 to 1984 and 1984 to 1988, Mr. Shani served as the administrator of Kibbutz Sdot-Yam's communications branch. Mr. Shani currently serves as a director of Kef-Yam at Kibbutz Sdot-Yam and is a member of Kibbutz Sdot-Yam's outside workers committee.

**Shachar Degani** has served as our director since November 2011. From July 2009 to November 2012, Mr. Degani served as community manager of Kibbutz Tel-Yosef. From January 2008 to 2009, Mr. Degani served as the manager of our factory equipment project. From January 2006 to December 2007, he served as Kibbutz Sdot-Yam's community manager, and from January 2000 to December 2005, he served as manager of a business unit of Sdot-Yam Business Ltd. called Caesar Art & Sdot Yam. Mr. Degani holds an Executive B.A. in Business Administration from Rupin College, Israel.

**Gal Cohen** has served as our director since February 2012. Since June 2009, Mr. Cohen has served as the manager of international activity of Sol Energy Hellas, a Greek company specializing in energy saving solutions. From 2005 to 2008, Mr. Cohen served as vice president of export activity at Chromagen Ltd., an Israeli solar solutions producer. From 1998 to 2004, he served as Chief Executive Officer of Kef-Yam at Kibbutz Sdot-Yam, and from 1994 to 1998, he served as Kef Yam's vice president of marketing. Mr. Cohen holds a B.A. in Business Administration from the College of Management Academic Studies, Israel and an M.A. in Business Administration from Derbi University, Israel.

**Irit Ben-Dov** has served as our director since March 2012 and serves as an external director under the Companies Law. Since January 2012, Ms. Ben-Dov has served as the Chief Financial Officer of Plassim Group, an Israeli manufacturer of plastic pipes and fittings. From January 2011 to December 2011, Ms. Ben-Dov served as the Chief Financial Officer of Dynasec Ltd., a risk management and regulatory compliance software start-up company. From November 2003 to June 2010, Ms. Ben-Dov served as Chief Financial Officer of Maytronics Ltd., an Israeli public company. From 2001 to 2003, Ms. Ben-Dov served as an accountant at Ernst & Young, Israel, and from 1996 to 2001, she served as a cost accountant in Kibbutz Yizrael. Ms. Ben-Dov currently serves as an external director and chairperson of the audit committee of Poliram Ltd., an Israeli company and as an external director of Miluot Development Company of Haifa Gulf Farmsteads Ltd., an Israeli company. Ms. Ben-Dov holds a B.A. in Statistics from Haifa University, Israel and an M.B.A. from Derbi University, Israel. Ms. Ben-Dov is an Israeli Certified Public Accountant.

**Ofer Borovsky** has served as our director since March 2012 and serves as an external director under the Companies Law. Since May 2005, Mr. Borovsky has served as the Joint Chief Financial Officer of Plasson Industries Ltd., an Israeli public company traded on the Tel Aviv Stock Exchange and Plasson Ltd., a private Israeli company. From 2004 to 2007, Mr. Borovsky served as a marketing consultant to R.M.C. Ltd., a fish food producer and marketing company. From 2004 to 2009, Mr. Borovsky served as a member of the Financial Committee of Granot Ltd., an Israeli cooperative association. From 2005 to 2008, he served as the chairman of the Investment Committee at Yaniv Pension Fund. From 2000 to 2004, Mr. Borovsky served as treasurer of Plasson Industries Ltd., Plasson Ltd. and Kibbutz Maagan Michael and its corporations. From 1990 to 2000, Mr. Borovsky served as marketing manager for the Kibbutz Maagan Michael fish industry and Mag Noy Ltd., an ornamental fish export company, and from 1985 to 1990, he served as treasurer of Plasson Industries Ltd. and Kibbutz Michael and its corporations. Mr. Borovsky currently serves as an external director of Gan Shmuel Foods Ltd., an Israeli public company traded on the Tel Aviv Stock Exchange and as a director of Plasson Industries Ltd. and Plasson Ltd. Mr. Borovsky holds a B.A. in Business Administration and Economics from Rupin College, Israel, an M.B.A. from Manchester University, United Kingdom and D.B.A. from the Business School Lausanne, Switzerland.



