Turpaz Industries Ltd.

Annual report for the year ended December 31, 2022

This is an English translation of a Hebrew Periodic report that was published on March 27, 2023 (reference no.: 2023-01-027922) (hereafter: the "**Hebrew Version**"). This English version is only for convenience purposes. This is not an official translation and has no binding force. Whilst reasonable care and skill have been exercised in the preparation hereof, no translation can ever perfectly reflect the Hebrew Version. In the event of any discrepancy between the Hebrew Version and this translation, the Hebrew Version shall prevail.

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Chapter A - Description of the Company's Business

1.1. Introduction

The Company is pleased to submit the Company's periodic report for the period ended December 31 2022 (hereinafter - the "**Reporting Period**") in accordance with the provisions of the Securities Law, 1968 (hereinafter - the "**Securities Law**"), and the Securities Regulations (Periodic and Immediate Reports), 1970.

The description of the businesses and activity of the Company and the companies under its control (hereinafter - the "**Group**") in this chapter shall be provided for a period of two years only, i.e., 2021 and 2022. The term Group will include the Company and any of the companies under its control, as listed below.

This chapter of the Periodic Report, which describes the Company's businesses, should be read in conjunction with the other chapters of this Periodic Report, including the notes to the attached financial statements.

1.2. Terms

The "Stock Exchange" -	The Tel Aviv Stock Exchange Ltd.
The "Company" -	Turpaz Industries Ltd.
"**The Group**" or "**Turpaz Group**"-	Turpaz Industries Ltd. and its consolidated companies.
"**Dollar" -**	US Dollar.
The "Companies Law" -	The Companies Law, 1999.
The "Research and Development Law" -	The Law for the Encouragement of Industrial Research, Development and Technological Innovation, 1984, as amended from time to time.
The "Securities Law" -	The Securities Law, 1968
"Chemada" -	Chemada Industries Ltd.
"**Israel Innovation Authority**" -	The National Technological Innovation Authority (formerly - the Chief Scientist Office).
"**Turpaz Extracts**" -	Turpaz Perfume and Flavor Extracts Ltd.
"**Periodic and Immediate Reports Regulations**"	Securities Regulations (Periodic and Immediate Reports), 1970.
"**Pollena Aroma**" -	Pollena Aroma SO z.o.o

"SDA" -	SDA Spice Industries Ltd.
"WFF"	Western Flavors Fragrances Production Joint Stock Company
"Turpaz USA" -	Turpaz Fragrances and Flavors Aroma Inc.
"Pilpel"	Pilpel - Food Industries Development Ltd.
"Galilee Herbs"	"FC Galilee Herbs Ltd."
"Turpaz Belgium"	Turpaz Belgium SRL
"FIT"	Food Ingredients Technology
"LORI"	LORI RKF
"Balirom"	Balirom Ltd.
"Pentaor"	Pentaor Ltd.
"Klabin"	Klabin Fragrances, Inc.
"Aromatique"	Aromatique Food SRL

Part A - Description of the General Development of the Company's Business

1.3. The Company's Activity and Description of the Development of its Business

1.3.1. General

The Company was incorporated and registered in Israel on February 10 2011 as a private company limited by shares in accordance with the Companies Law under the name BKF Perfume Compounding Ltd. On January 21 2021, the Company changed its name to Turpaz Industries Ltd.

On May 23 2021, the Company's shares were listed for the first time on the Tel Aviv Stock Exchange, and the Company became a public company, as this term is defined in the Companies Law.

The Company is a global company operating, independently and through its subsidiaries, in the development, production, marketing and sale of fragrances, used in the production of cosmetics, toiletries, personal care, air care & odor neutralizers products; natural and synthetic sweet and savory taste extracts, seasonings, functional solutions for baking and gluten free flours, which are used mainly in the production of food and beverages, intermediates for the pharma industry, and specialty ingredients for agrochemical and the fine chemicals industry, including unique and natural citrus products and aromatic chemicals with high added value for the flavor and fragrance industry.

The Turpaz Group has an extensive and diversified range of self-developed products, which are produced in its factories across the world. As of the report's publication date, the Group develops, produces, markets and sells products to more than 2,000 customers in more than 40 countries across the world, and operates approx. 13 manufacturing facilities, including R&D centers, laboratories and sales, marketing and regulation offices in Israel, the USA, Poland, Belgium, Vietnam, Latvia and Romania, which employ 400 employees. In view of its extensive product range, the extensive experience the Group gained over the years in its different areas of activity, its in-depth knowledge of the market, competitors, suppliers and most important - its customers, its flexible and focused management of its businesses, and its product development capabilities, the Company can offer a diverse range of products tailored to meet the customer's needs.

Furthermore, the Group's understanding of, and managerial experience in, the value chain and supply chain processes in its areas of activities, and its in-depth knowledge of most companies operating in the industry, open up to it many opportunities to expand into new geographic regions and to purchase companies and/or activities for the taste, fragrance, intermediates for the pharma industry and the specialty fine ingredients segments, thereby allowing it to promote the implementation of its business strategy and maintain its long-standing competitive advantage, as elaborated in Section 1.27 below.

Turpaz Group's strategy is based on combined growth that includes targets of double-digit growth and improvement of the Group's geographic deployment through organic growth and through M&As of activities that are synergetic to Turpaz's activity, while leveraging the synergies between Group companies in the areas of sales (cross-selling), procurement and research and development while complying with regulatory requirements, which contribute to the improvement in profits and profitability.

Turpaz Group operates in accordance with an orderly plan it developed to achieve the swift integration of the acquired company into the Group and the enhancement of the global management; this includes, among other things, retaining the existing managements of the acquired companies and integrating those managements into Turpaz's management, enhancing the product offering and customer base and integrating Turpaz Group's command and control systems in the cross-selling, R&D, procurement, and finance functions of the acquired companies, in order to achieve swift utilization of synergies. In the opinion of the Company, as of the date of this report, it has not yet utilized the entire potential of the acquisitions it made in the last two years; such full utilization is expected to take place a number of quarters subsequent to the completion of the acquisition.

Company's assessments as to the Group's growth rate, the periods during which the potential embodied in the acquisitions will be fulfilled, and as to the integration of the acquired companies into the Group constitutes forward-looking information, as defined in the Securities Law, which is based on Group management's assessments, and may not materialize or materialize in a manner different than expected, as a result of incorrect assessments, changes to the work plan, changes in the market, or the materialization of all or some of the risk factors listed in Section 1.30 below.

1.3.2. **<u>Areas of activity</u>**

1.3.2.1. **<u>The fragrance segment</u>**

As part of the fragrances segment, Turpaz Group is engaged in the development, production, marketing and sale of natural and synthesized fragrance extracts for customers in the cosmetics, toiletries, detergents, wet wipes, scented candles, hair care, air care & odor neutralizers industries for hotels and households. Furthermore, Turpaz Group operates to manufacture specialty ingredients of high added value, whose purpose is to conceal bad odors, and give and enhance desired scents in consumer or industrial products. The fragrance extracts developed by the perfumers are tailored to customers' requirements while creating long-term relationships between Turpaz Group and its customers across the world. When they select a supplier, customers focus on the suppliers' innovation capabilities, uniqueness, reliability, compliance with regulatory requirements, the quality and excellence of their services and their knowledge of the needs of the customers for whom the specialty extracts were developed.

1.3.2.2. **<u>The taste segment</u>**

As part of the taste segment, Turpaz Group is engaged in the development, production, sale and marketing of natural and synthesized, sweet and savory taste extracts, functional solutions for baking, seasonings and gluten free flours, which are used mainly in the production of food, including meat and egg substitutes, plant-based solutions, snacks, ready-made meals, dairy products, ice creams, pharmaceuticals, food and organic colorings for the animal food, beverages and food supplements industries, all tailored to meet customers' needs and regulations.

Furthermore, the Group develops extracts and mixtures that allow the production of "clean label" products, reducing quantities of fat, salt and sugar in snacks, food products and beverages, while retaining the desired taste and texture of those products.

Specialty intermediates for the pharma industry

In this segment, Turpaz Group is engaged in the production of specialty chemicals used as ingredients and intermediates in the pharmaceuticals industry, and markets its products across the world. Furthermore, the Turpaz Group has the capability to develop and produce custom-made products to its customers in the pharma industry, through its development, production and engineering department; the Group also has the capability to improve the manufacturing processes of intermediates for the pharma industry in accordance with the required regulations.

Specialty ingredients

In this segment, Turpaz Group is engaged in the development, production, marketing and sale of specialty ingredients used in various manufacturing processes to be used in a range of industries, mainly flavors and fragrances, agrochemicals, polymers and catalysts, and unique and natural citrus products and aromatic chemicals with high added value for the flavor and fragrance industry. Turpaz Group's activity in this field focuses on the production of high-quality products of high added value.

The Company works to increase its operational efficiency by leveraging the synergy between Group companies in cross-selling and merging the procurement and development function in the taste and fragrance segments in order to improve the profits and profitability of the tastes segment in the following quarters.

1.3.3. **Chronological description of the development of the Company's businesses**

Acquisition date	The acquired company/activity	The nature of the transaction	The area of activity of the acquired company/activity	The consideration	Geographic region of activity	Holding rate as of the report's date	Additional information
December 2017	Pollena Aroma	Transaction for the purchase of the entire share capital of Pollena Aroma	Fragrances and taste segments Development, production, marketing and sale of flavor and fragrance extracts, aromatic oils and specialty ingredients for the aromatherapy and natural cosmetics industries	Approx. EUR 6.96 million plus other considerations totaling EUR 167 thousand paid in 2018, which were calculated based, among other things, on Pollena Aroma's performances	Poland	100%	
February 2018	Intuiscent (through Turpaz USA)	Transaction for the acquisition of activity	Fragrances segment Development, production, marketing and sale of specialty fragrance extracts for fine fragrance products, scented candles and premium consumer goods	Approx. USD 200 thousand	USA	100%	
June 2019	Chemada	Transaction for the acquisition of activity from a trustee, as part of receivership process.	Specialty intermediates for the pharma industry and specialty ingredients	Approx. USD 4.1 million For more information about undertakings in connection with the acquisition, including the provision of working capital and the removal of waste from the site, see Section 1.4.1.2 to the 2021 Periodic Report.	Israel	100%	
August 2019	Flavor Associates (through Turpaz USA)	Transaction for the acquisition of activity	The fragrance and taste segments Development, production, marketing and sale of fragrance and flavor extracts for the US and Chinese markets under the brand name "Continental"	Approx. USD 1.5 million For more information, see Section 1.4.1.3 to the 2021 Periodic Report.	USA	100%	

TURPAZ

Acquisition date	The acquired company/activity	The nature of the transaction	The area of activity of the acquired company/activity	The consideration	Geographic region of activity	Holding rate as of the report's date	Additional information
January 2020	Florasynth (through the Company)	Transaction for the acquisition of activity	The taste segment Production of sweet flavor extracts for food and beverages, and specialty extracts for animal and pet food	Approx. NIS 2.5 million and other performance-based considerations. For more information, see Section 1.4.1.4 to the 2021 Periodic Report.	Israel	100%	
July 2020	WFF	A transaction for the purchase of 60% of the share capital of WFF, a shareholders' loan and an option to purchase the remaining shares	Fragrances and taste segments Development, production, marketing and sale of flavors, mainly sweet flavors, to the Vietnamese and South Asian markets; and activity in the field of fragrance extracts to the detergent industries.	See Section 1.4.1.5to the 2021 Periodic Report.	Vietnam	60%	Turpaz has an option to purchase the remaining holdings in WFF; the option may be exercised in whole or in part at any time through July 22 2024, in consideration for an amount to be calculated on exercise date, based on WFF's average monthly EBITDA. For more information, see Section 1.4.1.5 to the 2021 Periodic Report.
November 2020	SDA	Transaction for the acquisition of control in SDA.	Taste segment Production of spices and unique seasonings This activity is part of the flavors operating segment	Approx. NIS 6.63 million plus performance-based payment of up to NIS 5.6 million; for further details, see Section 1.4.1.1 below.	Israel	100%	Upon completion of the purchase of the holdings in SDA, the rights holders agreement between Turpaz Extracts and Kibbutz Sde Eliyahu in connection with their holdings in SDA was cancelled.
August 2021		Acquisition of the remaining rights (49%) in SDA.		Approx. USD 7.5 (approx. NIS 24.5 million) million and a performance-based payment of approx. USD 0.9 million (approx. NIS 3 million). For more information, see			

Acquisition date	The acquired company/activity	The nature of the transaction	The area of activity of the acquired company/activity	The consideration	Geographic region of activity	Holding rate as of the report's date	Additional information
				Section 1.4.1.1 below.			
October 2021	FIT	Transaction for the acquisition of control (60%) in FIT.	The taste segment Development, production and marketing of savory flavor extracts for the food industry, including the meat, fish, ready meals, soups and sauces industries. The Company has a modern production facility in Belgium; it supplies its products to many customers in Western Europe.	Approx. EUR 12.8 million (approx. USD 14.5 million), of which EUR 1.99 million (approx. USD 2.25 million) in cash, and the remaining balance by way of allocating Company shares constituting approx. 1.74% of the issued and paid-up share capital (approx. 1.73% on a fully diluted basis).	Belgium	60%	For more information about the call options and the put option in relation to the remaining FIT shares (40% of the issued and paid-up share capital), see Section 1.4.1.3 below. The parties signed a shareholders agreement, including agreements regarding a preemptive right, first right of refusal and a tag along right, as well as generally accepted minority protection rights. For more information, see Note 5A to the financial statements.
October 2021	Pilpel and Galilee Herbs	A transaction for the purchase of business activity and assets from Pilpel and Galilee Herbs.	Taste segment Production of savory seasonings, gluten-free flours and flavor extracts.	The consideration of NIS 12 million (approx. USD 3.75 million) is subject to adjustments (addition or reduction, as applicable) of NIS 1 million in each of the years 2021 and 2022 based on the EBITDA arising from the purchased activity, and to a further adjustment at the value of the	Israel	100%	

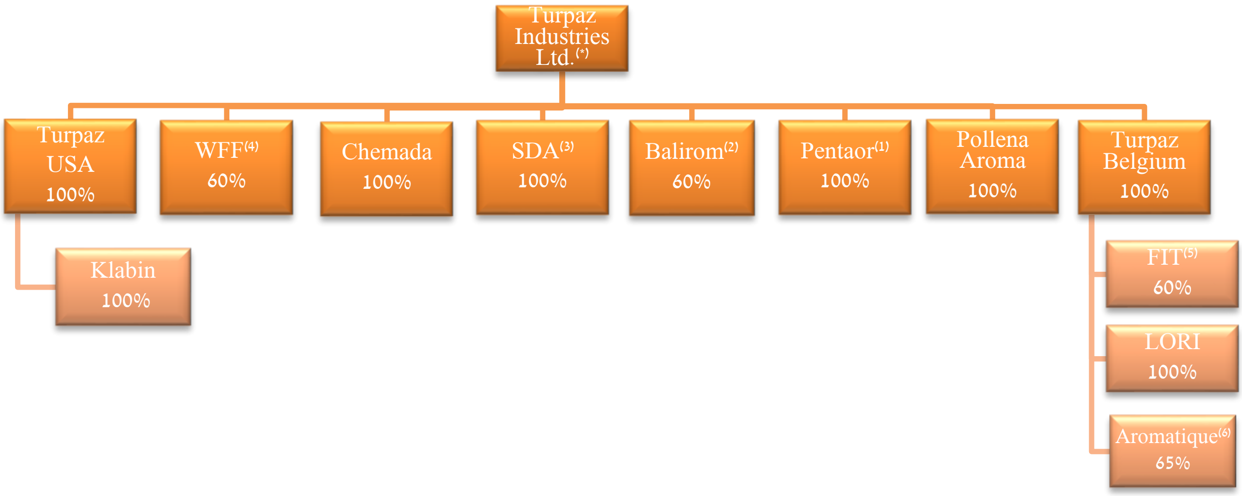
Acquisition date	The acquired company/activity	The nature of the transaction	The area of activity of the acquired company/activity	The consideration	Geographic region of activity	Holding rate as of the report's date	Additional information
				inventory; this adjustment shall be reviewed a year after the completion date.			
January 2022	LORI	Purchase of the entire share capital of LORI.	The fragrances segment Production of perfume extracts and the marketing thereof in Eastern Europe.	Approx. EUR 3.14 million (USD 3.6 million) plus net cash balances.	Latvia	100%	
March 2022	Balirom	Purchase of 60% of the share capital of Balirom.	Taste segment Research, development, production, marketing, sale and supply of natural and synthetic flavor extracts, functional savory flavor mixtures, and ingredients for the food industry.	NIS 14.5 million (approx. (USD 4.6 million)	Israel	60%	For more information about the call options and the put option in relation to the remaining Balirom shares, see Section 1.4.1.5 below.
April 2022	Pentaor	Purchase of the entire share capital of Pentaor.	Taste segment Development, production, marketing and sale of specialized functional solutions in the field of baking ingredients.	NIS 10 million (approx. USD 3.1 million)	Israel	100%	
September 2022	Klabin	Purchase of 81% of the issued and paid up share capital and voting rights of Klabin.	The fragrance segment Production of bespoke fragrances, natural oil blends and extracts, natural and synthetic fragrances, applications and functional solutions for the cosmetics, toiletries, scented candles, hair care, air care & odor neutralizers, detergents and fine fragrances industries.	Approx. USD 22.4 million. The consideration is subject to adjustments in accordance with Klabin's business performance in 2023-2025.	USA	100%	For more information about the call options and the put option in relation to the remaining Klabin shares, see Section 1.4.1.7 below.
October 2022	Aromatique	Purchase of 65% of the share capital of Aromatique.	The taste segment Research, development, production, marketing, sale and supply of raw materials and savory flavor functional ingredients for the food	Approx. RON 17 million (approx. USD 3.35 million), and future consideration based on the business	Romania	65%	For more information about the call options and the put option in relation to the remaining Aromatique shares, see Section 1.4.1.8 below.

Acquisition date	The acquired company/activity	The nature of the transaction	The area of activity of the acquired company/activity	The consideration	Geographic region of activity	Holding rate as of the report's date	Additional information
			industry; Aromatique's sales are mainly made to the Romanian market.	performance of Aromatique during the second half of 2022.			

1.3.4. **The Group's Holdings Chart**

Set forth below is the Group's holdings chart as of the report's date:

1.4. Structural changes, mergers and material acquisitions



(1) Under the process of merger with and into the Company. The completion of the merger is subject to the fulfillment of conditions precedent.

(2) The Group has an option to purchase the remaining holdings in Balirom; the option is exercisable starting 4 years after the transaction completion date through March 31, 2027. For more information, see Section 1.4.1.5 below.

(3) On December 19, 2022, the process of SDA's turning from a cooperative to a limited liability company was completed, and as from that date its name was changed to SDA Spice Industries Ltd.

(4) The Group has an option to purchase the remaining holdings in WFF; the option may be exercised at any time through July 2024.

(5) The Group has an option to purchase the remaining holdings in FIT; the option may be exercised as from October 2024 over a 12-month period. For more information, see Section 1.4.1.3 below.

(6) The Group has an option to purchase the remaining holdings in Aromatique; the option may be exercised at any time as from January 1, 2025. For more information, see Section 1.4.1.8 below.

(*) On August 10, 2022, Turpaz Perfume and Flavor Extracts Ltd., a wholly-owned subsidiary of the Company, was merged into the Company; the merger came into effect on December 31, 2021.

.1.4.1 **Material purchases in 2021-2022**

1.4.1.1. **Investment agreement - SDA**

On October 26 2020, Turpaz Extracts signed an agreement with Kibbutz Sde Eliyahu for the purchase of rights and investment in SDA; under the agreement, Turpaz Extracts was allocated rights constituting 51% of the rights in SDA's capital in consideration for NIS 6.63 million (approx. USD 2 million).

Turpaz Extracts has also undertaken to pay Kibbutz Sde Eliyahu a performance-based payment of up to NIS 5.6 million (approx. USD 1.75 million), which will be paid within 30 days from the approval date of SDA's 2023 audited financial statements, based on the increase in SDA's average annual EBITDA and sales turnover. As part of the purchase of the remaining rights in SDA, a consideration was paid on account of the additional payment, and the liability for the future payment was cancelled.

As from the transaction's completion date, Turpaz Extracts undertook to indemnify Kibbutz Sde Eliyahu for any amount it paid under the personal guarantees it provided in favor of SDA's activity in respect of the period subsequent to the transaction's completion date.

Under the terms of this agreement, SDA undertook to repay to the Kibbutz - out of own sources - a shareholders' loan totaling NIS 4 million in annual payments payable as from the end of 2020 and on December 31 of each of the years thereafter, plus interest of Prime + 1% per year; the annual repayment amount shall be equal to the higher of: (1) 20% of the amount by which SDA's net income in the relevant year exceeds its 2019 net income (which stood at NIS 1.604 million); and (2) NIS 750,000. During the first quarter of 2023, the Company repaid the entire debt in respect of the shareholders' loan on behalf of the Kibbutz.

On September 1 2021, Turpaz Extracts completed the purchase of the remaining share capital of SDA (49%) from the Kibbutz, such that subsequent to the completion of the purchase Turpaz Extracts holds the entire issued and paid-up share capital of SDA.

On completion date, Turpaz Extracts paid a total of approx. USD 7.5 million (approx. NIS 24.5 million). Furthermore, Turpaz Extracts has undertaken to pay the Kibbutz a performance-based payment of approx. USD 0.9 million (NIS 3 million), that will be paid no later than April 30 2025, based on the increase in SDA's average annual EBITDA for the years 2022-2024. Furthermore, on transaction completion date, Turpaz Extracts paid the Kibbutz a total of approx. USD 1.72 million (approx. NIS 5.61 million), in respect of contingent consideration for meeting targets, which the Kibbutz was entitled to under the purchase transaction of October 2020.

SDA is engaged in the production of spices and unique seasonings and natural ingredients of high added value for the food, cosmetics, and animal and pet food industry. SDA offers organic and natural non-GMO herbs, that are free of chemicals and pesticides. The company also operates in the field of production of savory flavor extracts. The use of seasonings has been on the rise in the past two decades in view of the increasing global demand to ready-to-eat food. The completion of the purchase of SDA's shares allowed the Company to accelerate its streamlining plan and improve the leveraging of the synergies between Group companies, while focusing on improving SDA's profits.

For information about the fire in SDA's spices plant in Beit Kama, see Section 1.15.3 below.

1.4.1.2. **<u>Agreement for the purchase of activity and assets of Pilpel and Galilee Herbs</u>**

On October 3 2021, the Company signed an agreement for the purchase of assets and business activity from Pilpel - Food Industries Development Ltd. and FC Galilee Herbs Ltd. (hereinafter jointly - the "**Seller**") in consideration for NIS 12 million (approx. USD 3.75 million) (hereinafter - the "**Consideration**").

The acquired activity focuses on the production of savory seasonings for the meat, cured meats, fish, gluten-free flours, flavor extracts and meat substitutes industries. The company also has an innovative R&D activity.

The Consideration is subject to adjustments of NIS 1 million in respect of each of the years 2021 and 2022; adjustments will be added or deducted from the consideration based on the EBITDA arising from the purchased activity in each of the said years; the consideration is also subject to a further adjustment to the value of the inventory. For more information see Note 5f to the financial statements.

The acquisition of the activity allows the Company to establish its operations in the field of seasonings and natural extracts, create a wide product range for its customers in Israel and across the world, and leverage the synergies with Group companies.

1.4.1.3. **<u>Agreement for the purchase of FIT shares</u>**

On October 28 2021, the Company completed a transaction for the purchase of control (60%) in FIT, which is engaged in the development, production and marketing of savory flavor extracts to extensive segments in the food industry, including the meat, fish, ready meals, plant-based solutions, coatings for the fast-food industry, soups and sauces; the Company acquired FIT in consideration for approx. EUR 12.8 million (approx. USD 14.5 million), of which EUR 1.99 million (approx. USD 2.25 million) were paid in cash, and the remaining balance was paid by way of allocating shares, based on the average share price in the 30 days preceding the date on which the agreement was entered into, constituting - on allocation date - approx. 1.74% of the issued and paid-up share capital (approx. 1.73% on a fully diluted basis).

In February 2022, the Company paid additional consideration of EUR 0.9 million (approx. USD 1 million) in accordance with the changes in FIT's cash, debts, net asset value and working capital until the completion date.

In relation to the remaining FIT shares (40% of its issued and paid-up share capital), the Company was awarded a call option and the seller was awarded a put option that may be exercised after three years from completion date over a 12-month period (hereinafter - the "**Option Period**"). The option's consideration shall be paid in cash, calculated based on a multiple of 9 on FIT's adjusted average annual EBITDA during the last 12 quarters prior to the option's exercise date (hereinafter - the "**Adjusted EBITDA**") multiplied by 40%. The purchase agreement stipulates that if David Landau shall stop serving as the Company's CEO, the options' exercise date shall be brought forward, but in not event will it fall before the end of a 14-month period from completion date. In this case, the option's consideration shall be calculated based on a multiple of 8 or 10 on the EBITDA multiplied by 40%, in accordance with the circumstances of the option's exercise.

For information about the revision of the value of liabilities in respect of the put option for the purchase of the remaining FIT shares, see Note 5 to the financial statements.

As part of the transaction, the parties signed a shareholders agreement that will regulate the relationship between FIT's shareholders subsequent to the purchase of control (hereinafter - the "**Shareholders Agreement**"). The Shareholders Agreement includes agreements regarding a preemptive right, first right of refusal and a tag along right, as well as generally accepted minority protection rights.

The acquisition of FIT's activity allows the continued implementation of the Company's strategy to expand its savory extracts activity, establish its activity in Western Europe, and leverage the synergies between Group companies.

.1.4.1.4 **Agreement for the purchase of LORI**

On January 17 2022, the Company completed - through a wholly-owned company - a transaction for the purchase of the entire share capital of LORI - a private company incorporated in Latvia - which operates in the field of fragrance extracts - from its shareholders. The Company purchased LORI's shares in consideration for approx. EUR 3.14 million (approx. USD 3.6 million), plus net cash balances.

LORI is engaged in the manufacturing of fragrance extracts and their marketing in Eastern Europe; it has diverse R&D and application capabilities. The acquisition of LORI is expected to increase the Group's sales in the field of fragrances, expand the Group's development and marketing of fragrances in central and eastern Europe, as well as the Group's customer base in territories in which LORI operates, while leveraging the synergies between Group companies in Israel and abroad.

.1.4.1.5 **Acquisition of Balirom**

On March 31, 2022, the Company completed a transaction for the purchase of 60% of the share capital of Balirom, a privately-owned company incorporated in Israel (hereinafter - the "**Balirom Acquisition Agreement**") from its shareholders, in consideration for NIS 14.5 million (approx. USD 4.6 million), less net debt. The Balirom Acquisition Agreement includes a adjustment for the purchasing date and (call/put) option conferred upon the Company to purchase the remaining shares of Balirom; the option may be exercised over a 12-month period starting 4 years after the transaction completion date, that is to say, through March 31 2027, at a price based on the business performance of the Company's consolidated activity in the field of sweet flavor extracts, and the activity in Balirom during the eight (8) quarterly calendars prior to the exercise of the option.
Balirom, which was established in 2001, is engaged in the research, development, production, marketing, sale and supply of natural and synthetic flavor extracts, functional savory flavor mixtures, and ingredients for the food industry. Balirom's plant is located in Be'er Tuvia. As of the report date, as part of synergy-related activities and operational streamlining in the taste segment, the Company consolidated the activity of the sweet flavor extracts in Israel at Balirom's site, and closed the sweet flavor extracts in Holon.

The acquisition of Balirom allows the Company to expand its products portfolio in the fields of sweet and savory extracts, while leveraging the synergies between the Group companies in the areas of development, procurement, marketing and sales.

.1.4.1.6 **Acquisition of Pentaor**

On April 12 2022, the Company completed a transaction for the purchase of the entire issued and paid up share capital and voting rights in Pentaor, a privately-owned company incorporated in Israel (hereinafter - the "**Pentaor Acquisition Agreement**") from its shareholders, in consideration for NIS 10 million (approx. USD 3.1 million). Established in 1997, Pentaor is engaged in the development, production, marketing and sale of specialized functional solutions in the field of baking ingredients, which are based on advanced technologies; the products are marketed under the PentaCake brand, which allow the integration of benefits such as softness, moisture, volume, texture and long shelf life.

1.4.1.7. **Acquisition of Klabin**

Further to the immediate report published by the Company on September 18, 2022 (Ref. No. 2022-01-118207) regarding the acquisition - through Turpaz USA - a wholly-owned US subsidiary – of 81% of the issued share capital and voting rights of Klabin Fragrance Inc., a privately-held company incorporated in the USA (hereinafter - “Klabin”) from its shareholders (hereinafter – the “Sellers”) in consideration for USD 24.3 million subject to adjustments in accordance with Klabin’s results in 2022 (hereinafter - the “Acquisition Agreement”), and further to the immediate report of October 3, 2022 (Ref. No. 2022-01-100530) regarding the completion of the transaction, the Company reported as follows, concurrently with this report:

Since the date of its acquisition and during the first quarter of 2023, Klabin focused on expanding the manufacturing function, and invested efforts in taking on and consolidating the activity of Turpaz USA into Klabin’s activity in Klabin’s innovative manufacturing facility in New Jersey. As part of this process, Klabin integrated Turpaz USA’s manufacturing, development, IT and finance functions. As of the publication date of this report, the consolidation of the activity of Turpaz USA with that of Klabin’s was completed.

Klabin’s activity in the fourth quarter of 2022 was also affected by the reduction in its customers’ inventory levels as part of a trend of inventory levels reduction that currently characterizes the entire sector following interest rates hikes across the world and the economic uncertainty in the markets; therefore, Klabin’s EBITDA in 2022 declined.

In view of the above, the parties conducted negotiations for the assessment of the adjustment of the purchase price and the terms of the transaction, and reached an agreement whereby instead of adjusting the consideration as per the Acquisition Agreement, the latter will be revised such that: (1) the remaining balance of issued and paid up share capital and voting rights of Klabin (19%) will be transferred immediately to Turpaz USA, such that Turpaz will hold the entire (100%) issued share capital and voting rights of Klabin; (2) the immediate consideration for the acquisition (for 100% of Klabin’s shares) shall be reduced to USD 22.4 million; (3) the sellers will be entitled to additional consideration (of up to USD 3 million) in accordance with Klabin’s business results in 2023-2025.

Klabin, which has been operating since in 1998, is engaged in the research, development, production, marketing, sale and supply of bespoke fragrances, natural oil blends and extracts, natural and synthetic fragrances, applications and functional solutions for the cosmetics, toiletries, scented candles, hair care, air care & odor neutralizers, detergents and fine fragrances industries. The acquisition of Klabin is a strategic acquisition for Turpaz in the USA; it allows the expansion of the Group's customer and products portfolio in the field of fragrances, while leveraging the synergies between Group companies in terms of development, procurement, marketing and sales.

.1.4.1.8 **Agreement for the purchase of Aromatique**

On October 10, 2023, the Company completed - through a wholly-owned subsidiary - a transaction for the acquisition of 65% of the issued and paid up share capital and voting rights of a privately-owned company incorporated in Romania from its sole shareholder (hereinafter - the "**Seller**") in consideration for RON 17 million (approx. USD 3.35 million), and a future consideration based on Aromatique's business performance during the second half of 2022. The agreement includes a (call/put) option to purchase Aromatique's remaining shares by Turpaz; the option is exercisable as from January 1, 2025, at a price based on Aromatiue's business performance during the period from January 1, 2023 through the option's exercise date. Aromatique's results will be reflected and consolidated with those of the Company as from the first quarter of 2023.

Aromatique, which was founded in 2013, is engaged in research, development, production, marketing, sale and supply of raw materials and savory flavor functional ingredients for the food industry; Aromatique's sales are mainly made to the Romanian market.

Company's assessments as to the improvement in the profits and profitability of the purchases and operations described in this section 1.4.1 constitutes forward-looking information as defined in the Securities Law, 1969, whose materialization depends, among other things, on factors outside the Company's control, and which may materialize in a manner different than that described in this report.

1.5. Investments in the Company's capital and transactions involving its shares

1.5.1. In May 2021, the Company completed an initial public offering of 23,344,100 ordinary shares, at a price per share of NIS 8.91, and for a total consideration of approx. NIS 208,000 thousand.

1.5.2. As part of the FIT transaction as described in Section 1.4.3 above, on October 6 2021, the Company allocated 1,742,276 ordinary shares, which constitute - on allocation date - 1.74% of the Company's issued and paid-up share capital and voting rights (up to

1.73% on a fully diluted basis); the said shares were allocated to an offeree, who is not an interested party of the Company. For more information, see supplementary immediate report of October 6 2021 regarding a private offering which is not a material private offering or an extraordinary offering (Ref. No.: 2021-01-084187), which is incorporated herein by way of reference.

1.6. Dividend distributions

.1.6.1 Set forth below are the dividend amounts distributed in the past two years:

One year	Dividend amount (millions of dollars)
2021	-
2022	3.97
Total	**3.97**

.1.6.2 As of December 31 2022, the Company had a retained earnings balance of USD 39,633 thousand in its financial statements.

.1.6.3 As of the report's date, no restrictions are imposed on the distribution of dividends by the Company, other than those imposed by law; furthermore, no restrictions are placed due to financial covenants set in credit agreements with banks. For information about financing agreements, to which the Company is a party, see Section 0 below, and Notes 16 and 20C to the financial statements.

1.6.4. On May 13 2021, the Company's Board of Directors adopted a dividend distribution policy whereby the Company will distribute to its shareholders an annual dividend of no less than 30% of the annual net income in the preceding year, as reflected in the Company's audited consolidated annual financial statements, subject to fulfillment of the distribution criteria as per the Companies Law and subject to the provisions of any law. In accordance with the policy that was adopted, the Company's Board of Directors has the power to decide the distribution dates and amounts, taking into consideration the Company's liabilities, liquidity and business plans, including a potential change to the distribution amounts and a postponement of the distribution.

It should be clarified that the dividend distribution policy described above does not detract from the Company Board of Directors' power to approve the distribution and the actual distribution amounts, or to change the Company's dividend distribution policy, as it deems fit from time to time, and no undertaking is made under the policy to Company's shareholders and/or any other third party with regard to the distributions' amounts and dates.

Part B - Other Information

1.7. Financial information regarding the Company's operating segments

Set forth below are financial data for 2021 and 2022, by operating segments, based on the Company's consolidated financial statements (in USD thousands):

2022						
		Fragrance segment	**Taste segment**	**Specialty intermediates for the pharma industry**	**Specialty ingredients segment**	**Total**
Revenues	From external entities	27,490	59,325	16,061	15,680	118,556
Costs	To external entities	(20,100)	(41,658)	(10,978)	(11,677)	(84,413)
Unallocated joint expenses						(6,813)
Profit (loss) from operations		7,390	17,667	5,083	4,003	27,330
Total liabilities		23,261	69,745	8,822	8,827	110,655
Total assets		85,022	98,739	14,845	15,574	214,180

2021[1]						
		Fragrance segment	**Taste segment**	**Specialty intermediates for the pharma industry**	**Specialty ingredients segment**	**Total**
Revenues	From external entities	19,436	33,292	20,873	11,733	85,334
Costs	To external entities	(12,632)	(30,759)	(14,258)	(8,416)	(66,065)
Unallocated joint expenses						(3,229)
Profit (loss) from operations		6,804	2,533	6,615	3,317	16,040
Total liabilities		6,427	63,022	17,655	9,925	97,029
Total assets		28,644	100,862	38,818	21,821	190,145

For explanations regarding developments in the above financial data, see the Board of Directors' explanations in the Report of the Board of Directors attached to this report.

[1] For information about the updating of balance sheet data as of December 31, 2021, in relation to data presented in Section 4 to the Board of Directors' Report attached to the 2021 Periodic Report, see Note 4F to the financial statements.

1.8. General environment and external factors impacting all of the Company's operating segments

Set forth below is a description of the key trends, events and developments in the Company's macroeconomic environment, which, to the best of the Company's knowledge and assessments, have a material effect on the Company's business results, or are expected to have such an effect:

1.8.1. The global taste and fragrances industry

The tastes and fragrances markets and the specialty intermediates market are generally viewed as a single market. As of 2021, the global tastes and fragrances market was estimated at approx. USD 31.27 billion, and as of 2030 it is estimated to increase to approx. USD 44.18 billion with a CAGR of 3.91% between 2022 and 2030[2]. The manufacturers operating in those markets are divided into two main groups: 1. large and medium global companies; 2. local and small companies.

Each of the large global companies has a sales turnover higher than USD 3 billion. As of the date of this report, four companies comprise the group of large global companies: Givaudan, DSM-Firmenich, IFF- DuPont Nutrition & Biosciences and Symrise, which market their products principally to large food and beverage multinationals, manufacturers of cosmetics and personal care products, cleaning products and detergents, and air care & odor neutralizers. These companies focus on supply to large multinationals, such as Coca-Cola, PepsiCo, L'Oreal, Esty-Lauder, and more.

Substantially all of the local and small companies have a sales turnover lower than USD 300 million. Those companies normally focus on small and medium local customers, and have restricted R&D, innovation and customer services capabilities. In the Company's opinion, this group of companies comprises more than 800 companies.

Over the last several decades, the sector has been undergoing an accelerated consolidation process, as part of which the sector's largest groups purchased large and medium companies, and at the same time medium companies, including the Group, also took advantage of market conditions, purchased small companies and integrated them into the Group while leveraging the synergies and benefiting from their rapid growth. In the opinion of the Company, as a result of the consolidation small and medium

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[2] https://www.precedenceresearch.com/flavors-and-fragrances-market

companies are expected to have a significant market share and play a material role in the global market in each country.

Furthermore, suppliers of taste and fragrance extracts normally have long-term relationships with manufacturers, as is the case in the Company's relationships with its customers. The need to meet quality and regulatory requirements, and the ability to provide services and quick solutions that require the use of complex technologies give rise to lower sensitivity to price and a competitive advantage to those who can meet those requirements and provide those services. These characteristics are reflected in a high growth rate in the medium and small companies.

Taste and fragrance extracts affect the consumer's decision to purchase the product. Generally, taste and fragrance extracts are attributed a 45% weight of all parameters that affect a consumer's decision to purchase a product; this does not apply to perfumes, where the weight of fragrance extracts increases to 78%. This is despite the fact that taste and fragrance extracts constitute a negligible percentage of the overall product (approx. 4%-6% in fine fragrance products), and approx. 0.5%-2% in all other products containing taste or fragrance extracts).

1.8.2. **<u>Specialties chemicals market</u>**

As of 2022, the global specialties chemicals market was estimated at USD 616.2 billion, and it is expected to grow at an average annual rate of 5.1% between 2023 to 2030. The specialty ingredients segment, includes raw materials and intermediates for the pharma, agrochemicals, taste and fragrance industries, brominated fine-chemicals and including citrus products.[3] Most players in this market are medium and large companies that manufacture basic materials for the chemical industry. Those companies mostly offer the basic materials and their derivatives throughout all value chains. The specialty chemicals market in Israel is a small market with a small number of customers; therefore, most of the Company's sales are executed outside Israel. The Company focuses on the development of specialty chemicals with high added value, which are sold at small quantities and generate high profit levels.

1.8.3. **<u>Social-economic situation in Israel and across the world</u>**

The Company's activity is impacted by macroeconomic factors, including the growth rate in Israel, the situation in the Israeli and global economies, rates of private

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[3] https://www.grandviewresearch.com/industry-analysis/specialty-chemicals-market

consumption per capita and more. The demand for Company's products is affected by the economic situation in Israel and globally; economic growth that entails an increase in private consumption, in combination with increased awareness of the benefits of healthy lifestyle and increased demand for high-quality products and products offering added value, may result in increased demand to the Company's products. The Company's operating results might be adversely impacted by economic slowdown, social-economic instability, uncertainty in the Israeli and global markets and/or changes in indexes.

1.8.4. **<u>The war between Russia and Ukraine</u>**

In February 2022, a war broke out between Russia and Ukraine, which is still ongoing as of the report's publication date. In response, a number of states (including the USA, the UK and the EU) imposed economic sanctions and various restrictions on trade with Russian entities (including financial institutions and various corporations, politicians and certain business men and women); those restrictions include prohibition of trade, investment and the maintenance of economic relations and the exclusion of some Russian banks from international financial systems. As of the report date, global supply chains are disrupted and commodities and energy prices are on the increase due to the war between Russia and Ukraine.

The prolongation of the conflict and the deterioration in geopolitical conditions, instability and security crises in countries in which Group companies operate may have an adverse effect on the economy in those countries and in neighboring countries, as well as on international trade and global economy, including in markets in which the Company operates. The continued conflict between Russia and the Ukraine, and the possibility that the conflict will also involve Eastern Europe, might have an adverse effect on air and sea freight capabilities and costs, and the prices of raw materials and goods. Group subsidiaries that have business activity in Asia and Eastern Europe might be adversely affected from the instability of our customers' economic system in the said countries and from restrictions on trade and financial restrictions.

As of the report date, the Company is of the opinion that the war in Ukraine does not have a material effect on the Group's results of operations. However, its consequences pose challenges to the markets in which the Company operates, including disruption of supply chains and availability of raw materials, which triggered - together with the increase in inflation - hikes in raw material prices.

1.8.5. **<u>The effect of inflation and interest rates</u>**

As most countries across the world emerged from the Covid-19 crisis, global economic activity has increased; this included an increase in demand for goods and products. At the same time, disruptions to global supply chains continued due to the Covid-19 restrictions in China, and the war between Russia and Ukraine. Consequently, prices of energy, food and metals imported from those countries increased, which resulted, among other things, in an increase in raw materials prices. Due to the above factors, as from the end of 2021 and during the reporting period, inflation rates in Israel and across the world increased. In response to the increase in inflation rates, central banks across the world started implementing a contractionary monetary policy alongside interest rate hikes. As from April 2022, the Bank of Israel increased its interest rates from close to zero to 4.25% as of the publication date of this report[4]. In Europe, the Central European Bank (ECB) increased its interest rate to 3.5% as of the publication date of this report, and in the USA the interest rate increased to 4.75% as of the publication date of this report.[5] As of the report date, the Company does not have material CPI-linked or unlinked loans, and therefore, the above-mentioned changes do not have a material effect on the Company's results.

However, a future increase in the Company's loans balance as part of the Group's combined strategy shall lead to an increase in financing costs, and therefore will have an adverse effect on the Company's financial results.

Following the increase in raw material prices and inflation, the Company takes steps to update the prices of its products supplied to its customers, in order to mitigate the impact of price increases on its activity.

As of the report date, the Company is unable to assess the future impact of all of the above-mentioned factors, if any, on the markets in which it operates in general and on the Company's activity in particular. However, at this stage, the Company believes that those factors will not have a material effect on its results of operations and the implementation of its strategy.

All assumptions and data listed in Sections 01.8.1 through 1.8.5 above regarding the factors impacting the economic environment in which the Company operates constitute forward-looking forecasts, assessments and estimates, as defined in the Securities Law, which are based on the Company's assessments of developments

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[4] https://www.boi.org.il/
[5] https://il.investing.com/economic-calendar/interest-rate-decision-168

and current and future events, whose date of occurrence, if any, is uncertain and outside the Company's control. These assessments may not materialize, in whole or in part, or may materialize in a manner different than that expected by the Company, due to, among other things, changes in the economic situation in Israel and in other countries in which the Company operates as part of its operating segments.

Part C - Description of the Corporation's Business by Operating Segments

1.9. The fragrance segment

1.9.1. General information about the segment

1.9.1.1. Segment's structure and changes therein

The fragrances segment focuses on the development, production, marketing, sale and distribution of a wide range of natural and synthesized taste and fragrance extracts, which are mainly used in the perfume, cosmetics, toiletries, detergents, scented candles, air care & odor neutralizers and wet wipes industries. Many multinationals as well as local manufacturers operate in this segment. As of the date of this report, and in accordance with the demand and needs of Company's customers, the activity in this segment comprises mostly the production of synthesized extracts, compared with production of natural extracts where volume of activity is lower.

Market size is impacted by different factors, including increased awareness to odors, the increased importance of personal hygiene and care among men and women, alongside higher rates of daily use of deodorants and perfumes that play a significant role in personal care. Urbanization processes and improved living standards together with an increase in per capita income among the middle classes in developing countries such as India, China, Thailand, Vietnam, South East Asia, Brazil and Argentina are also expected to have a positive impact on growth rates in this segment. The increased demand for exotic and floral scents, mainly among young and adolescent consumers is also expected to have a positive impact on this sector. Furthermore, working women are increasingly aware of consumption of cosmetics, and this increases the demand for personal care products. Furthermore, increased awareness of the use of scents among consumers, both as a status indicator and as a means to deliver information and feelings, increases demand in new and developing markets.

The demand for Company's products is also impacted by consumer and marketing trends; various premium brands, including hotels, hair products, scented candles and cosmetic lines aim to have customized signature scents developed especially for them.

The demand for Company's products is also impacted by growth in Company customers' target markets and by various trends in those markets, including the "wellbeing" concept of the end customers of Company's products. Thus, for example, an increase in the number of launches of new products by manufacturers when seeking to increase their market share, the development of other applications of scent products, including sprays, candles, incense sticks, and gels for home use, and an increase in consumption of aromatherapy products all impact the demand for Company products that are used in the development and manufacturing of such products.

As a result of the Covid-19 crisis, the main components of the fragrance segment experienced changes, as described below:

- Cosmetics and personal care - consumers are much more aware of the issue of personal care, and use a number of product types compared with their use of such products prior to the pandemic. Furthermore, in view of the forced decline in visits to hair and beauty saloons, manufacturers have set up online sale platforms for end customers; this allowed them to maintain sale levels of cosmetics and hair care products that were previously sold to the commercial market; the online platforms allowed manufacturers to sell those products directly to the end customers. These trends lead to an increase in demand for Company's products incorporated into hair, cosmetics and body care products that are targeted both at the domestic and the commercial markets; furthermore, those trends increase the need by Company's customers to develop and update their products thereby increasing their demand for Company's products.

- Cleaning products and detergents - the cleaning products and detergents market is experiencing growth due to increased demand to such products and increased awareness of personal and environmental hygiene. Many products were introduced to the market in this field; those include products to clean one's hands (such as Septol and Alcogel) and products to clean surfaces (bleach-based products and cleaning and disinfectant wipes).

- Air care & odor neutralizers for the domestic market - due to the transition to remote working during the Covid-19 pandemic and thereafter, consumers opt to invest more in their home environment, by, among other things, buying scent diffusers and scented candles; therefore, demand for air care & odor neutralizers has increased.

1.9.1.2. **Legislative restrictions, standards and special constraints to which the segment is subject**

The Group's fragrances segment and the products it produces as part of this segment are subject to laws, regulations, orders and standards applicable in each of the countries in which it operates Furthermore, the Company operates under various rules stemming from health and safety regulations across the world, including rules relating to the operations of its laboratories and plants. For more information, see Section 1.22 below.

The Group's products are manufactured in accordance with international regulations set by the International Fragrance Association (IFRA), and in accordance with customers' requirements in different territories. In Poland, the Group has a Good Manufacturing Practice (GMP) designation and the kashruth permits required for the manufacturing of cosmetics.

1.9.1.3. **Changes in the segment's scope of activity and profitability**

The Group operates as a global company that customizes its products to meet customers' needs in the different territories in which it operates. The Group has the agility to respond swiftly to changes in demand for Company's products in each of the markets in which it operates, and to adapt them to the relevant regulations in that territory and to evolving customer needs and tastes.

Set forth below are the key trends in the field of fragrance extracts:

- Awareness among consumers and corporations regarding the environmental impact of certain ingredients used in the field of fragrance extracts.
- The influence of celebrities and influencers with respect to the effectiveness of certain ingredients and trends relating to the end products.
- The increasing impact of social media on consumers, internet advertising in the field of personal care, health and various trends in the fashion world, alongside a "back to nature" and wellbeing trend.

- Awareness among consumers of the need for transparency regarding the ingredients of fragrance extracts used in different products.
- The fragrance extracts market expands in two directions; firstly, increased use of fragrance extracts in many products, and secondly, increased demand to natural fragrance extracts.

1.9.1.4. **Segment's critical success factors**

In the opinion of the Company, the key success factors in the segment are as follows:

- Setting up a central R&D center alongside local development laboratories in each of the Company's plants worldwide. Synergy between the development centers and local development laboratories, which enable rapid development of products customized to customers and market's needs, while maintaining profitability and creating unique product offerings.
- Close and long-term relationships with customers around the world, and partnering with customers in the development of their products, from the inception of the idea to product launch.
- Development and production of high-quality fragrance extracts, while complying with global and local regulations, in accordance with market demands in the relevant territory, and adapting the scents to the various products and tastes in that territory.
- Highly-skilled and experienced workforce that possesses the required knowledge and exceptional technological, marketing, sale and management capabilities.
- Leveraging of synergies in the supply chain, procurement, development and cross-selling options between companies in different geographic regions.
- Business partnerships with global market leaders
- Efficient management of supply chains allowing production at competitive costs, while ensuring the availability of raw materials, means of production and transportation. The Company has a significant advantage in the area of procurement as a result of its close relationships with suppliers across the

world, and its in-depth knowledge of natural and synthesized raw materials available in different territories.