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## **Selling shareholders**

We have registered certain of our ordinary shares for sale by the selling shareholders named below. The selling shareholders will pay all underwriting discounts and commissions and taxes incurred with respect to the sale of their shares in connection with this offering and we will bear all other expenses in connection with the offering, including the fees and expenses of one U.S. and one Israeli counsel to the selling shareholders. The following table sets forth:

the number and percent of our ordinary shares that the selling shareholders beneficially owned prior to the offering of the shares under this prospectus supplement;

the number of our ordinary shares that may be offered hereby; and

the number and percent of our ordinary shares to be beneficially owned by the selling shareholders after the offering of the shares.

This table is prepared solely based on information supplied to us by the selling shareholders. The applicable percentages of beneficial ownership are based on an aggregate of 34,593,529 ordinary shares issued and outstanding on March 31, 2013 and are calculated pursuant to rules promulgated by the SEC.

- (1) Consists of 18,715,000 ordinary shares held by Mifalei Sdot-Yam Agricultural Cooperative Society Ltd., an indirect, wholly-owned subsidiary of Kibbutz Sdot-Yam.

The Economic Council elected by the members of Kibbutz Sdot-Yam manages the economic activities and strategy of Kibbutz Sdot-Yam and its subsidiaries, and makes the voting decisions of Kibbutz Sdot-Yam with regard to our shares, subject to the approval of the general assembly of Kibbutz Sdot-Yam with regard to material issues including dilution of the holdings of Kibbutz Sdot-Yam in our company or disposition of any of our shares. The Economic Council takes its decisions by majority vote and has nine members: Amir Rotem (chairman), Eitan Shachar, Itai Amir, Yoram Rozenblat, Marchella Shani, Reuben Cohen, Amit Ben Zvi, Amos Ben Horin and Doron Horev. Maxim Ohana, the former Chairman of the Economic Council, also participates in its meetings until the end of 2013 as an observer without voting rights. Amihai Beer is the secretary of the Economic Council, also without voting rights. All the members of the Economic Council are members of Kibbutz Sdot-Yam. In addition, Mr. Ohana is Chairman of our board of directors, Mr. Shachar is a director, Mr. Ben-Zvi is our Safety Health Environment and Quality Manager, and each of Messrs. Ben Horin, Amir and Rozenblat is engaged by us. Each member of the Economic Council disclaims beneficial ownership of our ordinary shares except to the extent of his or her pecuniary interest therein. The address of Kibbutz Sdot-Yam is MP Menashe 3780400, Israel.

Kibbutz Sdot-Yam is a communal society, referred to in Hebrew as a kibbutz (plural kibbutzim ) with approximately 400 members and an additional 350 residents located in Israel on the Mediterranean coast between Tel Aviv and Haifa. Established in 1940, Kibbutz Sdot-Yam is a largely self-governed community of members who share certain social ideals and values on a communal basis. Initially, the social idea behind the formation of the kibbutzim in Israel was to create a communal society in which all members share equally in all of the society's resources and which provides for the needs of the community. Over the years, the structure of the kibbutzim has evolved, and today there are a number of different economic and social arrangements adopted by various kibbutzim.

Today, all of the members of Kibbutz Sdot-Yam continue to jointly own all of the assets of the Kibbutz. The members of Kibbutz Sdot-Yam are engaged in a number of economic activities, including agriculture, industrial operations and outdoor venue operations. A number of Kibbutz members are engaged in professions outside the Kibbutz. The Kibbutz is the owner and operator of several private companies. The Kibbutz community holds in common all land, buildings and production assets of these companies.

Many members of Kibbutz Sdot-Yam work in one of the production activities of Kibbutz Sdot-Yam, based on the requirements of Kibbutz Sdot-Yam and the career objectives of the individual concerned. Other members work outside of Kibbutz Sdot-Yam in businesses owned by other entities. Each member must deliver to the Kibbutz all his or her income from work, and receives income based on the position the member holds, his or her economic contribution to the community and his or her seniority, as well as on the size and composition of his or her family. Each member's income depends on the income of Kibbutz Sdot-Yam from its economic activities. Each member has a pension that

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is funded by Kibbutz Sdot-Yam, and all accommodation, educational, health and old age care services, as well as social and municipal services, are provided either by or through Kibbutz Sdot-Yam.