- Creating and nurturing networks for the distribution, marketing and sale of Company's products to global and local customers in various geographic regions.

1.9.1.5. **Entry and exit barriers**

Entry barriers -

1.9.1.5.1 **Long-term relationships** - the market is characterized by long-term relationships between manufacturers and customers. In these industries, the reliability of suppliers, the quality of services and the reproducibility of the products are paramount.

1.9.1.5.2 **Research and development** - due to the ever-evolving preferences of end customers, and since the markets in which the Group's customers operate are dynamic and competitive, the market is characterized by a large number of new and innovative products. Accordingly, manufacturers need to invest in R&D, possess the ability to respond swiftly to evolving customer needs, and have a wide product offering.

1.9.1.5.3 **The importance of fragrance extracts in the end product** - fragrance extracts determine the character and uniqueness of the end product, and therefore play a crucial role in its success. Fragrance extracts play a very important role when it comes to customers and end consumers. Fragrance extracts are composed of many raw materials (between 50 to 300 different raw materials per every fragrance extract), which is why it is very difficult to accurately reproduce them, and therefore customers will normally avoid replacing their supplier of fragrance extracts.

1.9.1.5.4 **Highly-skilled workforce and cumulative knowhow** - the Company's activity requires a highly-skilled team possessing in-depth understanding of and extensive experience in chemistry, various technologies, formulation and regulation. Furthermore, the Company is required to possess extensive capabilities and many years of experience in international management and business development in this industry.

1.9.1.5.5 **Establishing a stable supply chain** - engagements with suppliers of raw materials, manufacturers and providers of logistics services, which enable continuous production and supply of products at the required quality, or setting up independent production and logistics functions.

Exit barriers -

In the opinion of the Company, there are no significant exit barriers in this segment.

1.9.1.5.6 **Alternatives for segment's products**

During the production process, manufacturers sometimes use essential oils (extracted from plants) as a substitute for the fragrance extracts produced by the Company. The use of these oils is limited and even problematic since in order for the oil to serve as a fragrance extract it should have a concentration that does not meet generally accepted regulations; furthermore, such oils may be allergenic. Furthermore, the extraction of such oils is very expensive, and will therefore increase the price of the end product.

1.9.2. **Products and services**

In this area of activity, the Group develops, produces, markets and sells natural and synthesized fragrance extracts to manufacturing companies (B2B) operating in the fine extracts, cosmetics, toiletries, detergents, scented candles, air care & odor neutralizers and wipes industries, which incorporate those extracts into the products they sell.

The Group has a "formulations bank" containing tens of thousands of fragrance extracts it developed. The formulations are developed by the Company's development teams (perfumers); they are produced using natural and synthesized raw materials (approx. 50-300 raw materials in each fragrance extract) without triggering a chemical reaction.

The formulations are developed in collaboration between the customer, the Group's sales personnel and perfumers in each country and the R&D center. Once the extract is approved by a panel of testers and by the lab, and the required regulatory paperwork is prepared, the extract is delivered to be tested by customers in their products. The Group, through its employees, provides its customers with full technical support to incorporate the extracts in their products. As of December 31 2022, the Group has marketing and sales activities in more than 20 countries, both directly and indirectly.

The success of the fragrance extracts developed by the Group is impacted from its knowledge and understanding of the local culture and tastes, and its ability to adapt fragrance extracts to those preferences.

1.9.3. **Breakdown of revenues and profitability of products and services**

The products of the fragrance segment are produced specifically for Group's customers in accordance with the specific requirements of each of the customers. Furthermore, the relevant regulations and standards vary from one territory to another and make it impossible to globally classify a product as synthesized or natural. Therefore, it is impossible to classify them into product groups, and there is no single product which is material.

Furthermore, the segments described in Section 0 above do not represent product groups in the Company, and no revenues and profitability information is available in respect thereof.

1.9.4. **New products and services**

The Company develops fragrance extracts as part of its operating activities in the fragrance extracts segment. A new product is normally developed in collaboration with the customer, and customized to the needs of a customer in a specific market. None of the new products developed by the Company is material in terms of expected volume of sales and/or development expenses.

1.9.5. **Customers**

The Company produces and sells its products in local and global markets independently (domestic manufacturing in Israel) and through the subsidiaries Aroma Pollena, LORI, WFF and Klabin. In each of the markets, the Company works with and supplies its products to the following industries: cosmetics, toiletries, detergents, scented candles, air care & odor neutralizers, cleaning and disinfection materials, fine fragrances and wipes. Generally, the Group supplies ingredients used in the manufacturing of consumer goods in each of those industries in all of the territories in which it operates; the scope of activity of each industry changes from one territory to another.

For information about the revenues from external parties by sales to end customers based on their geographic location, see Section 0 below.

In most cases, the Group does not have fixed term contracts with its customers; sales are based on orders placed by customers and swift supply of products by the Company in accordance with the customer's requirements. This requires agility in preparing for the supply of extracts to Company's customers as well as in the management of supply chains and inventory planning.

As of the report's date, the Company is not dependent on a single customer in this segment.

1.9.6. **Orders backlog**

Customers in the fragrance extracts segment do not normally enter into agreements or place in advance orders for large volumes of extracts. Most of the Group's products are typically supplied within a week to 3 weeks from the moment an order is placed. Large

Group customers provide only estimated forecasts as to the expected annual volume of the materials they normally order; those companies place monthly or bi-monthly orders in respect of quantities they actually need. Therefore, in this segment the Group does not have a cumulative orders backlog that can be estimated in advance.

1.9.7. **Competition**

In the fragrance extracts segment, the Company competes primarily with large multinational and local manufacturers of fragrance extracts. Such multinational manufacturers include Givaudan, Firmenich, IFF-DuPont Nutrition & Biosciences, Symrise, Robertet and Mane; the local manufacturers operate in limited markets, and in the Company's opinion there are hundreds of companies with varying scopes of activity, from companies operating in a single country to companies operating in a small number of countries.

The Group currently operates in four geographic regions, with the European and American markets constituting approx. 50% of the global fragrance extracts market. Furthermore, the Company operates in the South East Asia market, which is experiencing accelerated growth. In view of the market's structure, the Group is unable to estimate its market share. In accordance with its global expansion strategy, the Company takes steps to penetrate into new markets and increase its market share in existing markets by way of adding new customers and increasing the volume of its activity among existing customers.

In the fragrance segment, the Group deals with competitors by remaining agile and maintaining its ability to rapidly develop and customize its products to the needs of its customers in the different countries in which they operate, without adversely impacting the global nature of the Company's activity. Furthermore, the Company is able to develop and supply the fragrance extracts to customers within a number of days or weeks from the start of the product development. The Group takes steps to purchase companies whose activity is synergetic to that of the segment, thereby creating a sustained competitive advantage and expanding its geographic deployment. The Company's development centers and its marketing, manufacturing, sales and distribution functions in the different markets in which it operates provide it with customer proximity and better knowledge of the unique characteristics of local culture and tastes.

.1.10 **Taste segment**

1.10.1. **General information about the segment**

1.10.1.1. **<u>Segment's structure and changes therein</u>**

The taste segment focuses on the development, production, marketing, sale and distribution of a wide range of natural and synthesized, sweet and savory flavor extracts, seasonings and gluten free flours, which are used mainly in the production of food, including dairy, meat, fish, proteins used as substitutes for meat, fish and eggs, snacks and pastries, beverages, tobacco, animal and pet food and pharmaceuticals. Many multinationals as well as local manufacturers operate in this segment.

The global food taste market size was valued at USD 12.7 billion in 2020, and is projected to reach USD 19.2 million by 2030, registering a CAGR of 3.6% between 2020 and 2030. Flavor additives include mainly natural flavors and extracts; in 2020, synthesized flavors had the largest market share in the food flavors market, and it is expected that those flavors will remain dominant throughout the forecast period.[6]

Food flavors are used, among other things, to add and enhance the taste of foods that tend to lose their taste over time after processing and preserving and to conceal other flavors.

The demand for flavor extracts in the food (processed food, sweets, pastries, dairy products, ice cream) and beverages industry stems from a number of factors. Those factors include the continuous need to innovate, which drives the development of new products and changes and diversification of flavors in existing products, the increase in demand for processed food and drinks, the increase in the demand for unique flavors in various food applications, and the increase in the popularity of exotic flavors. As is the case in the fragrance extracts segment, the flavors extracts segment has also benefited from growth, urbanization processes, improved living standards and an increase in per capita income among the middle classes in developing countries such as India, China, Thailand, Vietnam, South East Asia, Brazil and Argentina, which triggered an increase in demand for processed food and in the range of products available in those markets.

The increasing demand for taste extracts in recent ears is attributed, among other things, to the increase in consumers' demand for convenience (ready-to use) food, that requires very little or is ready to it with no preparation before consumption. The increase in the number of hours people spent at their workplace, and the increase in the disposable

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[6] http://www.ialconsultants.com/uploads/CUBE_press_release/2020-09-14/FF_PressRelease_2020.pdfhttps://www.alliedmarketresearch.com/food-flavors-market

income of middle-class consumers are expected to increase demand for tasty and healthy convenience food; this demand will, in turn, increase demand to taste extracts.

The rise of awareness among consumers regarding the long-term health-related consequences of artificial ingredients and additives in food products propels the demand for natural and healthy ingredients in food products, this applies specifically to lower levels of sugar and salt, which, in turn, increase the demand for taste extracts based on natural tastes and extraction processes, rather than synthesized tastes extracts. Furthermore, there has been an increase in demand for organic, vegetarian and vegan food products (including meat and egg substitutes), and clean label products.

Manufacturers of tastes extracts adopt new technologies in order to create improved natural and synthesized tastes that enhance their stability and suitability; for example, when creating fruit flavor extracts, it is very difficult to retain the original taste. Therefore, in order to maintain the taste of products, manufactures invent and adopt advanced flavor extraction technologies, that improve the products. The applications of advanced technologies provide innovative and novel tastes in food that help companies to adapt to the ever-changing customer tastes, which, in turn, drive the growth of the food flavors industry.

The food tastes market is normally segmented by type, end-user and region. By type, it is segmented into natural and artificial taste s; by end user, it is divided into beverages, dairy and frozen products, bakery and confectionery, savory and snacks, and animal and pet food; the beverages market is further classified into hot drinks, soft drinks, and alcoholic drinks. The dairy and frozen products segment is segmented into dairy products and meat. The bakery and confectionery segment is further categorized as chocolate, bakery, confectionery, and ice cream; the savory and snacks market is divided into savory, pickles and snacks; animal and pet food is classified into animal feed and pet food; by region, it is analyzed across North America, Europe, Asia-Pacific, Latin America, the Middle East and Africa.

1.10.1.2. **Legislative restrictions, standards and special constraints to which the segment is subject**

The Group's taste segment and the products it produces as part of this segment are subject to laws, regulations, orders and standards applicable in each of the countries in which it operates Furthermore, the Company operates under various health and safety rules, including rules relating to the operations of its laboratories and plants. For more information, see Section 1.23 below.

The Group's products are manufactured in accordance with international regulations set by the Flavor and Extract Manufacturers Association (FEMA) and/or under a Generally Recognized as Safe (GRAS) designation, and in accordance with customers' requirements in different territories. Furthermore, in each of the countries in which it operates, Company's plants in this segment hold a permit issued by the local Ministry of Health, as well as veterinary approvals as required in the relevant country.

The Company holds the kashruth permits required for its activity, if any, in each of the territories in which it operates; furthermore, most subsidiaries hold voluntary permits including kashruth permits, GMP and Halal certifications.

1.10.1.3. **<u>Changes in the segment's scope of activity and profitability</u>**

In this segment there is a trend whereby manufacturers are required to provide approvals to the effect that the raw materials they manufacture comply with regulations and standards. In addition, there is an increase in demand for products with proven characteristics, such as GMO-free products, or products where pesticides levels are monitored.

Set forth below are the key trends in the tastes extracts segment:

- Rise in healthy eating awareness - an increase in the demand for food products with natural and healthy ingredients and low fat, salt or sugar levels increases the demand for tastes extracts that help food manufacturers to maintain the original taste, while reducing salt or sugar/oil levels in their products and consequently also their calorie content.

- Customers' preference of natural ingredients (rather than synthetized ingredients) - many customers believe that natural ingredients are safer, heathier and more environmentally friendly than synthesized ingredients. A rise in demand for food and beverages, that have no synthetic or chemical ingredients, including artificial tastess, food coloring and sweeteners. Furthermore, there has been an increase in demand for clean label and organic products.

- Increased demand for convenience food, including ready-to-eat microwave meals, both in developing and in developed markets. This trend increased the demand for tastes extracts.

- Increased interest by consumers in daring and novel flavors, and consumers' increased willingness to try out new and synthetic foods that have unconventional or exotic flavor profiles.
- Increased popularity of food programs and a rise in consumers' interest in home cooking, gourmet food, as well as consumers' willingness to try out new flavors, increase the demand for flavor extracts.

1.10.1.4. **<u>Segment's critical success factors</u>**

In the opinion of the Company, the key success factors in the segment are as follows:

- The capability to develop unique products for the food and beverages markets, that meet the needs of those markets, and the ability to identify trends and needs in the markets in which the Company operates.
- Close and long-term relationships with customers around the world, and partnering with customers in the development of their products, from the inception of the idea to product launch.
- Development and production of high-quality tastes extracts, while complying with global and local regulations, in accordance with market demands in the relevant territory, and adapting the tastes extracts to the various products and tastes in that territory.
- Highly-skilled and experienced workforce that possesses the required knowledge and exceptional technological, marketing, sale and management capabilities.
- Leveraging of synergies in the supply chain, procurement, development and cross-selling options between companies in different geographic regions.
- Business partnerships with global market leaders
- Efficient management of supply chains allowing production at competitive costs, while ensuring the availability of raw materials, means of production and transportation. The Company has a significant advantage in the area of procurement as a result of its close relationships with suppliers across the

world, and its in-depth knowledge of natural and synthesized raw materials available in different territories.

- Creating and nurturing networks for the distribution, marketing and sale of Company's products to global and local customers in various geographic regions.

1.10.1.5. **Entry and exit barriers**

Entry barriers -

1.10.1.5.1 **Long-term relationships** - the market is characterized by long-term relationships between manufacturers and customers. In these industries, the reliability of suppliers, the quality of services and the reproducibility of the products are paramount.

1.10.1.5.2 **Research and development** - due to the ever-evolving preferences of end customers, and since the markets in which the Group's customers operate are dynamic and competitive, the market is characterized by a large number of new and innovative products. Accordingly, manufacturers need to invest in R&D, possess the ability to respond swiftly to evolving customer needs, and have a wide product offering.

1.10.1.5.3 **The importance of tastes extracts in the end product** - tastes extracts determine the character and uniqueness of the end product, and therefore play a crucial role in its success. Tastes extracts play a very important role when it comes to customers and end consumers. Tastes extracts are composed of many raw materials (between 30 to 100 different raw materials per every flavor extract), which is why it is very difficult to accurately reproduce them, and therefore customers will normally avoid replacing their supplier of flavor extracts.

1.10.1.5.4 **Highly-skilled workforce and cumulative knowhow** - the Company's activity requires a highly-skilled team possessing in-depth understanding of and extensive experience in chemistry, various technologies and regulation. Furthermore, the Company is required to possess extensive capabilities and many years of experience in international management and business development in this industry.

1.10.1.5.5 **Establishing a stable supply chain** - engagements with suppliers of raw materials, manufacturers and providers of logistics services, which enable continuous production and supply of products at the required quality, or setting up independent production and logistics functions.

1.10.1.5.6 **Access to growing areas -** the Company needs access to land on which spices and herbs can be grown for its seasonings and herb mixes activity; those areas should be located in places with a climate that suits the growing of a range of spices and herbs, such that the Company will have access to supply thereof throughout the year. Such accessibility is gained by obtaining rights to agricultural land or engagements with growers.

1.10.1.5.7 **A range of strains and crops -** the seasonings and herb mixes activity requires access to a wide range of crops and strains that will allow the Company to have an extensive and diverse product offering that will meet the needs of the different customers. For that purpose, the Company is required to have access to many strains, including new developments in the field of herbs that enable growers to change the characteristics of herbs and lead to a diversification of the Company's product offering.

Exit barriers -

The agreements SDA signed with growers who grow for it various herbs and spices are normally signed for a three-year period. The Company believes that other than liabilities under these agreements there are no significant exit barriers in this segment.

1.10.1.6. **Alternatives for segment's products**

To the best of the Company's knowledge, to date there are no commercially feasible products that can fully replace the flavors extracts.

1.10.2. **Products and services**

1.10.2.1. **Flavor extracts**

As of the date of this report, the Company markets and sells tens of thousands of flavor extracts in more than 30 countries. The success of the flavor extracts developed by the Company relies on highly experienced flavorists, knowledge of local tastes and Company's ability to adapt its flavor extracts to those tastes; the Company's global deployment allows the Group to address the needs of brands of global food and beverage companies while adapting its products to the relevant market and its tastes.

As part of its flavors activity, the Company offers a wide range of flavor solutions designed to create new flavors, enhance existing flavors and/or conceal certain flavors in processed food and beverage products. Furthermore, the Company provides solutions to global companies that wish to have another supplier of flavor extracts used in their existing products.

Most flavor products contain a large number of natural and synthesized ingredients that are incorporated using unique formulae developed in Company's laboratories by the segment's R&D teams (flavorists) (extracts, for example, normally contain about 30-100 different ingredients, including fruit and vegetable extracts and spices). The development of a new flavor product is carried out at the initiative of the Company itself, or in accordance with specific customer requirements and in close collaboration therewith. Furthermore, the Company also offers its customers a solution that includes not only flavors, but also natural functional ingredients that contribute to the nutritional and health benefits of the product, protect the consumer's health, prolong the shelf life of the product and of natural and synthesized colors. Those ingredients have a positive effect on the branding of the end product, and enhance the long-term relationships and dependency between the Company and its customers.

The flavor products manufactured by the Company serve mainly as ingredients in consumer products manufactured by food and beverage manufacturers; those products are suitable for different applications, such as soft drinks, juices, dairy products, ice creams, pastries, confectionary products, chewing gum, and a range of savory products, such as snacks, convenience food, ready-made soups, salad dressings, and processed meat and fish, meat substitutes, animal and pet food, and food supplements.

The Company offers natural, organic and artificial flavor products. The natural flavors are manufactured using only natural ingredients, that include, among other things, natural extracts, essential oils, spices and fruit and vegetable ingredients. Some of the flavor products manufactured by the Company contain specialty ingredients manufactured by various Group companies for the flavor extracts segment.

The Company manufactures both sweet and savory flavors. The sweet flavors are mainly used in beverages, dairy products, ice creams, pastries, confectionary and food supplements. The savory flavors are mainly used in the production of snacks, soups, sauces, savory pastries, processed meat and fish and convenience food; the Company also produces a range of plant-based flavor extracts that are used both to imitate the taste of meat in meat substitutes and as egg substitutes for vegetarian and vegan products.

The Company's flavor products are sold in the form of liquid, powder and emulsion; sometimes the products are mixed with stabilizers and emulsifiers (ingredients that enable to change the texture and characteristics of the products into which they are incorporated).

1.10.2.2. **<u>Spices, seasonings and gluten-free flours</u>**

The Company operates independently and through its subsidiaries in the production of spices, unique seasonings and gluten-free flours. The Company manufactures both organic and non-organic spices and seasonings; these are sold in various forms (ground up to a powder), and include, among other things, sweet paprika, chili powder, etc. Furthermore, the Company offers natural and non-GMO organic herbs, which are manufactured from fresh and pure herbs such as za'atar, dill, parsley, coriander, coriander seeds, etc. In addition, some of the spices are used as ingredients in specialty mixtures for natural food colorings used in the food industry and the animal and pet food industry.

The gluten-free flours are sold as a powder for use in the food industry and for home baking; they are also sold in a dedicated version adapted for the needs of customers in the snacks industry.

Seasonings are savory flavor extracts composed of different spices, which are combined at different ratios (changed per each seasoning) in accordance with the required application. In addition to the spices, the Company adds to the seasonings other ingredients in the form of liquid or powder; the role of those ingredients is to enable the incorporation into the end food product. In the past two decades, the use of seasonings has been on the rise in view of the change in trends in the food and beverages markets worldwide. Food seasonings are added to ready-to-eat and drink products, such as instant soup mixes, microwave meals, real pastries, cured meats, smoked fish and snacks.

It should also be noted that SDA has completed a project for the development of agro-technological and industrial processes for growing, processing and marketing of a Carnosic acid-rich rosemary, which is a very powerful natural antioxidant, that gives medicinal rosemary its antioxidant properties. The rosemary manufactured by SDA is used as a natural antioxidant in food products (meat, fish, cured meat, snacks, sauces, soups, etc.) and in cosmetics; furthermore, SDA is developing an innovative technology for natural smoking of spices, which renders a smoked aroma (compared to the synthetic means currently used to render a smoked aroma to spices).

1.10.3. **<u>Breakdown of revenues and profitability of products and services</u>**

Set forth below is a breakdown of the segment's products and services, the rate of Company's revenues derived therefrom was 10% or more of total Company revenues in 2021 and 2022 (in USD thousands):

Product	2021		2022	
	Revenues	Rate out of consolidated revenues	Revenues	Rate out of consolidated revenues
Spices and savory seasonings	27,962	33%	48,963	41%

1.10.4. **New products and services**

As part of the flavors activity, the Company develops new and innovative products on an ongoing basis. A new product is normally developed in collaboration with the customer, and customized to the needs of that customer or to market trends, such as demand for products with reduced sugar and salt levels. None of the new products developed by the Company is material in terms of expected volume of sales and/or development expenses.

As of the report date, the Company started selling innovative technology for natural smoking of spices, which renders a smoked aroma (compared to the synthetic means currently used to render a smoked aroma to spices).

1.10.5. **Customers**

The flavor extracts manufactured by the Company are sold to an extensive customer base comprising multinational and local customers of all sizes. The customers are manufacturers of food and beverages, and they are deployed in more than 30 countries across the world.

For information about the revenues from external parties by sales to end customers based on their geographic location, see Section 1.29 below.

In most cases, the Group does not have fixed term contracts with its customers in the taste segment; sales are based on orders placed by customers and swift supply of products by the Company in accordance with the customer's requirements. This requires agility in preparing for the supply of extracts to Company's customers.

In view of the time it takes to grow the crops used for the spices and seasonings products, the Group has in place annual contracts with customers, who wish to buy spices and seasonings; those contracts include an undertaking by the customer to purchase certain quantities every year.

As of the report date, the Company has a material customer in the taste segment; Company's revenues from this customer constitute approx. 10.3% of total Company revenues (USD 12.8 million in 2022). As in the case of most of its customers in the taste segment, the engagement with this customer is conducted based on orders received from time to time.

As of the report's date, the Company is not dependent on a single customer in this segment.

1.10.6. **Orders backlog**

Customers in the taste segment do not normally enter into agreements or place in advance orders for large volumes of extracts. Most of the Group's products in this segment are typically supplied within several days to 3 weeks from the moment an order is placed. Large Group customers provide only estimated forecasts as to the expected annual volume of the materials they normally order; those companies place monthly or bi-monthly orders in respect of quantities they actually need. Therefore, in this segment the Group does not have an orders backlog that can be estimated in advance.

With respect to the spices and seasonings activity, SDA enters into contracts with customers, whereby the customers undertake to purchase certain quantities of SDA's products. As of December 31, 2022, SDA's orders backlog amounted to USD 11,360 thousand.

1.10.7. **Competition**

The Company's principal competitors in the field of taste extracts are multinational and medium-size manufacturers of flavor extracts, such as Givaudan, Firmenich, Solina, IFF, Symrise, Robertet, Mane, Dohler and ADM.

In the field of spices there are additional competitors such as McCormick, Sensient, Kerry, and other medium and small companies, most of whom operate in their domestic market.

The Company's competitors are multinational manufacturers of flavors, as well as medium and small companies, that operate in their domestic market. The competition is based, to a large extent, on innovation capabilities, product quality, the ability to provide customers with services of added value, creating and maintaining long-term relationships, reliability, customizing products to specific customer needs and adapting to market trends.

Flavors manufacturers differentiate themselves by developing close relationships with their customers, developing in-depth knowledge and understanding of the target markets, possessing excellent innovation and R&D capabilities and an excellent reputation, which is based on consistent, reliable and efficient customer service.

The Group currently operates in four geographic regions, with the European and American markets constituting approx. 50% of the global flavor extracts market, and the South East Asia market experiencing accelerated growth. In view of the market's structure, the Group is unable to estimate its market share. However, in view of the Company's global expansion strategy, the Company takes steps to penetrate into new markets and increase its market share in existing markets by way of adding new customers and increasing the volume of its activity among existing customers.

In the taste segment, the Group deals with competitors by remaining agile and maintaining its ability to rapidly develop and customize its products to the needs of its customers in the different countries in which it operates, without adversely impacting the global nature of the Company's activity. Furthermore, the Company is able to develop and supply the tastes to customers within a number of days or weeks from the start of the product development. The Group takes steps to purchase companies whose activity is synergetic to that of the segment, thereby creating a sustained competitive advantage and expanding its geographic deployment in markets in which it operates. The Company's development centers and its marketing, manufacturing, sales and distribution functions in the different markets in which it operates provide it with customer proximity and better knowledge of the unique characteristics of local culture and tastes.

1.10.7.1. **Seasonality**

As of the date of this report, there is seasonality in the taste segment, which is characterized with stronger sales in the second and the third quarters of the year, compared with the first and the forth quarters.

.1.11 **Specialty intermediates for the pharma industry segment**

1.11.1.1. **General information about the segment**

1.11.1.1. **Segment's structure and changes therein**

The Group's activity in this field is carried out through Chemada, a private company wholly-owned by the Company. Chemada operates in the field of specialty and brominated chemicals.[7] Chemada is engaged in the production of specialty chemicals used as ingredients and intermediates in the pharmaceuticals industry, and markets its products across the world.

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[7] Brominated products are products based on bromide compounds.

The pharma industry segment is characterized with sales to manufacturers of intermediates and active pharmaceutical ingredients (APIs). The global APIs market size was valued at approx. USD 191.1 billion in 2021, and is projected to reach USD 355.9 billion by 2030, registering a CAGR of 7.1%. The growth of the global APIs market is driven mainly by an increase in R&D activities related to the development of drugs, increasing incidence of chronic diseases, increased life expectancy, increasing importance of generic drugs, and increased consumption of biological therapies. On the other hand, restrictions placed on prices of drugs in different countries, the high manufacturing costs of drugs and the long time it takes to get from development to launch of new drugs restrain the growth of the APIs market[8].

1.11.1.2. **Legislative restrictions, standards and special constraints to which the segment is subject**

Chemada's activity and the products it produces as part thereof is subject to laws, regulations, orders and standards. Furthermore, Chemada operates under various health and safety rules, including rules relating to the operations of its laboratories and plants. For more information, see Section 0 below.

Chemada applies to its products and manufacturing processes voluntary quality standards required by its customers worldwide. Those standards dictate management and quality requirements from the planning stage (R&D, sales, supply chain, handling orders, planning production) to the implementation stage (production, laboratory, logistics and transportation to the end destination). As a supplier of intermediates that operates as part of the supply chain of the pharma industry, Chemada is ISO 9001:2015 certified (a quality standard), ISO 14001:2015 certified ISO 45000 certified (health and safety standards). Furthermore, Chemada is holds the "Gold Standard" awarded by the Standards Institution of Israel to customers maintaining a comprehensive quality management system under the three standards listed above. During 2023, Chemada started implementing Israeli Standard 50001 for Energy Management System, and to the best of the Company's knowledge, it is expected to be certified under this standard during the second half of 2024.

1.11.1.3. **Changes in the segment's scope of activity and profitability**

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[8] https://www.globenewswire.com/news-release/2022/01/10/2364197/0/en/Active-Pharmaceutical-Ingredients-Market-Size-to-Hit-USD-355-94-Bn-by-2030.html

Most of the products manufactured by Chemada's customers in this area of activity require preliminary approvals and compliance with the highest quality standards as part of the development and manufacturing of those products; this also applies to the intermediates used in the end product. Therefore, in this field, suppliers of intermediates used in the production of drugs that have development capabilities, and are able to support companies developing drugs in the early stages of the process have a significant advantage over other suppliers. The initial quantities normally manufactured for customers are tens of kilograms; these quantities increase gradually and reach up to tens of tons as the development of the drugs advances, and until the drug is launched and establishes itself in the market. In the early stages and along the way, the manufacturer and the customer coordinate expectations as to quality and optimize costs.

1.11.1.4. **<u>Segment's critical success factors</u>**

In the opinion of the Company, the key success factors in the segment are as follows:

- Many years of experience and proven reputation in the field of fine chemicals.
- Long-term relationships with customers in terms of marketing, development and procurement; such relationships allow for the development of products starting with the customer's preliminary development stages and along the other stages of customers' product development.
- Extensive knowhow and experience in the development and manufacturing of products at varying quantities, from a few kilograms to tens and hundreds of tons; this allows market players to support customers throughout the development processes of customers' products; manufacturers also have to have the agility to respond swiftly to customers' needs starting with the customer's development stage, and until the product is launched and establishes itself in the market.
- Products are manufactured exclusively for specific customers under confidentiality agreements; in most cases, these products are not sensitive to market competition and have high profit margins.
- The ability to comply with varying regulations and successfully pass audits conducted by the pharma companies.

- Product's quality, both in terns of its characteristics and in terms of its suitability to customer's needs.
- Agile and focused management that combines many years of experience in the Group's areas of activity.
- Efficient management of supply chains allowing production at competitive costs, while ensuring the availability of raw materials, means of production and transportation.
- Creating business partnerships with global market leaders, and the ability to engage in distribution agreements with leading entities.

1.11.1.5. **Entry and exit barriers**

Entry barriers

1.11.1.5.1 **Long-term relationships** - the market is characterized by long-term relationships between manufacturers and customers, most of whom are suppliers of intermediates and raw materials to the pharmaceuticals industry. Generally, development and production process is approved by the pharma companies in the preliminary stages of drug development; the data as to the specialty intermediates manufactured by the Company are included in the regulatory approval process pertaining to the drug; therefore, there is a barrier to replacing the manufacturer of the specialty intermediates, and this constitutes an entry barrier to new players wishing to enter this field of activity.

1.11.1.5.2 **Regulation, licenses and approvals -** obtaining all licenses and approvals required for operating in this area of activity, and compliance with strict rules applicable to this area of activity.

1.11.1.5.3 **Financial strength** - high financing capabilities for the purpose of building, maintaining and operating the required logistic infrastructures.

1.11.1.5.4 **Establishing a stable supply chain -** engagements with suppliers of raw materials, manufacturers and providers of logistics services, which enable continuous production and supply of products at the required quality, or setting up independent production and logistics functions. Operating the logistic function requires knowhow, skill and operational excellence.

Exit barriers -

1.11.1.5.5 As part of the Group's undertakings under the transaction for the purchase of Chemada's activity, it is required to clean up waste that has accumulated in the plant's premises; the obligation applies for a period of 8 years through 2027. These undertakings constitute a unique exit barrier for the Company.

1.11.1.5.6 The Company is engaged in agreements with its customers for periods of more than one year, which may include undertakings on behalf of customers to purchase minimum quantities of the Company's products.

1.11.1.6. **Alternatives for segment's products**

The bromine-based fine chemicals may be replaced by customized fine chemicals based on chlorination processes. However, chlorine-related regulations are stricter and therefore bromine-based chemicals, such as the Company's products, have a significant advantage.

1.11.2. **Products and services**

The Company is engaged in the development and production of fine chemicals used as raw materials and intermediates in the pharmaceuticals industry; the Company's products are customized for the customer's needs through Company's R&D teams, production facilities and laboratories.

1.11.3. **Breakdown of revenues and profitability of products and services**

The products of the fragrance segment are produced specifically for Group's customers in accordance with the specific requirements of each of the customers; therefore, it is impossible to classify them into product groups, and there is no single product which is material.

1.11.4. **New products and services**

As part of its operating activities, Chemada develops from time-to-time new products of high added value for its existing and new customers; such development is carried out based on existing technologies, in accordance with the specific needs of the relevant customer and at the customer's request. None of the new products developed by the Company is material in terms of expected volume of sales and/or development expenses.

1.11.5. **Customers**

In this segment, the Group has approx. 100 customers, most of whom are manufacturers of intermediates and active pharmaceutical ingredients (APIs) operating in about 30 countries.

For information about the characteristics of the activity with customers in this segment, see Section 1.11.1.4 above.

In 2022, the ten largest customers in this segment accounted for 65% of the Company's sales in this segment. In 2022, the Group did not have a single customer, the rate of the Company's sales to whom exceeds 10% of total Company sales in that year; in the Group's opinion it is not dependent on any of its customers.

For information about the revenues from external parties by sales to end customers based on their geographic location, see Section 0 below.

1.11.6. **Orders backlog**

In this area of activity, the manufacturing process of the chemicals may take several weeks. Therefore, the Company's orders backlog comprises orders received from its customers several months in advance, as well as orders based on annual supply contracts that the Company signed in advance. As of December 31 2022, the orders backlog amounted to USD 8.2 million, and as of December 31 2021, the orders backlog amounted to USD 7.5 million

1.11.7. **Competition**

The activity in the market in which Chemada operates in the field of specialty intermediates for the pharma industry is characterized with a range of manufacturers and suppliers, that produce the products using similar and known technologies. In recent years, new manufacturers started entering the market; these included mainly manufacturers from India, where labor costs are lower; this triggered a decrease in the prices of products offered to the market in large quantities. The spread across the world of manufacturing knowhow pertaining to the products in this area of activity creates an ongoing process whereby products that were previously considered high-tech products and were priced accordingly are subject to competition which leads to erosion in prices.

As part of the Company's growth strategy, it endeavors to develop and manufacture new and complex products of higher added value; the Company also works to improve processes of existing products in order to improve productivity and increase profit margins.

Company's markets are highly competitive; most of the Company's competitors have manufacturing capacities that are larger than those of the Company; and they focus on products of lower value and on manufacturing high volumes. To the best of the Company's knowledge, as of the report's date, its principal competitors in this area of activity are PPC, PALCEM, Tosoh, Neogen and Agrocel Chemicals. The Company is unable to estimate its market share; however, it believes that its share in the global market is small.

The Company has significant advantages that make it highly attractive for customers. Those advantages include the location of the Company's manufacturing activity, which customers tend to prefer over competitors who manufacture in India or China, high quality of products and high manufacturing levels, flexibility in terms of quantities and the supply of products in accordance with complex specifications, compliance with all regulatory requirements, supply of products packaged in accordance to international standards, providing documentation for purposes of quality control, experience, and more.

As part of its differentiation strategy, the Company focuses on complex products of high value and high profit margins.

1.12. **The specialty ingredients segment**

1.12.1. **General information about the segment**

1.12.1.1. **Segment's structure and changes therein**

The specialty ingredients segment includes, primarily, the development, production, marketing and sale of specialty ingredients used in a range of industries, mainly flavors and fragrances, agrochemicals, polymers and catalysts.

In this segment, the Group operates through its subsidiary Chemada, that supplies chemicals to a range of customers worldwide from the agrochemicals and specialty and fine chemicals industries. The Company develops its products in Israel, mostly in Chemada's plant in Nir Yitzhak, and in the Company's site in Zarzir.

Chemada specializes in the manufacturing of high-quality fine chemicals and bromine-based products.

The company manufactures chemicals that are used by companies producing products designed to protect plants; those products are used in agriculture in order to improve yields and protect crops from insects, weeds, fungi, etc. Considering the projected growth in global population, increasing crop yields is critical. The overall market size of the target markets in which Company customers operate in the field of agrochemicals is projected to reach USD 315.3 billion by the end of 2030, registering a CAGR of 2.9%.

Furthermore, in the reporting period, the Company established a plant for the production of unique citrus-based natural products with high added value and aroma chemicals (citrus house). The global aroma chemical market was estimated at USD 5.1 billion in 2021, and is expected to reach USD 8.5 billion in 2031, with registering CAGR of 5.4% from 2022 to 2031[9].

Chemada also manufactures specialty chemicals characterized with higher levels of technical service and expertise for industries such as food additives, aroma compounds, water treatment, textiles, construction, paper, oil, gas, ink additives and more. In recent years, and prior to the Covid-19 pandemic, there was high demand in countries in Asia (such as India and China) for products manufactured in this area of activity; this triggered an increase in the scope of investments, as well as the construction of plants manufacturing chemicals. This rise in demand happened in parallel to the application of stricter regulations, which gives a relative advantage to manufacturers from developed countries.

[9] Aroma Chemicals Market Size, Share, Trend, Forecast 2031 (alliedmarketresearch.com)

1.12.1.2. **<u>Legislative restrictions, standards and special constraints to which the segment is subject</u>**

See Section 1.11.1.2 above.

1.12.1.3. **<u>Changes in the segment's scope of activity and profitability</u>**

The trends in the specialty ingredients segment are similar to those of the specialty intermediates for the pharma industry segment. For more information, see Section 1.11.1.3 above.

1.12.1.4. **<u>Segment's critical success factors</u>**

The critical success factors in the specialty ingredients segment are similar to those of the specialty intermediates for the pharma industry segment. For more information, see Section 01.11.1.4 above.

1.12.1.5. **<u>Entry and exit barriers</u>**

<u>Entry barriers</u> -

1.12.1.5.1 In-depth knowledge of and long-term relationships with manufactures and suppliers of strategic and specialty ingredients across the world.

1.12.1.5.2 The need to have in place advanced manufacturing technologies, investment in innovative laboratories and highly skilled employees possessing specific expertise lead to high manufacturing costs in this segment.

1.12.1.5.3 The segment's products are developed in close collaboration with Group's customers, and in accordance with their specifications. Therefore, the Company needs to employ skilled development teams, and have access to manufacturing techniques and previous developments, on the basis of which new products can be manufactured.

<u>Exit barriers</u> -

1.12.1.5.4 The exit barriers in the specialty ingredients segment are similar to those of the specialty intermediates for the pharma industry segment. For more information, see Section 0 above.

1.12.1.6. **<u>Alternatives for segment's products</u>**

For information about compounds that may serve as substitutes for the segment's products, see Section 1.11.1.6 above.

1.12.2. **<u>Products and services</u>**

As of December 31 2022, the Company markets and sells more than 100 products in this segment, to more than 100 customers located in more than 30 countries.

For details regarding the products and services, see Section 1.12.1 to this report.

1.12.3. **<u>Breakdown of revenues and profitability of products and services</u>**

The products of the fragrance segment are produced specifically for Group's customers in accordance with the specific requirements of each of the customers; therefore, it is impossible to classify them into product groups, and there is no single product which is material.

1.12.4. **<u>New products and services</u>**

As part of its operating activities, Chemada develops from time-to-time new products of high added value for its existing and new customers; such development is carried out based on existing technologies, in accordance with the specific needs of the relevant customer and at the customer's request. None of the new products developed by the Company is material in terms of expected volume of sales and/or development expenses.

1.12.5. **<u>Customers</u>**

Company's customers in this segment include leading companies in their respective industries. As described above, most of the Company's customers operate in two principal markets, agrochemicals and specialty chemicals.

In 2022, the ten largest customers in this segment accounted for approx. 93% of the segment's sales. As of the report's date, the Group does not have a single customer, the rate of the Company's sales to whom exceeds 10% of total Company revenues; in the Group's opinion it is not dependent on any of its customers.

For information about the characteristics of the activity with customers in this segment, see Section 1.11.5 above.

For information about the revenues from external parties by sales to end customers based on their geographic location, see Section 0 below.

1.12.6. **<u>Orders backlog</u>**

In this area of activity, the manufacturing process of the chemicals may take several weeks. Therefore, the Company's orders backlog comprises orders received from its customers several months in advance, as well as orders based on annual supply contracts that the Company signed in advance. As of December 31 2022, the orders backlog amounted to USD 2.2 million, and as of December 31 2021, the orders backlog amounted to USD 7.5 million

1.12.7. **Competition**

The activity in the market in which Chemada operates is characterized with a range of manufacturers and suppliers, that produce the products using similar and known technologies. In recent years, new manufacturers started entering the market; these included mainly manufacturers from India, where labor costs are lower; this triggered a decrease in the prices of products offered to the market in large quantities. The spread across the world of manufacturing knowhow pertaining to the products in this area of activity creates an ongoing process whereby products that were previously considered high-tech products and were priced accordingly are subject to competition which leads to erosion in prices.

As part of the Company's growth strategy, it endeavors to develop and manufacture new and complex products of higher added value; the Company also works to improve manufacturing processes of existing products in order to improve productivity and increase profit margins. The Company assessed its products range and focused on high-quality and unique products that generate higher profit margins.

Company's markets are highly competitive; most of the Company's competitors have manufacturing capacities that are larger than those of the Company; and they focus on products of lower value and on manufacturing high volumes. To the best of the Company's knowledge, as of the report's date, its principal competitors in this area of activity are PPC, PALCEM, Tosoh, Neogen and Agrocel Chemicals. The Company's advantage is its focus on high value products, which positions it as the supplier of choice among customers. The Company is unable to estimate its market share; however, it believes that its share in the global market is small.

Other competitive advantages of the Company include the location of the Company's manufacturing activity in Israel, which customers tend to prefer over competitors who manufacture in India or China, high quality of products and high manufacturing levels, flexibility in terms of quantities and the supply of products in accordance with complex specifications, compliance with all regulatory requirements, supply of products packaged in accordance to international standards, providing documentation for purposes of quality control, experience, and more.

As part of its differentiation strategy, the Company focuses on complex products of high value and high profit margins.

Part D - Information Relating to the Activity of the Company as a Whole

1.13. Marketing and Distribution

The sales, distribution and marketing activity involving the Group's products is based on local marketing, sales and development teams in the primary target markets. As of the report's date, the Group's sales and marketing function comprises 53 employees located in its primary target markets, in proximity to its customers.

The Group's sales, distribution and marketing activity involve approx. 2,000 customers in the various territories in which the Group operates.

The Company's sales and marketing teams across the world form the link between the Group's customers and its R&D teams. The Group's sales and marketing function works closely with customers in order to understand their specific needs; this information is delivered to the R&D teams, that develop products customized to meet the customer's needs in close collaboration with the customer's development and application teams. In addition, the marketing and sales function works to promote a range of cross-selling options between Group companies in Israel and abroad.

Approx. 99% of the Group's sales in the specialty intermediates for the pharma industry segment and in the specialty ingredients segment are made to customers outside Israel. The Group has an independent marketing and distribution function, which is managed on a territory-by-territory basis; regional sales managers work directly with local customers, and through local agents and distributors in the target countries. Orders placed with agents and distributors are approved by the Company's local sales manager, and the engagement is a direct engagement between the Company and the customer; distributors with which the Group works receive a fixed-rate commission, in accordance with the marketing agreement that was signed with them. Generally, the distributors with which Chemada works are granted exclusive rights to act as the distributor of Chemada's products in certain territories, such that Chemada will not compete with the distributor, and the distributor undertakes not to market competitors' products in the relevant territory.

1.14. Ingredients and suppliers

1.14.1. The fragrance and taste segments

1.14.1.1. The Company purchases thousands of ingredients that include, among other things, fine and unique chemicals, both synthetic and natural, natural and essential oils, stabilizers and antioxidants, solvents, natural colors and extracts from which the Company produces its fragrance and taste extracts; and spices and herbs from which the Company produces its seasonings and herb mixes.

1.14.1.2. The Group purchases natural and synthetic ingredients from hundreds of local and international suppliers, with whom the Group entered into long-term engagements. Some of the ingredients are purchased by the Group's central procurement function in Israel, and each Group company in Israel and across the world has a local procurement department that is managed and monitored by the procurement department in Israel. The ingredients are purchased for the different manufacturing sites across the world in accordance with the requirements of local regulations, the level of convenience of the work with local suppliers, and consumers' preferences in the different geographic regions. Purchasing the ingredients through the Group's central procurement function allows the Group to maintain the quality of the ingredients and their cost levels, while leveraging the synergies between Group companies.

1.14.1.3. Managers of global and local supply chains and the Group's procurement departments regularly monitor trends in ingredients' prices, and where needed the Group works to revise the sale prices of its products, such that they reflect the changes in ingredients' prices.

1.14.1.4. The ingredients undergo a series of quality, analytical and organoleptic tests (color, taste and smell tests). The ingredients are stored in the sites' warehouses, and are then transferred to manufacturing.

1.14.1.5. In view of the large number of ingredient suppliers used by the Company as of the report's date, the Company is not dependent on any of its suppliers in the fragrance and taste segments.

1.14.1.6. In addition to its agreements for the purchase of goods from different suppliers in Israel and abroad, SDA also engages in agreements with owners of farmland in Israel; under those agreements, the farmers sow, grow and harvest for the Company the spices used as ingredients in its activity. In addition to the cost of ingredients, SDA also bears the costs of harvesting and transporting the spices to its plants. Following the fire and the damage to inventory in its warehouses, SDA also increased the quantities of raw materials imported for its operating activities.

1.14.2. **The specialty intermediates for the pharma industry segment and the specialty ingredients segment**

1.14.2.1. Chemada uses approx. 100 ingredients, including, among other things, solvents, acids and alcohols, purchased from tens of suppliers worldwide.

1.14.2.2. Most of the products of the specialty intermediates for the pharma industry segment and the specialty ingredients segment are brominated products. As of the report's date, the Group is dependent on Bromine Compounds Ltd. and Dead Sea Bromine Company Ltd. (hereinafter - the "**Bromine Companies**"), from which Chemada purchases the bromine it uses. As of 2022, Company's purchases from those suppliers amounted to USD 5.5 million (2021 - USD 5.2 million). For more information about the agreement with the Bromine Companies, see Section 0 below.

1.15. Property, plant and equipment, land and manufacturing capacity

.1.15.1 As of the report's date, the Group operates 13 manufacturing sites across the world. The following table lists the Group's principal manufacturing sites and the activity conducted in each of the sites:

Country	Location	Segment	Size of buildings and land in sq. m	Buildings - rented/owned	Land - rented/owned/leased	Year of commencement of activity[10]
Israel	Turpaz' site in Holon - fragrance extracts	Fragrances segment	1.023 sq. m	Rented	Rented	2022
Manufacturing capacity and shifts - the plant works 5 days a week, including overtime. Following the move to the new plant and the addition of equipment, the manufacturing capacity increased by approx. 50% for the same amount of work. The plant can increase its manufacturing capacity by further 50% if it starts manufacturing 6 days a week in three shifts, and an extra partial shift.						
Israel	SDA's site in Kibbutz Sde Eliyahu	The taste segment	Area of land - 12,500 sq. m	Rented	Rented	2020

[10] The year of commencement of activity is the later of the date on which the plant was purchased by the Group, or the date on which it was built.

Country	Location	Segment	Size of buildings and land in sq. m	Buildings - rented/owned	Land - rented/owned/leased	Year of commencement of activity[10]
			Area of building - 7,100 sq. m			
Manufacturing capacity and shifts - the plant works 5 days a week, 18 hours a day. The plant can increase its manufacturing capacity by further 50% if it starts manufacturing 6 days a week in three shifts, and an extra partial shift.						
Israel	SDA's site in Beit Kama	The taste segment	Area of land - 14,500 sq. m Area of building - 10,900 sq. m	Rented	Rented	2020
In November 2021, a fire broke out in this plant; the fire caused heavy damage to the plant. In accordance with an agreement signed with the lessor after the fire event, it was agreed to extend the lease agreement through November 24, 2027 in areas that were not damaged by the fire. The plant can increase its manufacturing capacity by further 50% if it starts manufacturing in additional shifts.						
Israel	Chemada's site in Kibbutz Nir Yitzhak	The specialty intermediates for the pharma industry segment and the specialty ingredients segment	Area of land - 135,000 sq. m Area of building - 2,100 sq. m	Rented	Rented	2019
Manufacturing capacity and shifts - the plant works 7 days a week, in three shifts. The plant can increase its manufacturing capacity by further 40% by investing in the expansion of the tools and utilizing the plant's existing area.						
Israel	Turpaz' site in Afula	The taste segment	Area of land - 9,240 sq. m Area of building - 3,200 sq. m	Rented	Rented	2021

Country	**Location**	**Segment**	**Size of buildings and land in sq. m**	**Buildings - rented/owned**	**Land - rented/owned/leased**	**Year of commencement of activity**[10]
Manufacturing capacity and shifts - the plant works 6 days a week, mostly in one shift. The plant can increase its manufacturing capacity by further 100% if it starts manufacturing in 2 shifts and employs are its workforce in all departments on a full-time basis.						
Israel	Balirom's site in Be'er Tuvia	The taste segment	Area of land - 3,000 sq. m Area of building - 1,300 sq. m	Rented	Rented	2022
Manufacturing capacity and shifts - the plant works 5 days a week, mostly in one shift. The plant can increase its manufacturing capacity by further 100% if it starts manufacturing in 2 shifts and employs are its workforce in all departments on a full-time basis.						
Israel	Company's site in Zarzir	The specialty ingredients segment	Area of land - Area of building - 570 sq. m	Rented	Rented	2022
Manufacturing capacity and shifts - after the completion of the commissioning period, work in the plant has increased gradually until reaching full capacity.						
Poland	Pollena Aroma's site near Warsaw	The taste and fragrances segments	Area of land - 21,500 sq. m Area of building - 10,000 sq. m	Leased	Leased	2019
Manufacturing capacity and shifts - the plant works 6 days a week, in one shift. The plant can increase its manufacturing capacity by further 100% if it starts manufacturing 6 days a week in three shifts.						