(2) Consists of 6,480,250 ordinary shares held by Tene Investments in Quartz Surfaces L.P. and 1,511,000 ordinary shares held by Tene Investments in Quartz Surfaces B (Parallel) L.P. The general partner of each of these entities is Tene Management Investments in Kibbutzim Ltd. The major shareholder of the general partner is Tenram Funds Management Ltd. and its major shareholder is Tenram Ltd., which is wholly owned by Ariel Halperin. Each such person disclaims beneficial ownership of our shares except to the extent of his or her pecuniary interest therein. The address of Tene Investment Funds is 4 Berkovich Street, Tel Aviv, Israel.

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## **Material tax considerations**

The following is a general discussion only and is not exhaustive of all possible tax considerations. It is not intended, and should not be construed, as legal or professional tax advice and should not be relied upon for tax planning purposes. In addition, this discussion does not address all of the tax consequences that may be relevant to purchasers of our ordinary shares in light of their particular circumstances, or certain types of purchasers of our ordinary shares subject to special tax treatment. Examples of this kind of investor include residents of Israel and traders in securities who are subject to special tax regimes not covered in this discussion. Each individual/entity should consult its own tax or legal advisor as to the Israeli tax consequences of the purchase, ownership and disposition of our ordinary shares.

To the extent that part of the discussion is based on tax legislation, which has not been subject to judicial or administrative interpretation, we cannot assure that the tax authorities or the courts will accept the views expressed in this section.

### **Israeli tax considerations**

The following contains a discussion of the material Israeli tax consequences to holders of our ordinary shares.

#### **Capital gains tax on sales of our ordinary shares**

Capital gains tax is imposed on the disposal of capital assets by an Israeli resident and on the disposal of such assets by a non-Israeli resident if those assets are either (i) located in Israel; (ii) shares or rights to shares in an Israeli resident company, or (iii) represent, directly or indirectly, rights to assets located in Israel. The Israeli Income Tax Ordinance distinguishes between Real Capital Gain and Inflationary Surplus. The Real Capital Gain on the disposition of a capital asset is the amount of total capital gain in excess of Inflationary Surplus. Inflationary Surplus is computed, generally, on the basis of the increase in the Israeli Consumer Price Index between the date of purchase and the date of disposal of the capital asset.

Real Capital Gain generated by a company is generally subject to tax at the corporate tax rate (24% in 2011 and 25% in 2012 and thereafter). As of January 1, 2012, the Real Capital Gain accrued by individuals on the sale of our securities is taxed at the rate of 25%. However, if the individual shareholder is a Controlling Shareholder (i.e., a person who holds, directly or indirectly, alone or together with another, 10% or more of one of the Israeli resident company's means of control (including, among other rights, the right to company profits, voting rights, the right to the company's liquidation proceeds and the right to appoint a company director) at the time of sale or at any time during the preceding 12 month period, such gain will be taxed at the rate of 30%.

Individual and corporate shareholders dealing in securities in Israel are taxed at the tax rates applicable to business income (a tax rate of 24% for a corporation in 2011 and 25% in 2012 and thereafter and a marginal tax rate of up to 45% for an individual in 2011, 48% in 2012 and 50% in 2013). Notwithstanding the foregoing, capital gains generated from the sale of securities by a non-Israeli shareholder may be exempt under the Israeli Income Tax Ordinance from Israeli taxes provided that all the following conditions are met: (i) the securities were purchased upon or after the registration of the securities on a stock exchange (this requirement generally does not apply to shares purchased on or after January 1, 2009), (ii) the seller of the securities does not have a permanent establishment in Israel to which the generated capital gain is attributed and (iii) if the seller is a corporation, less than 25% of its means of control are held, directly and indirectly, by Israeli resident shareholders. In addition, the sale of the securities may be exempt from Israeli capital gain tax under the provisions of an applicable tax treaty. For example, the Convention between the Government of the United States of America and the Government of Israel with respect to Taxes on Income (the

Israel-U.S.A. Double Tax Treaty ) exempts U.S. residents from Israeli capital gains tax in connection with such sale, provided that (i) the U.S. resident owned, directly or indirectly, less than 10% of the Israeli resident company's voting power at any time within the

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12-month period preceding such sale; (ii) the seller, if an individual, has been present in Israel for less than 183 days (in the aggregate) during the taxable year; and (iii) the capital gain from the sale was not generated through a permanent establishment of the U.S. resident in Israel.