<table>
<tr><th>Country</th><th>Location</th><th>Segment</th><th>Size of buildings and land in sq. m</th><th>Buildings - rented/owned</th><th>Land - rented/owned/leased</th><th>Year of commencement of activity[10]</th></tr>
<tr><td>USA</td><td>Turpaz USA's site in New Jersey</td><td>The taste and fragrances segment</td><td>Area of land - 2,800 sq. m
Area of building - 2,500 sq. m</td><td>Rented</td><td>Rented</td><td>2019</td></tr>
<tr><td colspan="7">During the fourth quarter of 2022, Turpaz USA's activity was consolidated with that of Klabin, and as of the report's publication date, no manufacturing activities are taking place in Turpaz USA's site in New Jersey.</td></tr>
<tr><td>USA</td><td>Klabin's site in New Jersey</td><td>Fragrance segment</td><td>Area of land -</td><td>Rented</td><td>Rented</td><td>2022</td></tr>
<tr><td colspan="7"><u>Manufacturing capacity and shifts</u> - the plant works 5 days a week, including overtime. The plant can increase its manufacturing capacity by further 100% if it starts manufacturing 5 days a week in two shifts.</td></tr>
<tr><td>Vietnam</td><td>WFF's site in Ho Chi Minh City</td><td>The taste and fragrances segment</td><td>Area of land - 4,000 sq. m
Area of building - 3,000 sq. m</td><td>Owned</td><td>Leased</td><td>2020</td></tr>
<tr><td colspan="7"><u>Manufacturing capacity and shifts</u> - the plant works 5 days a week, in one shift. The plant can increase its manufacturing capacity by further 200% if it starts manufacturing 5 days a week in three shifts.</td></tr>
<tr><td>Belgium</td><td>FIT's site in Belgium</td><td>The taste segment</td><td>Area of land - 3,000 sq. m
Area of building - 2,700 sq. m</td><td>Owned</td><td>Leased</td><td>2021</td></tr>
<tr><td colspan="7"><u>Manufacturing capacity and shifts</u> - the plant works 5 days a week, in one shift. The plant can increase its manufacturing capacity by further 100% if it starts manufacturing 5 days a week in two shifts.</td></tr>
</table>

Country	Location	Segment	Size of buildings and land in sq. m	Buildings - rented/owned	Land - rented/owned/leased	Year of commencement of activity[10]
Romania	Aromatique's site in Romania	The taste segment	Area of land and building - 884.33 sq. m	Rented	Rented	2022
Manufacturing capacity and shifts - the plant works 5 days a week, in one shift. The plant can increase its manufacturing capacity by further 100% if it starts manufacturing 5 days a week in two shifts.						
Latvia	LORI's site in Latvia	Fragrances segment	Area of land - 6,264 sq. m Area of building - 1,424 sq. m	Rented	Rented	2022
Manufacturing capacity and shifts - the plant works 5 days a week, in one shift. The plant has additional potential manufacturing capacity of approx. -25% if it starts manufacturing for one or two further days a week in one shift.						

* The additional potential manufacturing capacity in the plants reflects the potential increase in revenues as a result of increasing the quantities of products manufactured.

1.15.2. In December 2020, Chemada was granted approval for a plan for investment in property, plant and equipment by the Authority for Investments and Development of the Industry and Economy; the NIS 11 million investment plan was approved pursuant to the Law for the Encouragement of Capital Investments, 1959, for the purpose of expanding Chemada's plant in Kibbutz Nir Yitzhak; the execution of the investments in accordance with the plan will entitle Chemada with a grant accounting for 20% of the said investment amount. The instrument of approval is subject to generally accepted conditions, including achieving business targets that were set therein. The plan may be executed by December 30 2026. As of the report date, Chemada started expanding the plant in accordance with the approved plan.

1.15.3. On November 24 2021, a fire broke out in SDA's spices plant in Beit Kama. The plant was severely damaged. The equipment, inventory and buildings were covered by loss of profit insurance. SDA's management acted swiftly to transfer its manufacturing activities to its other plants, and to purchase ingredients in order to minimize the damage caused to its customers and sales, and the damages due to the fire, and in order to ensure it can continue with its activity in an orderly manner.

A final agreement with the insurers was signed on December 14 2022 in connection with the fire damages. As part of the agreement, it was agreed that the insurers will pay a total compensation of NIS 135 million (of which NIS 47 million were paid to the owners of the buildings of the Beit Kama plant that was burnt), as a final settlement by the insurance company in respect of the fire. As of the date of this report, all insurance proceeds were paid to the Company.

For more information regarding the insurance proceeds, see Note 27 to the financial statements.

1.16. <u>Research and development</u>

1.16.1. The Group has always placed great importance on research, development and innovation, as part of its wish to provide solutions and meet the needs of its current of future customers; the Group does this by expanding its range of technologies and productsת and incorporating them into the industries in which it operates.

.1.16.2 53 of the Group's employees are engaged in the development of new products, improvement of existing products and adapting them to the ever-evolving needs and preferences of its customers, and of the end consumers; those employees are also engaged in the development and improvement of processes the Company uses in the manufacturing of its products, and the leveraging of R&D synergies between Group companies. As of the Report date, the Group has 12 research, development and quality control laboratories located in Israel and in countries in which the Group operates. Furthermore, the Group collaborates with local laboratories, that provide the Company research and development services and applications.

1.16.3. Over the years, SDA and Chemada received participation grants from the Israel Innovation Authority (formerly: the "Chief Scientist Office") in respect of research of development conducted in connection with various projects. In consideration for such grants, Chemada undertook to pay royalties of 3% to 100% of the amount of the grant received plus Libor interest. As of December 31 2022, the Company recorded in its financial statements liabilities to the Israel Innovation Authority in respect of those grants at the total amount of approx. USD 330 thousand. For more information, see Note 17 to the financial statements.

1.16.4. Set forth below are the details of the grants awarded to Group companies by the Israel Innovation Authority for research and development relating to their material products:

The product in respect of which the grant was received	Commencement of execution	End	Grants paid (NIS thousands)				Special conditions/time tables for repayment of the grant
			2020	2021	2022	Total	
SDA							
Development of a process for the processing of dried rosemary	1.2.2019	31.2.2020	165	(64)	-	101	-
Improving fertility in paprika plants earmarked for export	1.5.2019	30.4.2020	8	-	-	8	-
Development of a process for the processing of dried Carnosic acid-rich rosemary second year	1.5.2020	30.4.2021	275.7	433.3	-	709	
R&D for the building of machinery and advanced technology for the smoking of spices and paprika	1.3.2022	28.2.2023			212.1	212.1	
Chemada							
Bromoaniline *	2006	2007	-	-	-	-	As of December 31 2022, the Company recorded a liability of USD 330 thousand.

* Transferred to the Group as part of the acquisition of Chemada's activity as described in Section 1.4.12 for 2021 periodic report.

In the opinion of the Company, it will increase its investments in R&D in the next few years, in order to expand its product offering and retain its competitive advantage in the markets in which it operates. Furthermore, as part of its implementation of the strategy to achieve external growth by purchasing companies in its different areas of activity, the Company takes steps to identify and assess companies that possess unique technologies, the purchase of will expand the range of possibilities arising from the Company's development activities.

For more information about the Company's R&D expenses, see Note 2 to the Company's financial statements.

1.17. <u>Intangible assets</u>

The Company is working to establish its competitive advantage and its market position by, among other things, protecting such competitive advantages through the retainment of knowhow within the Company.

The Group's intellectual property mainly includes the knowhow pertaining to the formulae used to create the flavor and fragrance extracts, and the development and manufacturing processes of ingredients. Those formulae are strictly confidential; they are considered to be a trade secret that is only known to a small number of people within the Group. Retaining the formulae as a trade secret rather than registering a patent in respect thereof is a normal practice in the industry, since upon the registration of a patent the formulae will be in the public domain, and they will no longer be protected once the patent expires.

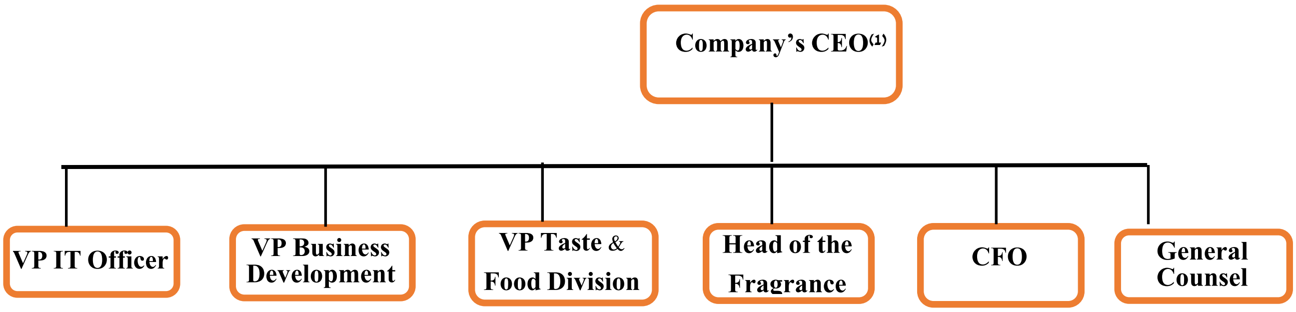
Pollena Aroma has a registered trademark in Poland; the trademark is used for a line of products in the field of aromatherapy; Pollena Aroma also has a patent that protect the composition of fragrances (in effect until June 2023).

Furthermore, in the first quarter of 2023, the Company filed applications to register the Company's name as a trademark in Israel, Europe and the USA.

1.18. <u>Human capital</u>

1.18.1. <u>The Company's organizational structure chart</u>

As of the report date, most of the Company's activities are carried out through its subsidiaries, which have an independent management. The subsidiaries' CEOs report to the Company's CEO and to the relevant heads of divisions.



(1) As of the Report's date, the Company's CEO serves as Chairperson of the Company's Board of Directors.

1.18.2. <u>Workforce</u>

As of the date of this report, the Company employed (consolidated) 392 employees, as described below (on a full-time basis):

	Manufacturing	**R&D**	**Marketing**	**Management**	**Total**
Tastes	97	22	29	33	**181**
Fragrances	56	28	22	23	**129**

	Manufacturing	R&D	Marketing	Management	Total
Specialty intermediates for the pharma industry	30	2	1	4	**37**
Specialty ingredients segment	29	1	1	4	**35**
Headquarters				10	**10**
Total	**212**	**53**	**53**	**74**	**392**

One of the Group's key assets is its human capital. Accordingly, and taking into account the number of Group employees, the Group is highly dependent on maintaining a regular workforce. Nevertheless, the Group is of the opinion that it is not dependent to a material extent on a specific employee, other than Ms. Keren Cohen Khazon, as described below in this Section.

The Company's controlling shareholder, Ms. Keren Cohen Khazon, serves as the Company's CEO and Chairperson of its Board of Directors; Ms. Cohen Khazon possesses in-depth understanding of all of the Company's areas of activity, technology and products that are manufactured and developed by the Company. Furthermore, Ms. Keren Cohen Khazon possesses a thorough and long-standing understanding and knowledge of the market and its trends, including all aspects of the Company's commercial activities.

1.18.3. **Employment agreements and employees' compensation**

1.18.3.1. **Employment agreements**

All Company employees are employed by the Company on the basis of standard personal employment agreements. With regard to the employees in Israel, those agreements include provisions about the employee's salary (monthly, global or hourly, including overtime and shifts), working hours, social benefits, such as managers insurance and/or pension fund, advanced education fund, annual leave, recreation pay, sick leave, travel expenses, entitlement to a company car or reimbursement of vehicle expenses (to some of the employees), mobile phone (to some of the employees), advance notice in respect of resignation or dismissal in accordance with the law, and a confidentiality and non-competition undertakings.

Employees of subsidiaries abroad are employed in accordance with labor practices in the country in which they are employed.

1.18.3.2. **Collective labor agreement - Chemada**

Chemada's employees are employed in accordance with a special collective labor agreement of September 30 2016, as amended and extended on September 17 2018, and on September 22, 2022. The key points of the collective agreement are as follows:

1.18.3.2.1 The agreement applies to all Chemada's non-managerial employees. Furthermore, pursuant to the agreement, Chemada may exclude other positions from its scope, provided that the ratio between those Chemada employees to whom the agreement applies and those to whom the agreement does not apply shall not be less than 1:3.

1.18.3.2.2 The agreement covers work in shifts, annual leave, compensation in respect of unscheduled work and overtime, and contributions to an advanced education fund as from the date on which an employee completed 18 full months of employment by the plant (2.5% by the employee and 4%-5% by Chemada), depending on the employee's position.

1.18.3.2.3 In addition to the said collective labor agreement, employees of Group companies in Israel are also covered by the collective agreement regarding comprehensive pension in the industry, which was signed between the Manufacturers Association of Israel and the General Organization of Workers in Israel (Histadrut).

1.18.3.3. **Collective labor agreement - WFF**

WFF's employees have been employed under a collective labor agreement since May 6 2020. The agreement regulates work and rest hours, entitlement to annual leave, criteria and dates for pay rises, payment for overtime, payment of annual bonus and special bonus, social and other benefits (including gifts on birthdays and festivals, participation in meals, training, etc.). The term of the agreement is 3 years from its signing date; six months after signing the agreement, each of the parties may ask to revise it.

1.18.3.4. **Training and courses**

From time to time, the Company holds training to employees in connection with various topics, such as safety, professional courses, procedure refreshment courses, emergency exercises and prevention of sexual harassment.

Furthermore, with the aim of supporting employees' personal development and assisting them to fulfill their potential, the Company supports training and courses, including external training and/or studies, and also participates in the funding thereof.

In addition, Chemada has a wide range of training sessions and courses, whose aim is to support employees in become familiar with and understand the Company's work procedures, means of command and control, mechanisms of preparedness for emergencies, and means of production. The training and certification function includes documentation of qualifying courses and certifications for operational segments in accordance with the qualifications required by law for each and every position. In accordance with normal practice in the chemistry industry, in view of the complexity and risks involved in the activity, the process of employee training is a gradual and ongoing process, that involves successfully passing tests in each and every stage and the assessing employee's performances in accordance with their role. On average, the process of training employees until they obtain all certifications takes more than 12 months; training is carried out during the course of the employee's work in accordance with his/her qualifications.

1.18.3.5. **Employee compensation plan**

In February 2021, the Company adopted an equity-based compensation plan (hereinafter - the "**Plan**"), where under some or all employees, directors, officers, advisors, service providers in the Company and related companies (hereinafter - the "**Offerees**") are allocated, from time to time, without consideration, at the recommendation of the Company's CEO and as approved by the Company's Board of Directors, (1) registered options for the purchase of Company ordinary shares of no par value (hereinafter - the "**Options**"); (2) restricted shares, and (3) restricted share units. The term of the plan is 10 years from the date of its adoption by the Board of Directors, that is to say, through February 2031.

For information about the Company's equity-based compensation plan, see Note 21 to the financial statements.

1.18.3.6. **Management and senior officers**

As of the Report's date, the Company has 12 senior officers of whom four serve as directors (who do not serve in other positions in the Company), the head of operations in the fragrance segment in Israel, and a CEO who serves as the Chairperson of the Board of Directors. For information about the Company's senior officers, see Regulation 26A to Chapter D (Additional Details).

For information about exemption, indemnification and insurance to Company's directors and officers, see Regulation 29A to Chapter D (Additional Details).

For information about key details of the Company's engagements with senior officers, who serve in the Company as of the Report's date, see Regulation 21 to Chapter D (Additional Details).

1.19. Working capital

.1.19.1 The Company's working capital (in USD thousands) is as follows:

31.12.2022	31.12.2021
43,239	69,050

(*) The working capital, as presented in the above table, includes the following financial statement items: current assets less current liabilities.

1.19.2. **Customers credit** (USD thousand):

	December 31, 2022	December 31, 2021
Credit amount(*)	25,164	20,861

(*) This data includes an immaterial balance of customer debts in arrears, that is to say, customers that exceeded the payment terms agreed upon.

As of December 31 2021 and 2022, Company customers' credit days (including trade receivable in arrears) stood at 68 days and 75 days, respectively.

1.19.3. **Suppliers credit**

The Company receives credit from suppliers; as of December 31 2021 and 2022, the average number of credit days is 104 credit days and 103 credit days, respectively.

1.20. Investments.

As of the Report's date, the Company does not invest in investees, partnerships and ventures other than subsidiaries.

1.21. Financing

1.21.1. **General**

As of the Report's date, the Company finances its activity using its shareholders' equity, credit facilities (secured and unsecured) and on-call loans provided by a number of Israeli banks. The activity of subsidiaries operating in Poland, the USA, Vietnam, Belgium and Latvia is financed by taking loans from financial institutions in the countries in which they operate. For more information about the financing of the Company's activities, see Notes 13, 16 and 20C to the financial statements as of December 31 2022.

1.21.2. Set forth below is the average (weighted) interest rate on bank loans in accordance with the Company's consolidated financial statements as of December 31 2022.

Average and effective interest			
	Short-term loans	**Long-term loans**	**Average rate**
From banks - NIS-denominated credit	5.64%	4.37%	4.98%
From banks - Euro-denominated credit	1.40%	2.59%	2.42%
From banks - USD-denominated credit	6.20%	-	6.20%
Weighted average interest rate	**5.79%**	**4.22%**	**5.12%**

1.21.3. **Material financing agreements**[11]

1.21.3.1. **The Company's financing agreements**

Original loan amount (NIS thousand)	Loan balance as of 31.12.2022 (NIS thousand)	Date on which the loan was actually taken out	Amortization schedule (loan principal)	Interest	Collaterals provided in respect of the loan
Credit from an Israeli bank					
15,000	7,303	5.5.2019	Once a quarter starting in November 2019; the first to the 18th payments will amount to approx. NIS 592 thousand, and the remaining loan amount shall be paid in the last payment in May 2024.	Fixed (2.5%-3.5%)	-
10,000	4,868	5.5.2019	Once a quarter starting in November 2019; the first to the 18th payments will amount to approx. NIS 395 thousand, and the remaining loan amount shall be paid in the last payment in May 2024.	Prime + 0.2%-1.2%	-
4,000	2,400	February 2021	20 equal quarterly payments starting in February 2021.	Fixed (1.5%-2.5%)	See Note 20C to the Company's consolidated financial statements as of December 31 2022.
3,000	1,800	February 2021	20 equal quarterly payments starting in February 2021.	Prime + 0.5%-1%	

[11] Agreements under which the credit amount (including guarantees) that was actually provided under the agreement as of December 31 2021 constitutes 5% or more of total (consolidated) Company assets, and 10% of the total amount of loans taken by the borrowing company, or an agreement that the Company believes should be classified as such based on qualitative considerations.

For information regarding the Company's liability to the bank, see Note 16 to the financial statements.

Financial covenant	Description	As of December 31 2022
Equity to asset ratio	The Company's equity shall not be lower than 25% of total assets at any given time	48.3%
Debt coverage ratio[12]	Shall not exceed 3.5 at any time	0.6

As of the Report's date, the Company complies with the financial covenants described above.

1.21.3.2. **Credit facility**

Group companies have in place USD 5.2 million in approved bank credit facilities at an average annual interest of 4.76%. As of December 31 2022, the utilization rate of the said credit facilities is approx. USD 2.3 million.

1.22. Taxation

For information about the tax laws applicable to the Company and its subsidiary, see Note 23 to the Company's consolidated financial statements as of December 31 2022.

The Company has final tax assessments until 2017.

1.23. Restrictions of and supervision of segment activities

The Group is subject to restrictions and supervision requirements in each of its operating segments, as described below:

1.23.1. **In the taste segment -** the Group is subject to process supervision and quality-assurance requirements in the food industry. The Group is required to maintain appropriate manufacturing conditions, including compliance with the guidelines of the National Food Service for Food Additives - Flavor and Fragrance; it is also required to hold a valid food manufacturer license issued by the Ministry of Health. Furthermore, the Company opted to voluntarily comply with food safety standards, including the Hazard Analysis and Critical Control Point (HACCP) principles, voluntary food standards (ISO

[12] The debt coverage ratio is the result of dividing the aggregate amount of liabilities (current liabilities plus non-current liabilities) to banks, financial institutions, debenture holders and other lenders, including unsubordinated debt to shareholders/related parties, by the amount of operating profit to service the debt.
Operating profit to service the debt means the cumulative operating profit from operating activities in the last four consecutive quarters, before finance expenses (interest, linkage differences, exchange rate differences and commissions), and before taxes, plus depreciation and amortization recorded in that period, and plus (net of) income (loss) from discontinued operation, that was declared and included in the actual statement of income for the period.

22000), the British Retail Consortium (BRC) food standard, IFS and SQS, and is taking steps to implement these principles in companies purchased as of the date of this report and in future purchases.

As part of its activity in this segment, the Group is required to comply with food labelling standards, provide allergens information, and comply with standards pertaining to products that are not labeled in accordance with the GHS (Global Harmonized System) provisions regarding the labelling of chemicals. The ingredients used in flavor extracts require licensing under toxin permits both in Israel and across the world.

For information about material permits in this segment, see Section 0 below.

.1.23.2 **In the fragrances segment -** unlike in the taste segment, the activity conducted in the fragrances segment is not subject to the directives of the Ministry of Health. The Group's activity in this segment is subject to international regulations set by the International Fragrance Association (IFRA), which defines safe application of products in accordance with risk assessments of dermal exposure. The directives of the International Fragrance Association (IFRA) are applied by the Group to all products in this segment. Furthermore, the Group opted to apply the ISO standards, and the requirements as to supervision of manufacturing, control and quality-assurance processes as per those standards. Furthermore, the Group complies with the European quality regulations (EU Cosmetic Regulation) and the Proposition 65 California Law, that sets allowed levels of ingredients in end products. As in the case of the taste segment, the ingredients used in the fragrance extracts segment require licensing under toxin permits both in Israel and across the world. For information about material permits in this segment, see Section 0 below.

1.23.3. **The health and pharma segment and the specialty ingredients segment -** the Company develops its products in Israel, mostly in Chemada's plant in Nir Yitzhak. A small portion of this segment's products is manufactured in the Netherlands and in the Company's plant in Zarzir. The products of these segments are subject to laws, regulations and supervision applicable in each of the countries in which it operates. Sale of Company's products requires registration in advance with and obtaining permits from the authorities in the relevant territories, or compliance with the rules set in the relevant regulators in each territory; therefore, the Company works to obtain regulatory approvals and/or comply with relevant regulatory provisions through its regulations function; this is done in collaboration with local advisors in each territory in which the

Company wishes to market its products. Material regulations with which the Company is required to comply include the Registration, Evaluation, Authorization and Restriction of Chemicals (REACH) in territories in which the Company operates, including the TSCA in the USA, K REACH in Korea, and TR REACH in Turkey. To the best of the Company's knowledge, the Israeli government published a law memorandum on the Registration of Industrial Chemicals, 2020, whose objective is to register the chemicals manufactured in Israel or imported into the country - Israel REACH.

.1.23.4 Set forth below is additional information about the relevant regulations and standards applicable in the key markets in which the Company operates, as of the Report's date:

1.23.4.1. The Group manufactures, develops and markets its products in a number of countries across the world, and is subject to laws, standards and oversight in each of those countries. These laws and regulations include, among other things, the regulations promulgated by the U.S. Food and Drug Administration (FDA) in relation to the Company's activity in the USA, the EU Directives that are applied in EU countries in which the Company operates, and rules set by the Israeli Ministry of Health. These laws and regulations set standards as to the manufacturing and labelling of food, and regarding the manufacturing facilities, equipment and manpower required for the manufacturing of products consumed by humans.

1.23.4.2. Furthermore, the Group operates under various health and safety rules, including rules relating to the operations of its laboratories and plants, and rules relating to environmental aspects of its activity, both locally and across the world. The Group's manufacturing facilities are subject to manufacturing rules and to environmental laws, laws pertaining to hazardous substances, waste treatment, and cleaning up of existing pollution. For information about environmental risks pertaining to the Group's activity, see Section 0 below.

1.23.4.3. Group's ingredients and products are imported and exported under importation and exportation permits, and the packaging and transportation conditions are set in accordance with the provisions of the law and the manufacturers' recommendations.

1.23.4.4. Set forth below is a list of the material permits in the Group's areas of activity in Israel.

1.23.4.5. **Business license -** the Group holds business licenses for its manufacturing sites in Israel. The issuance of those licenses is subject to compliance with material conditions, such as conditions regarding environmental issues and requirements by the Ministry of

Health regarding sanitation, adequate conditions for food manufacturing, and HACCP principles regarding hazardous substances.

The business license of Chemada's plant in Nir Yitzhak is subject to compliance with other environmental conditions, including requirements on management of hazardous substances, waste, smell, noise, wastewater and emissions. The current business license also includes an undertaking by Chemada as part of the agreement for the purchase of Chemada Chemicals for removal of waste and conducting a soil survey.

1.23.4.6. **Toxins permit -** a toxins permit is required in Israel under the Hazardous Substances Law, 1993, as a condition for operating and maintaining some of the Group's ingredients and raw materials that are considered "hazardous substances" by law. Group's plants abroad have in place corresponding permits in accordance with the local law. Each of the toxins permits includes am appendix comprising of specific conditions for each of the Group's plants; such an appendix includes, among other things, the types of substances and quantities thereof that may be stored, requirements as to safe use of the substances, and the means to achieve such safe use, required measures that need to be in place in both routine and emergency situations, the duty to hold a fire extinguishing permit, required safety information, prohibition on sale to unauthorized parties, and in relation to Chemada's plant - also provisions regarding the removal of waste, addressing cyber risks, an integrated procedure for hazardous substances events (SEVESO), and preparedness for an earthquake.

1.23.4.7. **Ministry of Health's manufacturer permit -** in the taste segment, the Group is required to obtain a regulatory permit from the Israeli Ministry of Health and corresponding entities in the countries in which it operates, for the purpose of manufacturing, storing and selling flavors and fragrances. This permit defines the requirements a manufacturing site needs to comply with in connection with appropriate manufacturing and sanitary conditions, a list of approved ingredients and the use of FEMA-registered ingredients, restrictions on the presence of various substances, and the duty to record them (such as allergens, and a declaration that products do not contain parabens and gluten).

1.23.4.8. **Emission Permit -** Chemada's plant has an emission permit in accordance with the Clean Air Regulations (Emission Permits), 2010. The Company's current emission permit is in effect until April 2023. As of the date of this report, Chemada filed an application as required by law, for the renewal of its emissions permit through 2030 (the emissions permit is valid for 7 years). Obtaining a new emission permit will require investment in the construction of facilities for treating emissions as is generally accepted in similar chemical facilities. In the opinion of the Company, based on Chemada's scope of activity as of the Report's date, it is required to invest approx. USD 2.9 million in the construction of those facilities.

.1.23.4.9 REACH EU - Chemada has an "Only Representative" approval (OR) as defined in the Regulation (EC) No 1907/2006 of the European Parliament and of the Council of 18 December 2006 concerning the Registration, Evaluation, Authorization and Restriction of Chemicals ("**REACH"**). The representative represents Chemada with regard to the registration and documentation with REACH of Chemada products exported to Europe. Chemada has more than 50 substances, which are registered in accordance with the said European regulations, as well as some substances registered in the UK.

1.23.4.10. **The R&D Law**

The R&D law regulates the Israel Innovation Authority's powers to set, change and manage the function charged with supporting R&D activity under various benefit tracks. The Israel Innovation Authority also published procedures pertaining to, among other things, the transfer - both within Israel and outside Israel - of knowhow that was funded by government support, and procedures regarding the rate of royalties payable, and the rules applicable to their payment (all of the above-mentioned directives and procedures shall be named hereinafter - the "**Directives for Using Knowhow**").

Under the Directives for Using Knowhow, R&D activity of companies receiving support shall be carried out in Israel by an Israeli resident, and the products developed using funding from the Israel Innovation Authority shall be fully or partly manufactured in Israel, as approved by the Israel Innovation Authority's research committee. The Directives for Using Knowhow allow the transfer of the manufacturing rights of products that will be developed through support from the Israel Innovation Authority outside Israel; such transfer is subject to certain conditions, including, among other things, obtaining the approval for such tranfer from the Israel Innovation Authority's research committee (except for transfer of less than 10% of the original manufacturing activity carried out in Israel), and payment of increased royalties to the Israel Innovation Authority, at rates set in the directives (amounting to 120% to 300% of the grant amount, in accordance with the percentage of the manufacturing activity that is expected to be conducted outside Israel, net of royalties that had already been paid to the Israel Innovation Authority), and increasing the rate of the grant amount that is to be repaid based on mechanisms set in the Directives for Using Knowhow.

The Directives for Using Knowhow allow the transfer of knowhow that was developed through support from the Israel Innovation Authority outside Israel under certain conditions, subject to, among other things, advance approval of the transfer by the Israel Innovation Authority's research committee, payment to the government of up to six times the funding amount received (plus interest), and under no circumstances no less than the total funding amount received (plus interest), net of the royalties paid to the Israel Innovation Authority, or alternatively, by transferring alternative knowhow to Israel in consideration for the knowhow transferred outside the country, subject to other conditions listed in the above-mentioned directives.

Failure to comply with the provisions of the R&D Law and the Directives for Using Knowhow might result in a demand for immediate repayment of the grants paid to the supported company, and in certain cases to the imposition of monetary or criminal sanctions on the company; this might happen, among other things, in instances where knowhow or intellectual property that were developed through grants awarded by the Israel Innovation Authority are transferred outside Israel without obtaining the approval of the Israel Innovation Authority's research committee, or in breach of the terms of the instrument of approval or the Directives for Using Knowhow.

For information about grants awarded to Chemada and SDA under the R&D Law, see Section 1.16 above.

1.23.4.11. **Health and safety in the workplace**

As part of its activities, the Group is required to comply with health and safety rules in accordance with the laws of the State of Israel, including the Work Safety Ordinance [New Version], 1970, and the Labor Inspection (Organization) Law, 1954, including the regulations and order promulgated thereunder, and any corresponding laws and regulations in the different countries in which Group companies operate. The Group has a detailed health and safety policy and it operates in accordance with the relevant laws and regulations under dedicated and detailed work procedures. Mainly Group companies have an officer in charge of health and safety and environmental issues; in all relevant matters, Group companies operate through those officers and through health trustees. Among other things, the Group holds employee training activities in accordance with an annual plan; the Group is regularly audited as required by law with respect to various issues; tests and audits include an environmental monitoring testing, audit of fire extinguishing equipment and lifting equipment and noise tests.

1.23.5. **Environmental risks arising from the Group's activity**

.1.23.5.1 **The taste and fragrances segments**

1.23.5.1.1 This activity involves work with ingredients that comprise various chemical substances, some of which may be hazardous or have an environmental impact. In order to manufacture the products in these segments, a number of ingredients are mixed into a single compound, which is the end product. These activities are characterized by small quantities that are manufactured (up to 1 ton on average); therefore, the size of the tools used, the quantity of the hazardous substances used and the level of hazard that may arise from the mixing of such materials is limited.

1.23.5.1.2 In the opinion of the Company, the above characteristics significantly reduce the environmental risks of those activities, and therefore the scope of such risks is limited. Most of the ingredients are, indeed, defined as "hazardous" in terms of the law and their classification; however, they are substances approved for use in food products, and therefore the environmental risk arising therefrom is low.

.1.23.5.2 **Intermediates for the pharma industry and specialty ingredients**

1.23.5.2.1 The activity in the chemistry industry in general and the specialty chemicals and brominated products industries in particular, involve significant potential environmental risks arising from operating activities, and from the risk for safety incidents due to an accident or malfunction in the environmental manufacturing or leveling systems.

1.23.5.2.2 As of the Report's date, Chemada's site stores approx. 2,000 tons of Bromine waste that has accumulated over the years, as a result of the decision by the Ministry of Environmental Protection to stop the operation of the evaporation ponds that were previously operated there. As part of the acquisition of Chemada's activity from the receiver, the Company undertook upon itself to treat and remove the waste within a period of no more than eight years.

1.23.5.2.3 The substances used by Chemada as part of its manufacturing processes are defined as hazardous substances; therefore, a leak or emission of those substances might cause an environmental incident whereby toxins are emitted into the air or leak into the soil.

1.23.5.2.4 Chemada's activity generates industrial wastewater that are taken for treatment in licensed sites. Sanitary wastewater, and drainage products of cooling towers are piped locally to the local sanitation system under approvals and permits issued by the Ministry of Health.

1.23.5.2.5 Chemada operates under an emission permit under the provisions of the Clean Air Law; the company's current emission permit is in effect until April 2023. As of the date of this report, Chemada filed an application as required by law, for the renewal of its emissions permit through 2030. The emission of odors from Chemada's plants might cause an odor environmental nuisance.

1.23.6. **<u>Environmental laws relevant to the Group's activities</u>**

1.23.6.1. Group companies are subject to comprehensive environmental regulations. Over the years, environmental requirements and regulations have become continuously stricter, including by way of introducing new environmental legislation, the interpretation of relevant laws and the enforcement of environmental standards. As a result of the fact that regulations have become stricter, the Group might incur expenses and be required to make investments of large amounts. Failure to identify those requirements or to comply therewith might expose the Group to administrative and/or criminal sanctions and/or lawsuits.

The Group has various permits and licenses pertaining to environmental issues, that set the conditions for the management of its activity. The breach of the terms of the licenses, permits or other regulatory provisions, may result in the imposition of penalties, criminal or administrative sanctions, cancellation of licenses and the imposition of restrictions on the operation of facilities and in some cases the closure thereof, non-renewal of licenses and permits required for the Group, or imposition of stricter conditions, revocation or change to the terms of such permits and licenses.

In view of the substances used in the specialty intermediates for the pharma industry segment and in the specialty ingredients segment, and in view of the manufacturing processes used in those segments, their activity is subject to environmental laws pertaining to air quality, wastewater quality, hazardous substances and prevention of pollution of soil and ground water. The key laws that apply to these areas include the Clean Air Law, 2008, the Prevention of Hazards Law, 1961, the Hazardous Substances Law, 1993, and directives included in the permits and licenses, including the business licenses and emission permits issued to those segments for the purpose of their activity.

Group companies' regulation departments are in charge of managing compliance with the relevant regulatory and legal requirements; the departments implement a proactive approach thereby preventing clashes with regulators and legal requirements.

1.23.6.2. In view of the nature of its activities, the Group is required to provide regulatory documents to Company's customers. The Group has in place a function ensuring compliance with regulatory and quality requirements; this function addresses the regulatory requirements of the customers of each Group company by providing documents showing compliance with various regulatory requirements of regulators and customers in the target countries of the end products.

1.23.7. **Mitigation of environmental risks and environmental impacts on Group activity**

All Group companies have in place an emergency procedure that reflects the nature of the activity of those companies, and the risks to which their plants are exposed. The emergency procedure provides the infrastructure for the management of environmental and safety incidents and any other serious failures.

Chemada has a fire extinguishing function and emergency teams that are highly qualified in dealing with fires or uncontrolled emission of hazardous substances.

1.23.8. **Group's policy for mitigating environmental risks**

The management of the Group's environmental risks is carried out by the regulation and safety departments in each the Company's sites. The Company implements a proactive approach whereby the relevant employees assess the potential future regulatory environment by analyzing the requirements of customers from across the world as a measure of forecasting future regulatory requirements.

All regulatory requirements are integrated into the manufacturing processes, the controls and work directives, which translate the requirements into operating parameters in all areas of activity, in accordance with the provisions of the laws to which each area of activity is subject.

The Group has in place environmental management systems that are integrated into operating activities in accordance with the scope and type of activity in each of the segments.

The Company's work directives and procedures, its means of command and control, its preparedness mechanisms and means of production take into account the risks described above, both in terms of the ongoing management of environmental aspects of the Company's activity, and in terms of preventing significant environmental issues and addressing deviations.

The material requirements are part of the set of regulatory requirements; they are managed by the quality functions in accordance with the provisions of all relevant laws and regular management surveys.

Chemada has an Environment Management System (EMS) under Israeli Standard 14001:2015; this system is subject to external audits and assessments by the Standards

Institute of Israel, and to environment tests incorporated into the EMS, together with monitoring of KPIs and regular management surveys.

In addition, Chemada reports to the Ministry of Environmental Protection under the PRTR emissions registers, and also reports annual about the performances of the emissions permits as required by law.

1.23.9. **Material legal proceedings relating to environmental issues**

As of the Report's date, there are no environmental events that required the instigation of material legal proceedings or administrative procedures against Group companies.

1.23.10. **Environmental events that had a material effect on the Group**

As part of the acquisition of Chemada, the Group and the State of Israel reached an understanding whereby the Group undertook to rectify the historical environmental breaches that occurred as a result of the activities of all previous owners of the site; this undertaking mainly entails the removal of waste, renovation of the evaporation ponds, and issuance of a new emissions permit when the current permit expires.

1.23.11. **Material environmental costs**

Chemada has scrubbers and a polisher that address emissions, in accordance with its current emission permit. The Company is of the opinion that when its emission permit will come up for renewal, Chemada will be required to invest in the upgrading of the function that addresses emissions in order to comply with standards generally accepted for similar facilities in the chemicals industry. The Company invested in the supply and erection of an emissions control system (RTO) in Chemada's site, and signed an agreement with an international supplier of such systems. The Company invested in the erection of the system a total of approx. USD 2.9 million. The system will address both emissions of organic compounds and emissions of inorganic compounds, and will reduce the odors and hazardous substances emitted to the environment.

1.24. Material agreements

1.24.1. **Chemada's purchase agreement with the Bromine Companies**

On August 12 1999, Chemada and the Bromine Companies signed an agreement for the purchase of raw materials; the agreement was amended and assigned to Chemada on March 18 2019; under the agreement, Chemada purchases bromine compounds from the Bromine Companies. Under the agreement, Chemada undertook to purchase the bromine and bromine compounds to be used in its activity exclusively from the Bromine Companies. As from the expiry date of the agreement in June 2022, the parties have been conducting negotiations for the renewal of he agreement; at the same time, Chemada continues to purchase bromine from the Bromine Companies based on commercial agreements. In the second quarter of 2022, and as part of the increase in raw materials' prices in the markets, Chemada entered into commercial agreements with the Bromine Companies, for the acquisition of bromine compounds, at prices that reflect the increase in the prices of the purchased raw materials, but are still competitive compared with market prices.

1.25. Insurance

The material insurance policies that cover Group companies are drawn up in accordance with the characteristics of their activities, and in accordance with the Group's risk management policy as of the Report's date; those policies include, among other things an extended fire insurance, loss of profits insurance, war and terrorism insurance, third party liability insurance, employers liability insurance, product liability insurance, professional liability insurance, officers insurance, warehouses owners liability insurance, fidelity insurance, property insurance, equipment insurance, financial risks insurance, goods in consignment insurance, professional liability insurance of the officer in charge of safety, and insurance covering risks from contract work.

The above insurance policies are subject to the terms of the policy, which change from time to time, and to the indemnification limit set in relation to each policy.

In the opinion of Company's management, based, among other things, on advice it received and on the insurance policies it is covered under, the terms of the Group's insurance policies are appropriate.

1.26. Legal proceedings

As of the Report's date, the Group does not have material legal proceedings.

1.27. Objectives and business strategy

The Group's strategy focuses on expanding its activity and improving its geographic deployment, by way of organic growth and through mergers and acquisitions and purchases of activities that are related to and synergetic with its own activities. The Group's activity comprises three pillars that complement and support one another: the fragrances segment, the taste segment, and the chemistry activity that comprises the specialty intermediates for the pharma industry and the specialty ingredients segment.

Organic growth - the Group takes steps to expand its activity through organic growth in each of the markets in which it operates, through the enhancement of the research, development and innovation functions, the improvement of the supply chain processes, the production functions, the deployment of a global marketing and sales network, and the improvement of the response to customers' needs both in Israel and around the world based on Company management's vast experience over many years. In order to achieve that, the Group works to improve and increase the efficiency of the said processes and the synergies between Group's plants, and to unlock value.

Mergers and acquisitions - the Group intends to accelerate its growth and its global expansion by M&As with companies operating in the Group's areas of activity and in related areas of activity, while utilizing the synergies between the different activities, their integration into the Group and their improvement. The Company's strategy is to focus on small and medium-sized companies operating in North America, Europe and Asia, and which have revenues of up to USD 50 million, a loyal customer base and significant growth potential. The Group has the knowledge and experience required to identify opportunities to purchase companies and to efficiently conduct negotiations; accordingly, from time to time the Group assesses opportunities to expand its activity through collaborations and mergers with companies whose products are synergistic with those of the Group, companies where the Group identifies significant added value, and companies where the Group identifies management failure or willingness by the founders to sell the activity, which it can then purchase at a bargain price, which is reflected in low EBITDA multiples.

In the fragrance and taste segments the Group intends to improve the geographic mix, while focusing on growth in markets that have higher-than-average growth rate, with an emphasis on South East Asia and emerging markets. Furthermore, the Group intends to continue its R&D activities in order to provide customers with taste extracts of high added value, that meet their current and future needs and tastes; this applies specifically to taste extracts that allow reducing sugar, saturated fat and salt levels in products. In the fragrance extracts segment, the Company intends to introduce to its customers fragrance extracts with health benefits, and extracts that significantly improve customers' wellbeing.

In the specialty intermediates for the pharma industry segment, and the specialty ingredients segment, the Group works both to expand its product offering within its current core activity, and to penetrate into the market of ingredients for the tastes and fragrances industry. Specifically, the Company continues expanding the development and manufacturing of unique citrus-based natural products with high added value and aroma chemicals for scent and taste extracts.

The Group's objectives and business strategy constitutes forward-looking information, as defined in the Securities Law, which is based on Group management's estimates and its understanding of the situation in the market in Israel and abroad, as of the Report's date. These intentions and objectives might not materialize in whole or in part, or may materialize in a manner different and even materially different than expected, due to wrong assessments, changes in the Group's working plans, unexpected changes in the market and/or the materialization of some or all of the risk factors listed in Section 1.30 to this chapter.

1.28. <u>Projected developments in the forthcoming year</u>

As of the Report's date, the Group is conducting negotiations with a number of companies operating in its area of activity, for the purpose of purchasing those companies. Those acquisitions will expand the Group's activities and allow the expansion of its geographic deployment across the world in the relevant manufacturing, marketing and sales functions of its different operating segments; such acquisitions will complement the Group's product offering and will allow it to expand its marketing activities to other territories.

1.28.1. In the taste segment, the Company continues considering the option of transferring its Israel-based plants to a single site in order to improve the plants' operational efficiency and save costs.

1.28.2. The Company intends to continue the development and expansion of the development and manufacturing activities of aroma chemicals in Israel and across the world for scent and taste extracts.

.1.28.3 The Company works to improve Group companies' profits and profitability. Among other things, the Company takes steps to improve the activities' profits and profitability by developing new and innovative products, including plant-based solutions, expanding the product range for its existing customer, improving the manufacturing processes and adapting them such that they meet the Group's standards, and control over and improvement of the Company's procurement processes. Furthermore, the Company takes steps to streamline its operations by leveraging the synergy between Group companies in terms of procurement of raw materials, development activities and cross-selling to Group customers.

All assumptions and data listed in this Section 1.28 regarding projected developments in the Company in the forthcoming year constitute forward-looking

forecasts, assessments and estimates, as defined in the Securities Law, which are based on the Company's assessments of developments and current and future events, whose date of occurrence, if any, is uncertain and outside the Company's control. These assessments may not materialize, in whole or in part, or may materialize in a manner different than that expected by the Company, due to, among other things, technological changes in the Company's area of activity, and changes in market trends and customer preferences.

1.29. Financial data regarding geographical segments

The Company manufactures, markets and sells its products across the world.

1.29.1. Set forth below is the breakdown of the revenues from external parties by sales to end customers based on their geographic location in 2021-2022 (in USD thousands):

	2022	**2021**	**(%) of total sales in 2022**
Israel and the Middle East	29,099	20,421	25%
Europe	48,922	30,870	41%
North America	21,555	25,804	18%
Asia and other	18,980	8,239	16%
Total	118,556	85,334	100%

1.29.2. Analysis by geographic location of principal manufacturing sites

Set forth below is the segmentation of sales by principal manufacturing sites in 2021-2022 (in USD thousands):

2022					
	Fragrance	**Taste**	**Specialty intermediates for the pharma industry**	**Specialty ingredients segment**	**Total**
Israel and the Middle East	14,512	34,432	16,061	15,680	80,685
Europe	10,914	22,869	-	-	33,783
USA	1,973	139	-	-	2,112
South East Asia	91	1,885	-	-	1,976
Explanation for changes in sales compared with 2021	Revenues from sales increased by 41.4% compared with the corresponding period last year. The increase stems mainly from organic growth, net of the effects of exchange rates (9.3%), and from the acquisition of LORI and Klabin, as stated above in this report. The effect of exchange rates of foreign currencies reduced sales by USD 2,159 thousand. The fragrances segment's profitability was affected mainly by first time consolidation of the results of LORI and Klabin, whose profitability is lower than that of the segment as of the date of this report. Turpaz started taking steps in order to streamline the companies' operations; the aforesaid steps are expected to improve the operational profitability in the next few quarters[13].	Revenues increased by 78.2% compared with the corresponding period last year. The increase in revenues stems from organic growth net of the effects of exchange rates of approx. 14.6% and from acquisitions completed in 2021 and 2022. The effect of exchange rates of foreign currencies reduced sales by approx. USD 2,646 thousand. Segment's profitability improved as a result of the implementation of the plan for streamlining the activities and increasing synergies in the segment's companies, and as a result of the proceeds of the fire event totaling approx. USD 8.8 million.	Revenues decreased by 23.1% compared with the corresponding period last year. The decrease stems from organic decrease due to adjustment of inventory levels of some of the segment's customers after the Covid-19 pandemic, net of exchange rate effects of approx. 19.9%. The effect of exchange rates of foreign currencies reduced sales by approx. USD 820 thousand. The change in profitability stems mainly from the impact of the Euro/USD exchange rate, and from the change in the products mix.	Revenues increased by 33.6% compared with the corresponding period last year. The increase stems from organic decrease net of exchange rate effects of approx. 44.1%. The effect of exchange rates of foreign currencies reduced sales by approx. USD 851 thousand. The change in profitability stems mainly from the impact of the Euro/USD exchange rate, and from the change in the products mix.	

[13] Company's assessments as to the improvement in profits and profitability constitutes forward-looking information as defined in the Securities Law, 1969, whose materialization depends, among other things, on factors outside the Company's control, and which may materialize in a manner different than that described in this report.

2021					
	Fragrance	**Taste**	**Specialty intermediates for the pharma industry**	**Specialty ingredients segment**	**Total**
Israel and the Middle East	12,050	24,980	20,873	11,733	69,636
Europe	5,634	6,502	-	-	12,136
USA	1,752	129	-	-	1,881
South East Asia		1,681	-	-	1,681

1.29.3. Total current assets (excluding intercompany balances) by geographic location of principal manufacturing sites in 2021-2022 (in USD thousands):

	2021	2022
Israel and the Middle East	91,106	70,761
Europe	12,755	15,788
North America	729	1,502
Asia and other	1,492	1,862

1.30. Risk factors - discussion

In the opinion of the Company, its activity is exposed to the following main risk factors:

1.30.1. Macroeconomic risk factors

1.30.1.1. **Slowdown and economic uncertainty** - the Group's products are used in a range of industries and for numerous applications, mainly in the food, pharmaceuticals, **הזנה**, cosmetics and other industries. Global and/or local economic slowdown might cause a decrease in demand in the different industries, and as a result trigger varying rates of decrease in demand to Group's products, in the prices of those products, and in profit margins, thereby adversely affecting the scope of its activity and operating results. Furthermore, economic slowdown or a recession might expose the Group to an increase in financial risks in connection with its customers. Furthermore, inflation might lead to erosion of the profitability of Group companies due to an increase in raw materials prices, and supply chain costs.

In addition, an economic crisis might lead credit providers to apply stricter criteria to borrowers, and make it difficult for corporations to raise financing for investment, development, working capital and refinancing. Should the Group need external financing resources, it might encounter difficulties in obtaining substantial amounts in financing from banks or non-banking entities; furthermore, there might be a deterioration in credit terms obtainable by the Group.

1.30.1.2. **Changes and/or deterioration in the security-political situation in Israel** - Changes and/or deterioration in the security-political situation in Israel and in Israel's position in the world, wars, military clashes, and terror attacks in Israel impact - to some extent and for variable periods - on demand for the Group's products in its areas of activity. Such a deterioration in the security situation might cause partial or full shutdown of the Group's plants due to unavailability of raw materials and/or a physical damage to its plants or to infrastructures it uses or to facilities located in proximity thereto. Furthermore, terror attacks targeting the Group's assets might force the Group to suspend activity or shutdown some or all of its plants. Such events may have a material adverse effect on the Group's businesses, financial results and activity. Furthermore, Chemada's plant is located in proximity to the Gaza Strip.