The purchaser of the securities, the stockbrokers who effected the transaction or the financial institution holding the traded securities through which payment to the seller is made are obligated, subject to the above-referenced exemptions, to withhold tax on the Real Capital Gains resulting from a sale of securities at the rate of 25% for a corporation and/or an individual (the withholding tax rate applicable to an individual was 20% in 2011).

A detailed return, including a computation of the tax due, must be filed and an advance payment must be paid on January 31 and June 30 of each tax year for sales of securities traded on a stock exchange made within the previous six months. However, if all tax due was withheld at the source according to applicable provisions of the Israeli Income Tax Ordinance and the regulations promulgated thereunder, the return does not need to be filed and an advance payment does not need to be made. Capital gains are also reportable on an annual income tax return.

### **Taxation of non-resident shareholders on receipt of dividends**

A distribution of a dividend from income attributed to an Approved Enterprise/Beneficiary Enterprise (either to an individual or a corporation) will be subject to tax in Israel at the rate of 15% (4% for a foreign investor under the Ireland Track), subject to a reduced rate under the provisions of any applicable double tax treaty. A distribution of a dividend from income attributed to a Preferred Enterprise to an Israeli corporation will be tax exempt in Israel. Only a distribution of a dividend to an individual or a foreign company will be subject to tax in Israel at a rate of 15% or in accordance with the relevant tax treaty. In addition, subject to certain conditions, Preferred Enterprises can distribute dividends derived from accumulated historic profits attributed to Approved/Beneficiary Enterprises free of tax. A distribution of a dividend from income that is not attributed to an Approved Enterprise/Beneficiary Enterprise/Preferred Enterprise to an Israeli resident individual will generally be subject to income tax at a rate of 25%. However, a 30% tax rate will apply if the dividend recipient is a Controlling Shareholder at the time of distribution or at any time during the preceding 12-month period. If the recipient of the dividend is an Israeli resident company, such dividend will be exempt from income tax provided the income from which such dividend is distributed was generated or accrued in Israel.

As of January 1, 2012, the Israeli Income Tax Ordinance provides that a non-Israeli resident (either an individual or a corporation) is generally subject to an Israeli income tax on the receipt of dividends at the rate of 25% (30% if the dividend recipient is a Controlling Shareholder at the time of distribution or at any time during the preceding 12-month period). Such rates may be reduced by the application of the provisions of applicable double tax treaties. Thus, under the Israel-U.S.A. Double Tax Treaty the following rates will apply to dividends distributed by an Israeli resident company to a U.S. resident: (i) if (A) the U.S. resident is a corporation which held during the portion of the taxable year preceding the date of payment of the dividend and during the whole of its prior taxable year (if any), at least 10% of the outstanding shares of the voting stock of the Israeli resident paying company and (B) not more than 25% of the gross income of the Israeli resident paying company for such prior taxable year (if any) consists of certain type of interest or dividends then the tax rate is 12.5%, (ii) if both the conditions mentioned in section (i) above are met and the dividend is paid from the income of an Israeli resident company which was entitled to a reduced tax rate applicable to an Approved Enterprise/Beneficiary Enterprise/Preferred Enterprise then the tax rate is 15%, and (iii) in all other cases, the tax rate is 25%. The aforementioned rates will not apply if the dividend income was generated through a permanent establishment of the U.S. resident in Israel.

Our company is obligated to withhold tax, upon the distribution of a dividend attributed to an Approved

Enterprise s/Beneficiary Enterprise s/Preferred Enterprise s income from the amount distributed at the

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following rates: (i) Israeli resident corporations 0%, (ii) Israeli resident individuals 15% and (iii) non-Israeli residents 15% (4% under the Ireland Track), subject to a reduced tax rate under the provisions of an applicable double tax treaty. If the dividend is distributed from income not attributed to the Approved Enterprise/Beneficiary Enterprise/Preferred Enterprise, the following withholding tax rates will apply: (a) for securities registered and held by a clearing corporation: (i) Israeli resident corporations 0%, (ii) Israeli resident individuals 25% and (iii) non-Israeli residents 25%, subject to a reduced tax rate under the provisions of an applicable double tax treaty; (b) in all other cases: (i) Israeli resident corporations 0%, (ii) Israeli resident individuals 25%/30% (the 30% tax rate shall apply if the dividend recipient is a controlling shareholder (as defined above) at the time of the distribution or at any time during the preceding 12 month period)), and (iii) non-Israeli residents 25%/30% as referred to above with respect to Israeli resident individuals, subject to a reduced tax rate under the provisions of an applicable double tax treaty.

**United States federal income taxation**

The following is a description of the material United States federal income tax consequences to a U.S. Holder (as defined below) of the acquisition, ownership and disposition of our ordinary shares. This description addresses only the United States federal income tax consequences to holders that are initial purchasers of our ordinary shares pursuant to the offering and that will hold such ordinary shares as capital assets for United States federal income tax purposes. This description does not address tax considerations applicable to holders that may be subject to special tax rules, including, without limitation:

- banks, financial institutions or insurance companies;
  - real estate investment trusts, regulated investment companies or grantor trusts;
  - dealers or traders in securities, commodities or currencies;
  - tax-exempt entities;
  - certain former citizens or long-term residents of the United States;
  - persons that received our shares as compensation for the performance of services;
  - persons that will hold our shares as part of a hedging, integrated or conversion transaction or as a position in a straddle for United States federal income tax purposes;
  - partnerships (including entities classified as partnerships for United States federal income tax purposes) or other pass-through entities, or holders that will hold our shares through such an entity;
  - S-corporations;
  - holders that acquire ordinary shares as a result of holding or owning our preferred shares;
  - U.S. Holders (as defined below) whose functional currency is not the U.S. Dollar; or
  - holders that own directly, indirectly or through attribution 10.0% or more of the voting power or value of our shares.
- Moreover, this description does not address the United States federal estate, gift or alternative minimum tax consequences, or any state, local or foreign tax consequences, of the acquisition, ownership and disposition of our ordinary shares.

This description is based on the United States Internal Revenue Code of 1986, as amended (the Code), existing, proposed and temporary United States Treasury Regulations and judicial and administrative interpretations thereof, in each case as in effect and available on the date hereof. All of the foregoing are subject to change, which change could apply retroactively and could affect the tax consequences

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described below. There can be no assurances that the U.S. Internal Revenue Service will not take a different position concerning the tax consequences of the acquisition, ownership and disposition of our ordinary shares or that such a position could not be sustained.

For purposes of this description, a U.S. Holder is a beneficial owner of our ordinary shares that, for United States federal income tax purposes, is:

a citizen or resident of the United States;

a corporation (or other entity treated as a corporation for United States federal income tax purposes) created or organized in or under the laws of the United States or any state thereof, including the District of Columbia;

an estate the income of which is subject to United States federal income taxation regardless of its source; or a trust if such trust has validly elected to be treated as a United States person for United States federal income tax purposes or if (1) a court within the United States is able to exercise primary supervision over its administration and (2) one or more United States persons have the authority to control all of the substantial decisions of such trust.

If a partnership (or any other entity treated as a partnership for United States federal income tax purposes) holds our ordinary shares, the tax treatment of a partner in such partnership will generally depend on the status of the partner and the activities of the partnership. Such a partner or partnership should consult its tax advisor as to its tax consequences.

## **You should consult your tax advisor with respect to the United States federal, state, local and foreign tax consequences of acquiring, owning and disposing of our ordinary shares.**

### **Distributions**

Subject to the discussion below under Passive foreign investment company considerations, if you are a U.S. Holder, the gross amount of any distribution made to you with respect to our ordinary shares before reduction for any Israeli taxes withheld therefrom, other than pro rata distributions of our ordinary shares to all our shareholders, generally will be includible in your income as dividend income to the extent such distribution is paid out of our current or accumulated earnings and profits as determined under United States federal income tax principles. Subject to the discussion below under Passive foreign investment company considerations, non-corporate U.S. Holders may qualify for the lower rates of taxation with respect to dividends on ordinary shares applicable to long-term capital gains (i.e., gains from the sale of capital assets held for more than one year) provided that certain conditions are met, including certain holding period requirements and the absence of certain risk reduction transactions. However, such dividends will not be eligible for the dividends received deduction generally allowed to corporate U.S. Holders. Subject to the discussion below under Passive foreign investment company considerations, to the extent that the amount of any distribution by us exceeds our current and accumulated earnings and profits as determined under United States federal income tax principles, it will be treated first as a tax-free return of your adjusted tax basis in our ordinary shares and thereafter as capital gain. We do not expect to maintain calculations of our earnings and profits under United States federal income tax principles and, therefore, U.S. Holders should expect that the entire amount of any distribution generally will be reported as dividend income.