Furthermore, the Group has international customers, and some of its activities are conducted in territories outside Israel (mainly Europe). Certain countries forbid business relations with Israel or with Israeli companies. A deterioration in the political-security situation in Israel, negative public opinion about Israel, or the expansion of the boycott of Israel to other countries and other customers that trade with Israeli companies, might have an adverse effect on the Group's scope of activity and results of operations.

1.30.1.3. **Financial risks -** the Group's activity exposes it to a range of financial risks, including foreign currency risks, interest risks, prices risks, credit risks and liquidity risks. The Group's activity is impacted by fluctuations in foreign currencies' exchange rates, due to changes in the exchange rate of the NIS against the US Dollar and the Euro. Company's sales are made in a range of currencies, including the US Dollar, the Euro, the Polish Zloty, the Vietnamese dong and the NIS, while its financial statements are drawn up in US Dollars; therefore, changes in the exchange rates of foreign currencies impact the financial statements. However, the exposure to exchange rates of foreign currencies is small, since most of the raw materials are purchased in US Dollars and Group companies' operating expenses are denominated in the functional currency in the country in which they operate. Furthermore, the Company is exposed to changes in the exchange rate of the NIS against the US Dollar, since most of the Company's debt is denominated in NIS, whereas the reporting currency is the US Dollar.

In addition, the Group has loans and liabilities denominated in NIS, US Dollars and Euros; those loans and liabilities bear interest at variable rates plus the bank's margin. An increase in Prime interest rates shall trigger an increase in the Group's finance expenses.

1.30.1.4. **Global health crisis -** a protracted global health crisis, such as the Covid-19 pandemic, which will cause the closure of businesses, shutdown of government services, closure of borders and other restrictions, might have a significant adverse effect on economies across the world, including in markets in which the Company operates; such a crisis might adversely affect the Company's ability to purchase ingredients imported from various countries, and its ability to export its products to the markets in which it operates. Such a health crisis, and the economic crisis it triggered might adversely impact the Company's position and its ability to develop its products; therefore, it might adversely affect the Company's operating results.

Deterioration in geopolitical and security conditions - deterioration in geopolitical conditions, instability and security crises in countries in which Group companies operate may have an adverse effect on the economy in those countries and in neighboring countries, as well as on international trade and global economy, including in markets in which the Company operates. The Group's activity in developing markets is exposed to risks arising from the type and structure of the regimes in those countries. The continued conflict between Russia and the

Ukraine, and the possibility that the conflict will also involve Eastern Europe or South East Asia, might have an adverse effect on air and sea freight capabilities and costs, and the prices of raw materials and goods. Group subsidiaries that have business activity in Asia and Eastern Europe might be adversely affected from the instability of our customers' economic system in the said countries and from restrictions on trade and financial restrictions.

1.30.2. Sectoral risk factors

1.30.2.1. **Changes in raw materials prices -** the Group is exposed to changes in raw materials prices, some of which are set in the international market and impacted from macroeconomic changes. The Company operates to mitigate the effect of the increase in raw materials prices by updating the prices of the products it supplies to its customers. Some of the Group's raw materials are agricultural products, whose prices, quality and availability might be affected, among other things, from weather conditions. In order to reduce the exposure, the Group normally maintains inventory for its operating activities based on expected supply in accordance with past experience.

1.30.2.2. **Inventory management -** one of the characteristics of the industries in which the Group operates is that in some of the segments it is difficult to estimate customers' demand for products, and therefore it is also difficult to estimate the Group's demand for raw materials. Sometimes there is not enough information about projected orders by customers, changes occur with customers and/or seasonal assessments materialize in a manner that is materially different than estimated, normally due to factors that are outside the Group's control. This might cause a situation where inventory is not managed in an optimal manner, since shortages of inventory available for production and/or finished goods available to customers might cause a decrease in the Group's revenues from sales, and lead to loss of future sales due to customers' entering into engagements with competitors. On the other hand, inventory levels that are too high might expose the Group to changes in raw material prices and to finance costs; therefore, the Group changed its inventory management in a manner that gives it a relative advantage over its competitors; its value chain and supply chain are highly agile and allow it to have products available for customers, as well as relatively quick manufacturing processes (other than in Chemada), so that it is able to provide the best possible and flexible service to its customers.

.1.30.2.3 **Closure of ports and airports -** strikes and/or closures of ports located along shipping lines of the Group's raw materials and end products might cause delays in the shipping services provided to the Group, and force the Group to find other alternatives to transport and supply its raw materials and end products, and/or cancel orders, which will lead customers to seek alternative suppliers. In such cases, freight prices will increase. Under such circumstances, raw material prices might also be significantly higher. The temporary closure of airports, as was the case during the Covid-19 pandemic, might cause delays in the supply of end products.

1.30.2.4. **Stricter licensing and regulation requirements and compliance therewith -** Company's products are subject to regulation and licensing requirements that regulate their production, marketing, sale and distribution. Stricter regulation, or failure to obtain the required approval in new territories, might impact the Company's growth rate.

Stricter regulation and/or interpretation of relevant laws and/or enforcement as mentioned above in connection with the Group's or the Company's activities might result in the Group's incurring significant expenses and having to make significant investments. Failure to fully identify or comply with those requirements might expose the Group to administrative and/or criminal sanctions and/or to lawsuits.

.1.30.2.5 **Environmental laws and damages -** Chemada's activity is subject to comprehensive regulation in the field of environmental laws and damages. Over the years, environmental requirements and regulations have become continuously stricter, including by way of introducing new environmental legislation, the interpretation of relevant laws and the enforcement of environmental standards. Such stricter regulation and/or interpretation and/or enforcement might affect Chemada's activity. As a result of the fact that regulations have become stricter, the Group might incur expenses and be required to make investments of large amounts. Failure to identify those requirements or to comply therewith might expose the Group to administrative and/or criminal sanctions and/or lawsuits. The Group has various permits and licenses pertaining to environmental issues, that set the conditions for the management of its activity. The breach of the terms of the licenses, permits an/or other regulatory provisions, may result in the imposition of penalties, criminal or administrative sanctions, cancellation of licenses and the imposition of restrictions on the operation of facilities and in some cases the closure thereof, non-renewal of licenses and permits required for the Group, or imposition of stricter conditions, revocation or change to the terms of such permits and licenses.

1.30.2.6. **Cyber risks -** most of the risk factors and threats the Group faces in this context are general risk factors such as malware, database hacking, data leak, ransom, natural disasters and shutdowns. Some of those risks, among other things, are specific risk factors arising from the fact that the Group is mainly Israeli; this includes the possibility of an attack by anti-Israeli campaigns, and risk factors stemming from the decentralization of the activity to a number of plants and subsidiaries in Israel and abroad. The materialization of such risks may damage the business activity, including cessation or disruption of activities, loss or theft of information, breach of privacy, damage to reputation, loss of profits, etc.

The Group mitigates the cyber risks in accordance with generally accepted methodologies and work procedures; it also promotes steps to improve its IT function across the entire organization. The Company's IT systems are managed and located in a secure environment on internal servers in each of the Group's sites. IT systems in the Group's sites may only be accessed by entering a user name and password; some of the IT systems also have other access restrictions; access to sensitive information is restricted only to the required personnel, and in accordance with specific authentication requirements.

1.30.2.7. **Competition** - see Section 1.10.7 above.

1.30.2.8. **The occurrence of accidents during the course of the Group's activity** - the Group's activity involves, by nature, various occupational risks; the Company is therefore required to take special precautions in order to maintain a safe and healthy work environment in order to ensure the safety of employees and other parties in the Group's facilities. The Group is subject to occupational health and safety standards in accordance with local and international laws, regulations and standards. The Group is also exposed to operational risks relating to industrial or engineering activity, such as maintenance issues or equipment malfunction. Failure to implement the Group's safety measures and standards or deviation therefrom, such as failure to prevent a safety incident or other operational risks or failure to properly address them might lead to injuries or even the death of employees, disrupt activity and to the Group's incurring legal and financial liabilities of substantial amounts.

1.30.2.9. **Legal proceedings** - taking into account the nature of the Group's activity and the scope of its customer base, the Group has an exposure to lawsuits and various sanctions, due to, among other things, potential damages to third parties, breach of environmental rules, or of the terms of any of the Group's licenses, lawsuits by employees, enforcement procedures of various authorities, and licensing consequences arising from a change in the position of government authorities in connection with the Group's activity.

1.30.2.10. **Fluctuations in supply and demand** - the Group's spices activity is exposed to changes in demand to Group's products and services and/or the availability of its raw materials and/or their prices. the Group's businesses are exposed to fluctuations that arise partly from the demand side of its businesses, such as new market players and new products, mergers of key market players, and the expansion of the production, storage, transportation, and logistics capacities of the Group's key suppliers and customers. As part of its manufacturing activities, especially in the fragrance and taste segment, the Group uses many natural ingredients, and it is dependent on the availability of those ingredients and is affected therefrom. It should also be clarified that the closure of a plant supplying ingredients to the Group in countries such as China and India might trigger an increase in the price of ingredients.

1.30.3. Company-specific risk factors

1.30.3.1. **Employees possessing unique knowhow and dependency on key personnel -** the Company's activity in the fragrance and taste segments relies on formulators (employees who develop fragrance extracts) and flavorists (employees who develop taste extracts). In Chemada's areas of activity, employees need to have the qualifications required to work in the area of chemistry. Therefore, in view of the fact that the Company has employees possessing specific expertise, retaining those employees is critical to the success of the Company. Furthermore, as of the report's date, the Company is dependent on its controlling shareholder, as described in Section 1.17.2 above. If the controlling shareholder leaves the Company, its activity might be considerably slowed down.

.1.30.3.2 **Labor disputes -** Chemada's employees are employed in accordance with a special collective labor agreement, and the Company has no guarantees that this agreement will be renewed, from time to time, without a strike. If industrial action will take place that will involve a shutdown or a damage to the Company's activities, this might have an adverse effect on the Company's business, its financial position and results of operations. Furthermore, the reopening of the collective agreements may lead to pay rises to employees.

1.30.3.3. **Dependence on the Group's principal activity sites -** the Group is dependent to a certain extent on Chemada's site in Nir Yitzhak, which operates in the fields of intermediates for the pharma industry and specialty ingredients. Damage to the production facilities as described above or shutdown of these facilities might cause a reduction and even a cessation of the Company's activities in the above areas of activity; however, in the tastes and fragrances segments, the Group has some flexibility and is able to divert manufacturing capacity between Group's plants in different countries, thereby enabling continuous activity in these segments. even if some of its plants have been shutdown.

Dependence on the agreement for the purchase of Bromine - through June 2022 Chemada purchased bromine from the Bromine Companies in accordance with the purchase agreement as described in Section 0 above. As from the expiry date of the agreement, the parties have been conducting negotiations for the renewal of he agreement; at the same time, Chemada continues to purchase bromine from the Bromine Companies based on commercial understandings, which will be in effect through the end of 2023. Failure to renew the agreement or changes to its terms or the commercial understandings reached by the parties might have an adverse effect on the Company's profits.

1.30.3.4. **Proximity to the Gaza Strip -** Chemada's plant is located in the Gaza Envelope. Due to the plant's location, it might be exposed to terror attacks. The Company has in place terrorism insurance providing coverage of USD 40 million; furthermore, from time to time the Company assesses the extent of the insurance coverage required in accordance with Chemada's activity.

1.30.3.5. **Growth through acquisition of companies and activities -** the Group's strategy is to achieve growth, among other things, through mergers and acquisitions with companies operating in the Group's areas of activity. If the Group is unsuccessful in identifying acquisition opportunities that are in line with the nature of its activity under satisfactory conditions, or if it fails to obtain the financing required to make the acquisitions, this might have an adverse effect on the implementation of the Group's strategy, its ability to grow and its financial results.

1.30.3.6. **Integration of purchased activities -** in recent years, the Group acquired a number of companies and activities. The integration of these activities into the Group requires efficient management to ensure that the Group's makes the most of the financial advantages, and utilizes the synergies and the economies of scale. The Group's inability to adapt itself to higher growth rates, or a delay in the integration of the new activities into existing Group companies, might lead to expenses or losses, which may have an adverse effect on the Company's financial results.

The following table presents the Company's existing risk factors by type and impact on the Company's businesses, as assessed by the Company:

	The extent of the risk factor's impact on the Company		
	Large	**Medium**	**Small**
Macro risks			
Economic slowdown and uncertainty	V		
Changes and/or deterioration in the security-political situation in Israel		V	
Financial risks			V
Global health crisis			V
Deterioration in global geopolitical and security conditions		V	
Sectoral risks			
Changes in raw materials prices		V	
Inventory management			V
Closure of ports and airports		V	
Stricter licensing and regulation requirements and compliance therewith		V	
Environmental laws and damages		V	
Cyber risks			V
Competition		V	
The occurrence of accidents during the course of the Group's activity			V
Legal proceedings			V
Fluctuations in supply and demand			V
Company-specific risks			
Employees possessing unique knowhow and dependency on key personnel		V	
Labor disputes			V
Dependence on the Group's principal sites		V	
Dependence on the agreement for the purchase of Bromine		V	
Proximity to the Gaza Strip			V
Growth through acquisition of companies and activities		V	
Integration of purchased activities		V	

Directors' Report on the State of the Corporation's Affairs

For the year ended December 31 2022

The Company's Board of Directors is pleased to submit the Board of Directors' Report on the state of affairs of Turpaz Industries Ltd. (hereinafter - the "**Company**"), for the year ended December 31 2022, all in accordance with the Securities Regulations (Periodic and Immediate Reports), 1970.

Part A - Board of Directors' Explanations to the State of the Corporation's Affairs, Operating Results, Shareholders' Equity and Cash flows

1. General

The Company was incorporated and registered in Israel as a private company limited by shares on February 10 2011.

On May 23 2021, the Company completed an IPO, its shares were listed on the Tel Aviv Stock Exchange (hereinafter - the "**Stock Exchange**"), and it became a publicly-traded company, as this term is defined in the Companies Law, 1999.

The Company operates, independently and through its subsidiaries ("Turpaz" or the "Group"), in the development, production, marketing and sale of fragrances, used in the production of cosmetics, toiletries, personal care, air care & odor neutralizers products; natural and synthetic sweet and savory taste extracts, seasonings, functional solutions for baking and gluten free flours, which are used mainly in the production of food and beverages, intermediates for the pharma industry, and specialty ingredients for agrochemical and the fine chemicals industry, including unique and natural citrus products and aromatic chemicals with high added value for the flavor and fragrance industry.

The Turpaz Group has an extensive and diversified range of self-developed products, which are produced in its factories across the world. As of the report's publication date, the Group develops, produces, markets and sells products to more than 2,000 customers in more than 40 countries across the world, and operates approx. 13 manufacturing facilities, including R&D centers, laboratories and sales, marketing and regulation offices in Israel, the USA, Poland, Belgium, Vietnam, Latvia and Romania, which employ 400 employees.

Key operating results of Turpaz:

- In 2022, the Turpaz Group achieved record **results** in terms of sales, gross profit, operating profit, adjusted EBITDA and net income.
- Turpaz Group's **sales** in 2022 increased by **38.9%**, reaching a record of USD 118.6 million compared with USD 85.3 million in 2021, and USD 52.7 million in 2020. The increase stems mainly from **organic growth**[1]**,** net of the effects of exchange rates of **9.9%**, and from growth through the acquisition of companies and operations that were completed in 2021 and 2022.

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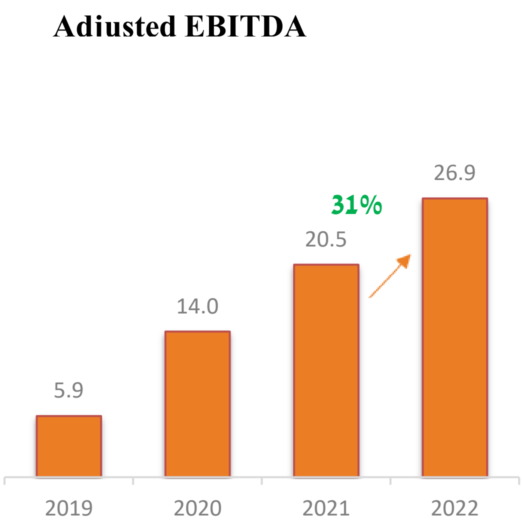
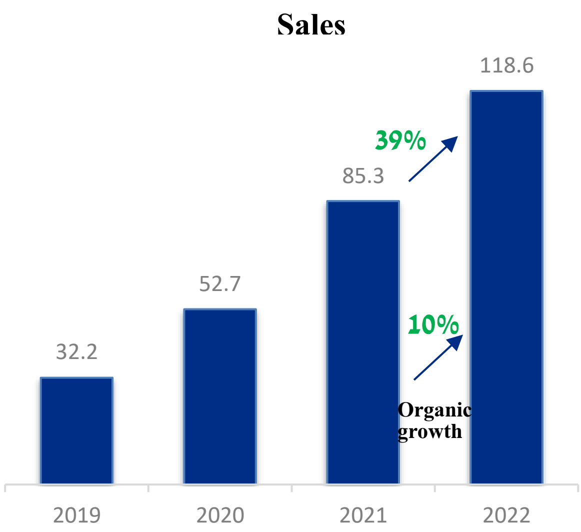
[1] "**Organic growth**" - assuming that the acquisitions that were carried out in 2021 were consolidated in the financial statements as from January 1 2021, and acquisitions that were carried out in 2022 were consolidated in the 2021 financial statements as from the month on which they were made in 2022.

- **Gross profit** increased by approx. **37.2%** and amounted to USD 47.7 million in 2022 compared with USD 34.7 million in 2021 and USD 21.8 million in 2020, despite the effect of the increase in raw materials and freight prices across the world during the reporting period.
- **Operating profit** increased by approx. **70.4%** and amounted to approx. USD 27.3 million in 2022 compared with USD 16.0 million in 2021 and USD 10.2 million in 2020.
- **Net income** increased by approx. **66.5%** and amounted to approx. USD 21.3 million in 2022 compared with USD 12.8 million in 2021 and USD 8.1 million in 2020.
- **Adjusted EBITDA**[2] increased by **31.2%** and amounted to USD 26.9 million in 2022, compared with USD 20.5 million in 2021 and USD 14.0 million in 2020.
- The Company believes that the sales growth trend will continue in 2023 despite inflationary effects, uncertainty in the markets and interest rate hikes across the world, which are reflected, among other things, in steps taken by companies to reduce inventory levels in recent months. Turpaz Group's strong equity structure, low leverage levels, its USD 35.7 million cash balance, cash flow from operating activities, backing from leading financial institutions in Israel and across the world, the enhancement of management and the implementation of managerial infrastructures will enable the continued implementation of the Group's combined growth strategy, which is based on organic growth and mergers and acquisitions, which are synergistic to the Group's activity.[3]
- Turpaz acquired **five companies** since the beginning of 2022 **and eight** companies since its issuance on the Stock Exchange in May 2021. The last of those is Aromatique Food, whose results of operations will be reflected in Turpaz's results as from the first quarter of 2023.





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[2] **Adjusted EBITDA** means - earnings before interest, taxes, depreciation and amortization, net of non-recurring expenses in respect of acquisition of companies and restructuring.

[3] Company's assessments as to the sales growth trend constitutes forward-looking information as defined in the Securities Law, 1969, whose materialization depends, among other things, on factors outside the Company's control, and which may materialize in a manner different than that described in this report.

Turpaz Group is engaged in the following four segments:

1.1 **The fragrance segment** - in this segment, Turpaz Group is engaged in the development, production, marketing and sale of natural and synthesized fragrance extracts for customers in the cosmetics, toiletries, detergents, wet wipes, scented candles, hair care, air care & odor neutralizers industries for hotels and households. Furthermore, Turpaz Group operates to manufacture specialty ingredients of high added value, whose purpose is to conceal bad odors, and give and enhance desired scents in consumer or industrial products. The fragrance extracts developed by the perfumers are tailored to customers' requirements while creating long-term relationships between Turpaz Group and its customers across the world. When they select a supplier, customers focus on the suppliers' innovation capabilities, uniqueness, reliability, the quality and excellence of their services and their knowledge of the needs of the customers for whom the specialty extracts were developed.

1.2 **The taste segment** - as part of the tastes segment, Turpaz Group is engaged in the development, production, sale and marketing of natural and synthesized, sweet and savory tastes, seasonings, functional solutions for baking and gluten free flours, which are used mainly in the production of food, including meat and egg substitutes, plant-based solutions, snacks, ready-made meals, dairy products, ice creams, pharmaceuticals, food and organic colorings for the animal food, beverages and food supplements industries, all tailored to meet customers' needs.

Furthermore, the Group develops extracts and mixtures that allow the production of "clean label"[4] products, reducing quantities of fat, salt and sugar in snacks, food products and beverages, while retaining the desired taste and texture of those products.

1.3 **The intermediates for the pharma industry segment** - in this segment, Turpaz Group is engaged in the production of specialty chemicals used as ingredients and intermediates in the pharmaceuticals industry, and markets its products across the world. Furthermore, the Turpaz Group has the capability to develop and produce custom-made products to its customers in the pharma industry, through its development, production and engineering department; the Group also has the capability to improve the manufacturing processes of intermediates for the pharma industry in accordance with the required regulations.

1.4 **The specialty ingredients segment** - in this segment, Turpaz Group is engaged in the development, production, marketing and sale of specialty ingredients used in various manufacturing processes to be used in a range of industries, mainly flavors and fragrances, agrochemicals, polymers and catalysts, and development and manufacturing of citrus products and aromatic chemicals for the flavor and fragrance industry. Turpaz Group's activity in this field focuses on the production of high-quality products of high added value.

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[4] Products whose list of ingredients does not include ingredients which are not natural ingredients.

The Company works to increase its operational efficiency by leveraging the synergy between Group companies in cross-selling and merging the procurement and development function in the taste and fragrance segments in order to improve the profits and profitability of the tastes segment in the following quarters.

For information about the business environment and its effect on the Company's activity, see Chapter A to this report (Description of the Company's Business).

Combined growth strategy -

Turpaz Group's strategy is based on combined growth that includes targets of double-digit growth and improvement of the Group's geographic deployment through organic growth and through M&As of activities that are synergetic to Turpaz's activity, while leveraging the synergies between Group companies in the areas of sales, procurement, development and compliance with regulatory requirements, which contribute to the improvement in profits and profitability.

Turpaz Group operates in accordance with an orderly plan it developed to achieve the swift integration of the acquired company into the Group and the enhancement of the global management; this includes, among other things, retaining the existing managements of the acquired companies and integrating those managements into Turpaz's management, enhancing the product offering and customer base and integrating Turpaz Group's command and control systems in the cross-selling, R&D, procurement, and finance functions of the acquired companies, in order to achieve swift utilization of synergies. In the opinion of the Company, as of the date of this report, it has not yet utilized the entire potential of the acquisitions it made in the last two years; such full utilization is expected to take place a number of quarters subsequent to the completion of the acquisition.

Company's assessments as to the Group's growth rate, the periods during which the potential embodied in the acquisitions will be fulfilled, and as to the integration of the acquired companies into the Group constitutes forward-looking information, as defined in the Securities Law, which is based on Group management's assessments, and may not materialize or materialize in a manner different than expected, as a result of incorrect assessments, changes to the work plan, changes in the market, or the materialization of all or some of the risk factors listed in Section 1.30 to Chapter A to this report.

Acquisitions carried out in 2022:

Acquisition of Aromatique Food

On January 9, 2023, the Company completed - through a wholly-owned subsidiary - the acquisition of 65% of the issued and paid up share capital and voting rights in Aromatique Food SRL, a privately-owned company incorporated in Romania (hereinafter - "**Aromatique**"), from its only shareholder (hereinafter - the “**Seller**”) in consideration for RON 17 million (approx. USD 3.35 million), and a future consideration based on Aromatique’s business performance during the second half of 2022. The acquisition agreement includes a (call/put) option to purchase Aromatique’s remaining shares by Turpaz; the option is exercisable as from January 1, 2025, at a price based on Aromatiue’s business performance during the period from January 1, 2023 through the option’s exercise date. Aromatique, which was founded in 2013, is engaged in research, development, production, marketing, sale and supply of raw materials and savory flavor functional ingredients for the food industry; Aromatique’s sales are mainly made to the Romanian market. Aromatique’s results will be consolidated with those of Turpaz Group as from the first quarter of 2023.