Dividends paid to U.S. Holders with respect to our ordinary shares will be treated as foreign source income, which may be relevant in calculating your foreign tax credit limitation. Subject to certain conditions and limitations, Israeli tax withheld on dividends may be deducted from your taxable income or credited against your United States federal income tax liability. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific

classes of income. For this purpose, dividends

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that we distribute generally should constitute passive category income, or, in the case of certain U.S. Holders, general category income. A foreign tax credit for foreign taxes imposed on distributions may be denied if you do not satisfy certain minimum holding period requirements. The rules relating to the determination of the foreign tax credit are complex, and you should consult your tax advisor to determine whether and to what extent you will be entitled to this credit.

We have not yet determined whether future distributions with respect to our ordinary shares will be paid in U.S. dollars or NIS. If a distribution is denominated in NIS, the amount of such distribution will equal the U.S. dollar value of the NIS received, calculated by reference to the exchange rate in effect on the date that distribution is received, whether or not the U.S. Holder in fact converts any NIS received into U.S. dollars at that time. If the distribution is converted into U.S. dollars on the date of receipt, a U.S. Holder generally will not be required to recognize foreign currency gain or loss in respect of the distribution. A U.S. Holder may have foreign currency gain or loss if the distribution is converted into U.S. dollars after the date of receipt. Any gains or losses resulting from the conversion of NIS into U.S. dollars will be treated as ordinary income or loss, as the case may be, of the U.S. Holder and will be U.S.-source.

### **Sale, exchange or other disposition of ordinary shares**

Subject to the discussion below under Passive foreign investment company considerations, U.S. Holders generally will recognize gain or loss on the sale, exchange or other disposition of our ordinary shares equal to the difference between the amount realized on such sale, exchange or other disposition and such holder's adjusted tax basis in our ordinary shares, and such gain or loss will be capital gain or loss. The adjusted tax basis in an ordinary share generally will be equal to the cost of such ordinary share. If you are a non-corporate U.S. Holder, capital gain from the sale, exchange or other disposition of ordinary shares is generally eligible for a preferential rate of taxation applicable to capital gains, if your holding period for such ordinary shares exceeds one year (i.e., such gain is long-term capital gain). The deductibility of capital losses for United States federal income tax purposes is subject to limitations under the Code. Any such gain or loss that a U.S. Holder recognizes generally will be treated as U.S. source income or loss for foreign tax credit limitation purposes.

### **Passive foreign investment company considerations**

If we were to be classified as a passive foreign investment company, or PFIC, in any taxable year, a U.S. Holder would be subject to special rules generally intended to reduce or eliminate any benefits from the deferral of United States federal income tax that a U.S. Holder could derive from investing in a non-U.S. company that does not distribute all of its earnings on a current basis.

A non-U.S. corporation will be classified as a PFIC for United States federal income tax purposes in any taxable year in which, after applying certain look-through rules, either:

at least 75% of its gross income is passive income ; or  
at least 50% of the average value of its gross assets is attributable to assets that produce passive income or are held for the production of passive income.

Passive income for this purpose generally includes dividends, interest, royalties, rents, gains from commodities and securities transactions, the excess of gains over losses from the disposition of assets which produce passive income, and includes amounts derived by reason of the temporary investment of funds raised in offerings of our ordinary shares. If a non-U.S. corporation owns at least 25% by value of the stock of another corporation, the non-U.S. corporation is treated for purposes of the PFIC tests as owning its proportionate share of the assets of the other

corporation and as receiving directly its proportionate share of the other corporation's income. If we are classified as a PFIC in any year with respect to which a U.S. Holder owns our ordinary shares, we will continue to be treated as a PFIC with respect to such U.S. Holder in all succeeding years during which the U.S. Holder owns our ordinary shares, regardless of whether we continue to meet the tests described above.

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Based on our most current estimates of our gross income and gross assets and the nature of our business, we do not believe we were a PFIC for the taxable year ended December 31, 2012 and do not expect that we will be classified as a PFIC for the taxable year ending December 31, 2013. However, because PFIC status is based on our income, assets and activities for the entire taxable year, it is not possible to determine whether we will be characterized as a PFIC for the 2013 taxable year until after the close of the taxable year. Moreover, we must determine our PFIC status annually based on tests which are factual in nature, and our status in future years will depend on our income, assets and activities in those years. There can be no assurance that we will not be considered a PFIC for any taxable year. If we were a PFIC, then, unless you make one of the elections described below, a special tax regime will apply to both (a) any excess distribution by us to you (generally, your ratable portion of distributions in any year which are greater than 125% of the average annual distribution received by you in the shorter of the three preceding years or your holding period for our ordinary shares) and (b) any gain realized on the sale or other disposition of the ordinary shares.

Under this regime, any excess distribution and realized gain will be treated as ordinary income and will be subject to tax as if (a) the excess distribution or gain had been realized ratably over your holding period, (b) the amount deemed realized in each year had been subject to tax in each year of that holding period at the highest marginal rate for such year (other than income allocated to the current period or any taxable period before we became a PFIC, which will be subject to tax at the U.S. Holder's regular ordinary income rate for the current year and will not be subject to the interest charge discussed below), and (c) the interest charge generally applicable to underpayments of tax had been imposed on the taxes deemed to have been payable in those years. In addition, dividend distributions made to you will not qualify for the lower rates of taxation applicable to long-term capital gains discussed above under Distributions. Certain elections may be available that would result in an alternative treatment (such as mark-to-market treatment) of our ordinary shares. We do not intend to provide the information necessary for U.S. Holders to make qualified electing fund elections if we are classified as a PFIC. U.S. Holders should consult their tax advisors to determine whether any of these elections would be available and if so, what the consequences of the alternative treatments would be in their particular circumstances.

If we are determined to be a PFIC, the general tax treatment for U.S. Holders described in this paragraph would apply to indirect distributions and gains deemed to be realized by U.S. Holders in respect of any of our subsidiaries that also may be determined to be PFICs.

If a U.S. Holder owns ordinary shares during any year in which we are classified as a PFIC and the U.S. Holder recognizes gain on a disposition of our ordinary shares or receives distributions with respect to our ordinary shares, the U.S. Holder generally will be required to file an IRS Form 8621 with respect to the company, generally with the U.S. Holder's federal income tax return for that year. Additionally, recently enacted legislation creates an additional annual filing requirement for U.S. persons who are shareholders of a PFIC. The legislation does not describe what information will be required to be included in the additional annual filing, but rather grants the Secretary of the U.S. Treasury authority to decide what information must be included in such annual filing. If our company were a PFIC for a given taxable year, then you should consult your tax advisor concerning your annual filing requirements.

U.S. Holders should consult their tax advisors regarding whether we are a PFIC and the potential application of the PFIC rules.

## **Backup withholding tax and information reporting requirements**

United States backup withholding tax and information reporting requirements may apply to certain payments to certain holders of stock. Information reporting generally will apply to payments of dividends on, and to proceeds from the sale or redemption of, our ordinary shares made within the United States, or by a U.S. payor or U.S. middleman, to



a holder of our ordinary shares, other than an exempt recipient (including a payee that is not a United States person that provides an appropriate certification and certain other persons). A payor will be required to withhold backup withholding tax from any payments of

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dividends on, or the proceeds from the sale or redemption of, ordinary shares within the United States, or by a U.S. payor or U.S. middleman, to a holder, other than an exempt recipient, if such holder fails to furnish its correct taxpayer identification number or otherwise fails to comply with, or establish an exemption from, such backup withholding tax requirements. Any amounts withheld under the backup withholding rules will be allowed as a credit against the beneficial owner's United States federal income tax liability, if any, and any excess amounts withheld under the backup withholding rules may be refunded, provided that the required information is timely furnished to the U.S. Internal Revenue Service.

**3.8% Medicare tax on net investment income**

Certain U.S. Holders who are individuals, estates or trusts are required to pay an additional 3.8% tax on, among other things, dividends and capital gains from the sale or other disposition of shares of common stock.

**Foreign asset reporting**

Certain U.S. Holders who are individuals are required to report information relating to an interest in our ordinary shares, subject to certain exceptions (including an exception for shares held in accounts maintained by U.S. financial institutions). U.S. Holders are urged to consult their tax advisors regarding their information reporting obligations, if any, with respect to their ownership and disposition of our ordinary shares.

**The above description is not intended to constitute a complete analysis of all tax consequences relating to the acquisition, ownership and disposition of our ordinary shares. You should consult your tax advisor concerning the tax consequences of your particular situation.**

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65,007 143,625

|   |  |  |          |           |
|---|--|--|----------|-----------|
| Licensing Rights, net   |  |  | 29,203   | -         |
| Total Assets  |  |  | \$94,210 | \$143,625 |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |  |  |          |           |
| Current Liabilities   |  |  |          |           |
| Accounts Payable  |  |  | \$10,956 | \$7,500   |
| Total Liabilities   |  |  | 10,956   | 7,500     |
| Commitments and Contingencies   |  |  | -        | -         |
| Stockholders' Equity  |  |  |          |           |
| Preferred stock, \$0.0001 par value; 10,000,000 shares authorized,<br>none issued and outstanding                                       |  |  | -        | -         |
| Common stock, \$0.0001 par value; 100,000,000 shares authorized, 6,802,500 and 6,782,500 shares<br>issued and outstanding, respectively |  |  | 680      | 678       |
| Additional paid-in capital  |  |  | 176,045  | 173,372   |
| Deficit accumulated during the development stage  |  |  | (93,471) | (37,925)  |
| Total Stockholders' Equity  |  |  | 83,254   | 136,125   |
| Total Liabilities and Stockholders' Equity  |  |  | \$94,210 | \$143,625 |

See accompanying notes to condensed unaudited financial statements

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Real Estate Restoration and Rental, Inc.  
(A Development Stage Company)  
Condensed Statements of Operations  
(Unaudited)

|   | For the Three<br>Months Ended<br>December 31,<br>2010 | For the Six<br>Months Ended<br>December 31,<br>2010 | For the period<br>from December<br>15,<br>2009(inception)<br>to<br>December 31,<br>2009 | For the period<br>from<br>December 15,<br>2009(inception)<br>to<br>December 31,<br>2010 |
|---|---|---|---|---|
| Operating Expenses  |   |   |   |   |
| Professional fees   | \$ 25,593   | \$ 49,425   | \$ -  | \$ 74,150   |
| General and administrative  | 4,233   | 6,121   | 200   | 19,321  |
| Total Operating Expenses  | 29,826  | 55,546  | 200   | 93,471  |
| LOSS FROM OPERATIONS BEFORE INCOME TAXES  |   |   |   |   |
|   | (29,826 )   | (55,546 )   | (200 )  | (93,471 )   |
| Provision for Income Taxes  | -   | -   | -   | -   |
| NET LOSS  | \$ (29,826 )  | \$ (55,546 )  | \$ (200 )   | \$ (93,471 )  |
| Net Loss Per Share - Basic and Diluted  | \$ (0.00 )  | \$ (0.01 )  | \$ (0.00 )  |   |
| Weighted average number of shares outstanding during the period - Basic and Diluted |   |   |   |   |
|   | 6,370,000   | 6,370,000   | 4,000,000   |   |

See accompanying notes to condensed unaudited financial statements

Real Estate Restoration and Rental, Inc.  
 (A Development Stage Company)  
 Condensed Statement of Changes in Stockholders' Equity  
 For the period from December 15, 2009 (Inception) to September 30, 2010  
 (Unaudited)

|  | Preferred Stock |        | Common stock |        | Additional<br>paid-in<br>capital | Deficit<br>accumulated<br>during<br>the<br>development<br>stage | Total<br>Stockholder's<br>Equity |
|--|-----------------|--------|--------------|--------|----------------------------------|---|----------------------------------|
|  | Shares          | Amount | Shares       | Amount |                                  |   |                                  |
| Balance December 15,<br>2009   | -               | \$ -   | -            | \$ -   | \$ -                             | \$ -  | \$ -                             |
| Common stock issued<br>for services to founder<br>(\$0.0001 per share) |                 |        |              |        |                                  |   |                                  |