Acquisition of Klabin

Further to the immediate report published by the Company on September 18, 2022 (Ref. No. 2022-01-118207) regarding the acquisition - through Turpaz USA - a wholly-owned US subsidiary – of 81% of the issued share capital and voting rights of Klabin Fragrance Inc., a privately-held company incorporated in the USA (hereinafter - “**Klabin**”) from its shareholders (hereinafter – the “**Sellers**”) in consideration for USD 24.3 million subject to adjustments in accordance with Klabin’s results in 2022 (hereinafter - the “**Acquisition Agreement**”), and further to the immediate report of October 3, 2022 (Ref. No. 2022-01-100530) regarding the completion of the transaction, the Company reported as follows, concurrently with this report:

Since the date of its acquisition and during the first quarter of 2023, Klabin focused on expanding the manufacturing function, and invested efforts in taking on and consolidating the activity of Turpaz USA into Klabin’s activity in Klabin’s innovative manufacturing facility in New Jersey. As part of this process, Klabin integrated Turpaz USA’s manufacturing, development, IT and finance functions. As of the publication date of this report, the consolidation of the activity of Turpaz USA with that of Klabin’s was completed.

Klabin’s activity in the fourth quarter of 2022 was also affected by the reduction in its customers’ inventory levels as part of a trend of inventory levels reduction that currently characterizes the entire sector following interest rates hikes across the world and the economic uncertainty in the markets; therefore, Klabin’s EBITDA in 2022 declined.

In view of the above, the parties conducted negotiations for the assessment of the adjustment of the purchase price and the terms of the transaction, and reached an agreement whereby instead of adjusting the consideration as per the Acquisition Agreement, the latter will be revised such that: (1) the remaining balance of issued and paid up share capital and voting rights of Klabin (19%) will be transferred immediately to Turpaz USA, such that Turpaz will hold the entire (100%) issued share capital and voting rights of Klabin; (2) the immediate consideration for the acquisition (for 100% of Klabin’s shares) shall be reduced to USD 22.4 million; (3) the sellers will be entitled to additional consideration (of up to USD 3 million) in accordance with Klabin’s business results in 2023-2025.

Klabin, which has been operating since in 1998, is engaged in the research, development, production, marketing, sale and supply of bespoke fragrances, natural oil blends and extracts, natural and synthetic fragrances, applications and functional solutions for the cosmetics, toiletries, scented candles, hair care, air care & odor neutralizers, detergents and fine fragrances industries. The acquisition of Klabin is a strategic acquisition for Turpaz in the USA; it allows the expansion of the Group's customer and products portfolio in the field of fragrances, while leveraging the synergies between Group companies in terms of development, procurement, marketing and sales.

Acquisition of Pentaor

On April 12 2022, the Company completed a transaction for the purchase of the entire issued and paid up share capital and voting rights in Pentaor, a privately-owned company incorporated in Israel from its shareholders, in consideration for NIS 10 million (approx. USD 3.1 million).

Established in 1997, Pentaor is engaged in the development, production, marketing and sale of specialized functional solutions in the field of baking ingredients, which are based on advanced technologies; the products are marketed under the PentaCake brand, which allow the integration of benefits such as softness, moisture, volume, texture and long shelf life. As of the report date, the Company takes steps to merge Pentaor's activity into and with that of the Company.

Acquisition of Balirom

On March 31, 2022, the Company completed a transaction for the purchase of 60% of the share capital of Balirom, a privately-owned company incorporated in Israel (hereinafter - the "**Balirom Acquisition Agreement**") from its shareholders, in consideration for NIS 14.5 million (approx. USD 4.6 million), less net debt. The Balirom Acquisition Agreement includes adjustment for the purchasing date and a (call/put) option conferred upon the Company to purchase the remaining shares of Balirom; the option may be exercised over a 12-month period starting 4 years after the transaction completion date, that is to say, through March 31 2027, at a price based on the business performance of the Company's consolidated activity in the field of sweet taste extracts, and the activity in Balirom during the eight quarterly calendars prior to the exercise of the option.

Balirom, which was established in 2001, is engaged in the research, development, production, marketing, sale and supply of natural and synthetic taste extracts, functional savory flavor mixtures, and ingredients for the food industry. Balirom's plant is located in Be'er Tuvia. The acquisition of Balirom allows the Company to expand its products portfolio in the fields of sweet and savory extracts, while leveraging the synergies between the Group companies in the areas of development, procurement, marketing and sales. Balirom's acquisition has expanded significantly the Company' activities in the taste segment in Israel, and strengthened its position as a leading player in the field.

Acquisition of LORI

On January 17 2022, the Company completed - through a wholly-owned company - a transaction for the purchase of the entire share capital of LORI RKF (hereinafter - "**LORI**") - a private company incorporated in Latvia - which operates in the field of fragrance extracts - from its shareholders. The Company purchased LORI's shares in consideration for approx. EUR 3.14 million (approx. USD 3.6 million), plus net cash balances. LORI is engaged in the manufacturing of fragrance extracts and their marketing in Eastern Europe; it has diverse R&D and application capabilities. The acquisition of LORI increased the Group's sales in the field of fragrances, expand the Group's development and marketing of fragrances in central and eastern Europe, as well as the Group's customer base in territories in which LORI operates, while leveraging the synergies between Group companies in Israel and abroad. Turpaz takes steps to streamline the operations of LORI by leveraging the synergy between the latter and Group companies in terms of procurement of raw materials, development activities and cross-selling to Group customers.

It should be clarified that Turpaz's assessments as to the expansion of its activity in various markets worldwide, and regarding the growth trends in those markets constitute forward-looking information as defined in the Securities Law, 1968, whose materialization depends, among other things, on factors outside Turpaz's control, and which may materialize in a manner different than that described in this report.

2. Material events in the reporting period and subsequent to balance sheet date

2.1. In a meeting held on March 13, 2022, the Company's Board of Directors decided to approve the distribution of a USD 3.97 million dividend (approx. NIS 12.6 million) that was paid to the Company's shareholders on March 31, 2022. For more information, see immediate report of March 14, 2022 (Ref. No.:2022-01-024969).

2.2. In a meeting held on March 26, 2023, the Company's Board of Directors decided to approve the distribution of a USD 5 million dividend (approx. NIS 18.0 million) to the Company's shareholders in accordance with the Company's dividend distribution policy; the dividend will be paid on April 18, 2023. As of the date of this report, the amount of dividend per share is USD 4.96 (approx. NIS 0.18 per share).

2.3. A final agreement with the insurers was signed on December 14 2022 in connection with the fire damages. As part of the agreement, it was agreed that the insurers will pay the remaining insurance proceeds in respect of the fire event, at the total amount of NIS 75 million (approx. USD 22.0 million) as a final payment by the insurance company in respect of the fire, that included compensation in respect of inventory, property and loss of profits. For more information, including regarding the full insurance proceeds amount received from the insurance company, see immediate report of November 14 2022 (Ref. No.: 2022-01-119496).

2.4. For information regarding the amendment of the Klabin acquisition agreement, see Part A to this report.

3. **Financial position**

The strengthening of the dollar against the shekel as of December 31, 2022 ($1=NIS 3.52), compared with the dollar/shekel exchange rate as of December 31, 2021 ($1=NIS 3.11) caused a decrease in assets and liabilities as of December 31, 2022 compared to December 31, 2021, and consequently to a USD 8,325 thousand decrease in capital reserve from translation differences.

Set forth below are key balance sheet data included in the Company's financial statements (in USD thousand)

	31.12.2022	31.12.2021	Company's explanations
Current assets	89,913	106,082	The change in the current assets balance stems from - The fire event - the receipt of the remaining amount of insurance proceeds caused an increase in the cash balance, and on the other hand a decrease in accounts receivable. The changes was also affected from an increase in inventory in view of replenishment of the burnt inventories. Decrease in cash as a result of payment for the completion of the purchase of companies and activities in 2022, and an increase following the adding of current assets of companies whose purchase was completed in 2022.
Non-current assets	124,267	84,063	The increase stems mainly from acquisitions completed in 2022.
Total assets	**214,180**	**190,145**	
Current liabilities	46,674	37,032	The increase stems mainly from an increase in trade payables due to the increase in Turpaz Group's activity, and from the integration of current liabilities of companies, whose acquisition was completed in 2022, which were fully consolidated into Turpaz's balance sheets.
Non-current liabilities	63,981	59,997	The increase stems mainly from a recognition of a liability in respect of the put option for the acquisition of the remaining shares of FIT that was acquired in the fourth quarter of 2021, and the put options for the acquisition of the remaining shares of Balirom in 2022. For more information see Note 4 to the financial statements.
Total equity	**103,525**	**93,116**	The increase stems mainly from the net income achieved in the period, which was offset against translation differences and dividend distributed to Company's shareholders.
Total liabilities and equity	**214,180**	**190,145**	

4. Operating results

4.1. Set forth below is an analysis of the operating results in 2022 in accordance with the financial statements, comparative figures for 2021, and the explanations for the key changes in those data (in USD thousand):

Item	2022	2021	Company's explanations
Revenues from sales	**118,556**	**85,334**	Revenues from sales increased by 38.9%, as a result of organic growth[5] (net of the effects of exchange rates of 9.9%), and as a result of acquisitions of other companies and operations completed in 2021 and 2022. Changes in the exchange rates of the currencies used in Turpaz's activities against the US Dollar reduced sales by 6,476 thousand compared with last year.
Cost of sales	70,897	50,606	Gross profit increased by approx. 37.2%, amounting to USD 47.7 million.
Gross profit (% of sales)	47,659 40.2%	34,728 40.7%	
Research and development expenses (% of sales)	3,607 3.0%	1,949 2.3%	The increase in research and development expenses stems from continued investment in the development of new products, the improvement of existing products, the acquisition of companies and activities completed in 2021 and 2022 and depreciation of other assets arising in respect thereof.
Selling and marketing expenses (% of sales)	10,016 8.4%	6,274 7.4%	The increase in selling and marketing expenses stems mainly from acquisition of companies and activities completed in 2021 and 2022, and from depreciation of other assets arising from those acquisitions.
General and administrative expenses (% of sales)	15,055 12.7%	10,257 12.0%	The increase in general and administrative expenses arises from acquisition of companies and activities completed in 2021 and 2022, from continued recruitment of management teams and strengthening of the Company's headquarters, in order to support Turpaz Group's combined growth strategy, from an accounting effect of the option plan, and an increase in professional fees as a result of the Company's becoming a publicly-traded company.
Other expenses (income)	(8,349)	208	Other income was mainly affected by insurance proceeds in respect of the fire event, amounting to USD 8.8 million, that were offset against acquisition expenses of USD 0.6 million.
Income from ordinary operations (% of sales)	27,330 23.1%	16,040 18.8%	The income from ordinary operations increased by 70.4% compared with the corresponding period last year. Most of the change in income from ordinary operations net of one-off profit stems from amortization of intangible assets (generated in respect of the acquisitions), and amortization of employee options.
Income from ordinary operations, net of one-off profit	19,153 16.2%	16,494 19.3%	
Finance expenses, net	1,513	1,109	
Taxes on income	4,486	2,119	
Net income for the year[6]	21,331	12,812	
Rate of net income for the year	18.0%	15.0%	
EBITDA[7]	35,039	20,021	Adjusted EBITDA increased by 31.2% compared with the corresponding period last year. The increase in the rate of adjusted EBITDA stems from the reasons listed above in this table.
Adj. EBITDA[8] (% of sales)	**26,862** 22.7%	**20,475** 24.0%	

[5] See footnote 1 above.
[6] After deducting one-off profit, the net income increased by 18.5% compared with the corresponding period last year and amounted to USD 15.2 million.
[7] EBITDA means - earnings before interest, taxes, depreciation and amortization. This is a data normally used to measure the operational efficiency of companies.
[8] The USD 8.2 million adjustments to EBITDA included income as a result of the fire event (USD 8.8 million), that were offset against one-off expenses in respect of acquisition of activities that were carried out in the reporting period.

4.2. Set forth below is an analysis of the operating results in accordance with the financial statements for the three months ended December 31 2022 and 2021, and the explanations for the key changes in those data (in USD thousand):

Item	For the three-month period ended December 31 2022	For the three-month period ended December 31 2021	Company's explanations
Revenues from sales	**30,500**	**28,051**	Revenues from sales increased by 8.7% and were affected from a decrease in organic growth[9], net of the effects of exchange rates of 2.0% (due to the bringing forward of orders from the current quarter to the previous quarter of 2022 as a result of increase in inventories in the third quarter of 2022 and the reduction of inventory levels thereafter as reported in the Company's Board of Directors' Report for the third quarter of 2022), and from acquisitions of companies and other operations that were completed in 2021 and 2022. Changes in the exchange rates of the currencies used in Turpaz's activities against the US Dollar reduced sales by 2,163 thousand compared with last year.
Cost of sales	17,155	16,359	Gross profit increased by approx. 14.1% and amounted to USD 13.3 million. The improvement in gross profit stems from further steps taken by the Company in order to increase synergy and streamline it activities.
Gross profit (% of sales)	13,345 43.8%	11,692 41.7%	
Research and development expenses (% of sales)	1,278 4.2%	628 2.2%	The increase in research and development expenses stems from continued investment in the development of new products, the improvement of existing products, the acquisition of companies and activities completed in 2021 and 2022 and depreciation of other assets arising in respect thereof.
Selling and marketing expenses (% of sales)	3,006 9.9%	2,443 8.7%	The increase in selling and marketing expenses stems mainly from acquisition of companies and activities completed in 2021 and 2022, and from depreciation of other assets arising from those acquisitions.
General and administrative expenses (% of sales)	4,559 14.9%	3,907 13.9%	The rate of general and administrative expenses out of sales in the reporting period increased from 13.9% in the corresponding period last year to 14.9%. The increase in general and administrative expenses arises from acquisition of companies and activities completed in 2021 and 2022, from continued recruitment of management teams and strengthening of the Company's headquarters, in order to support Turpaz Group's combined growth strategy, from an accounting effect of the option plan, and an increase in professional fees as a result of the Company's becoming a publicly-traded company.
Other expenses (income)	(8,325)	95	Other expenses (income) was mainly affected by income from insurance proceeds in respect of the fire event, amounting to USD 8.8 million and expenses in respect of acquisitions.
Income from ordinary operations (% of sales)	12,827 42.1%	4,619 16.5%	The income from ordinary operations increased by approx. 177.7% compared with the corresponding period last year. The increase in the rate of income from ordinary operations stemmed from the reasons listed above in this table, that was offset against an increase in the sales rate of the tastes segment, that has lower profitability rate than that of the other segments. Most of the change in income from ordinary operations net of one-off profit stems from amortization of intangible assets (generated in respect of the acquisitions), and amortization of employee options.
Income from ordinary operations, net of one-off profit (% of sales)	4,097 13.4%	4,878 17.4%	
Finance expenses, net	729	179	
Taxes on income	2,557	467	
Net income for the period (% of sales)[10]	9,541 31.3%	3,973 14.2%	
EBITDA[11]	15,256	6,007	Adjusted EBITDA increased by5.1% compared with the corresponding period last year.
Adj. EBITDA[12] (% of sales)	6,586 21.6%	6,266 22.3%	

[9] See footnote 1 above.
[10] After deducting one-off profit, the net income decreased by 28.7% compared with the corresponding period last year and amounted to USD 2.8 million
[11] EBITDA means - earnings before interest, taxes, depreciation and amortization. This is a data normally used to measure the operational efficiency of companies.
[12] The USD 8.7 million adjustments to EBITDA included income as a result of the fire event (USD 8.8 million), that were offset against one-off expenses in respect of acquisition of activities that were carried out in the reporting period.

4.3. Set forth below is a breakdown of operating results by segments for the years ended December 31 2021 and 2022 (USD thousand):

Segment		**2022**	**2021**	**Company's explanations for the increase in 2022 compared with 2021**
Fragrances segment	Revenues	27,490	19,436	Revenues from sales increased by 41.4% compared with the corresponding period last year. The increase stems mainly from organic growth, net of the effects of exchange rates (9.3%), and from the acquisition of LORI and Klabin, as stated above in this report. The effect of exchange rates of foreign currencies reduced sales by USD 2,159 thousand. The fragrances segment's profitability was affected mainly by first time consolidation of the results of LORI and Klabin, whose profitability is lower than that of the segment as of the date of this report. Turpaz started taking steps in order to streamline the companies' operations; the aforesaid steps are expected to improve the operational profitability in the next few quarters[13].
	Operating profit (% of sales)	7,390 26.9%	6,804 35.0%	
Tastes segment	Revenues	59,325	33,292	Revenues increased by 78.2% compared with the corresponding period last year. The increase in revenues stems from organic growth net of the effects of exchange rates of approx. 14.6% and from acquisitions completed in 2021 and 2022. The effect of exchange rates of foreign currencies reduced sales by approx. USD 2,646 thousand. Segment's profitability improved as a result of the implementation of the plan for streamlining the activities and increasing synergies in the segment's companies, and as a result of the proceeds of the fire event totaling approx. USD 8.8 million. The segment's profitability has doubled even without taking into account the insurance proceeds.
	Operating profit (% of sales)	17,667 29.8%	2,533 7.6%	
	Operating profit, net of one-off profit (% of sales)	8,873 15.0%	2,533 7.6%	
Intermediates for the pharma industry	Revenues	16,061	20,873	Revenues decreased by 23.1% compared with the corresponding period last year. The decrease stems from organic decrease due to adjustment of inventory levels of some of the segment's customers after the Covid-19 pandemic, net of exchange rate effects of approx. 19.9%. The effect of exchange rates of foreign currencies reduced sales by approx. USD 820 thousand. The change in profitability stems mainly from the impact of the Euro/USD exchange rate, and from the change in the products mix.
	Operating profit (% of sales)	5,083 31.6%	6,615 31.7%	
Specialty fine ingredients segment	Revenues	15,680	11,733	Revenues increased by 33.6% compared with the corresponding period last year. The increase stems from organic decrease net of exchange rate effects of approx. 44.1%. The effect of exchange rates of foreign currencies reduced sales by approx. USD 851 thousand. The change in profitability stems mainly from the impact of the Euro/USD exchange rate, and from the change in the products mix.
	Operating profit (% of sales)	4,003 25.5%	3,317 28.3%	
Unallocated joint expenses	Revenues	-	-	In 2022, the expenses constituted 5.7% of the turnover, compared with 3.8% in the corresponding period last year. The Company expanded its management team in order to enhance the Company's headquarters and support the Company's growth strategy; the Company also started to set up procurement and development functions that support global management. Furthermore, the increase in expenses stems from accounting effects in respect of option plan (at the total amount of USD 1,371 thousand) and an increase in the cost of various professional services incurred in the process of the Company's becoming a publicly-traded company.
	Operating profit	(6,813)	(3,229)	
Total	**Revenues**	118,556	85,334	The increase in profits is attributed mainly to a significant improvement in the taste activity as a result of streamlining, synergies and the receipt of the entire insurance proceeds amount.
	Operating profit	27,330 23.1%	16,040 18.8%	

[13] Company's assessments as to the improvement in profits and profitability constitutes forward-looking information as defined in the Securities Law, 1969, whose materialization depends, among other things, on factors outside the Company's control, and which may materialize in a manner different than that described in this report.

4.4. Set forth below is an analysis of operating results by segments for the three-month period ended December 31 2022 and 2021, by segments (in USD thousand):

Segment		**For the three-month period ended December 31 2022**	**For the three-month period ended December 31 2021**	**Company's explanations of the increase in the fourth quarter of 2022 compared with the fourth quarter of 2021**
Fragrances segment	Revenues	7,737	4,729	Revenues from sales increased by 63.6% compared with the corresponding period last year. The increase stems mainly from organic growth, net of the effects of exchange rates (4.5%), and from the acquisition of LORI and Klabin, as stated above in this report. The effect of exchange rates of foreign currencies reduced sales by USD 692 thousand. The fragrances segment's profitability was affected mainly by first time consolidation of the results of LORI and Klabin, whose profitability is lower than that of the segment as of the date of this report. Turpaz started taking steps in order to streamline the companies' operations; the aforesaid steps are expected to improve the operational profitability in the next few quarters[14].
	Operating profit (% of sales)	1,326 17.1%	1,307 27.6%	
The taste segment	Revenues	14,791	14,918	Revenues decreased by 0.9% compared with the corresponding period last year. The decrease stems from organic growth, net of the effects of exchange rates of 5.7% (due to the bringing forward of orders from the current quarter to the previous quarter of 2022 as a result of increase in inventories in the third quarter of 2022 and the reduction of inventory levels thereafter as reported in the Company's Board of Directors' Report for the third quarter of 2022), and from acquisitions that were completed in 2021 and 2022. The effect of exchange rates of foreign currencies reduced sales by approx. USD 1,114 thousand. The segment's profitability increased as a result of a gain arising from proceeds in respect of the fire event, and from the implementation of a plan for operational streamlining in the segment's companies. The segment's profitability has increased by 50% even without taking into account the insurance proceeds.
	Operating profit (% of sales)	11,103 75.1%	1,493 10.0%	
	Operating profit, net of one-off profit (% of sales)	2,309 15.6%	1,493 10.0%	
Intermediates for the pharma industry	Revenues	3,671	5,425	Revenues decreased by 32.3% compared with the corresponding period last year. The decrease stems from organic decrease net of exchange rate effects of approx. 30.3% (due to bringing forward orders from Q4 to Q3). The effect of exchange rates of foreign currencies reduced sales by approx. USD 155 thousand. The change in profitability stems mainly from the impact of the Euro/USD exchange rate, and from the change in the products mix.
	Operating profit (% of sales)	1,672 45.5%	1,683 31.0%	
Specialty fine ingredients segment	Revenues	4,301	2,979	Revenues increased by 44.4% compared with the corresponding period last year. The increase stems from organic decrease net of exchange rate effects of approx. 54.9%. The effect of exchange rates of foreign currencies reduced sales by approx. USD 202 thousand. The change in profitability stems mainly from the impact of the Euro/USD exchange rate, and from the change in the products mix.
	Operating profit (% of sales)	891 20.7%	807 27.1%	
Unallocated joint expenses	Revenues	-	-	In the fourth quarter of 2022, the expenses constituted approx. 7.1% of the turnover, compared with 2.4% in the corresponding period last year.
	Operating profit	(2,165)	(671)	

[14] See footnote 11 above.

Segment		For the three-month period ended December 31 2022	For the three-month period ended December 31 2021	Company's explanations of the increase in the fourth quarter of 2022 compared with the fourth quarter of 2021
				The Company expanded its management team in order to enhance the Company's headquarters and support the Company's growth strategy; the Company also started to set up procurement and development functions that support global management. Furthermore, the increase in expenses stems from accounting effects in respect of option plan (at the total amount of USD 446 thousand) and an increase in the cost of various professional services.
Total	**Revenues**	30,500	28,051	
	Operating profit (% of sales)	12,827 42.1%	4,619 16.5%	

5. Liquidity

As of December 31 2022, the Company had a cash balance of USD 35,675 thousand; set forth below are the key components of the cash flows and the way they were utilized (in USD thousand):

Item	31.12.2022	31.12.2021	Company's explanations
Net cash provided by operating activities	**31,938**	12,283	The increase arises from the proceeds received from the insurance company in respect of the fire event (that was offset against the cash used to increase inventory levels in view of the replenishment of inventories due to the fire), and from the increase in net income.
Net cash used in investing activities	**(39,802)**	(6,473)	The change in net cash used in investing activities stems mainly from acquisition of companies, and a USD 5.9 million investment in property, plant and equipment.
Net cash provided by (used in) financing activities	**(7,519)**	45,572	The change in cash flow compared with the corresponding period last year stems mainly from the issuance of share capital to the public in May 2021, at the total amount of USD 62 million.
Exchange differences in respect of cash and cash equivalents	**(4,843)**	1,716	The exchange rate differences stem from the weakening of Group companies' functional currencies against the dollar.
Total change in cash and cash equivalents	**(20,226)**	53,098	

6. Financing sources

The Company funds its activity mainly from its equity, IPO proceeds, cash flows from operating activities and bank credit. For information about the Company's main financing sources, see Section 1.11 to Chapter A (Description of the Company's Business), and Note 16 to the financial statements.

Item	Data as of 31.12.2022		Data as of 31.12.2021	
	USD thousand	% of total balance sheet	USD thousand	% of total balance sheet
Equity	103,525	48.3%	93,116	49%
Other long-term liabilities	59,925	28.0%	52,896	27.8%
Long-term liabilities from banks, net of current maturities	4,056	1.9%	7,101	3.7%
Short-term credit	12,036	5.6%	11,113	5.8%
Suppliers credit	19,306	9.0%	15,860	8.3%
Other long-term payables	15,332	7.2%	10,059	5.3%
Total	**214,180**	**100%**	**190,145**	**100%**

The average amount of the long-term loans in 2022 was USD 6,198 thousand.

The average amount of the short-term credit in 2022 was USD 10,392 thousand.

For more information regarding the average amount of suppliers and customers credit in 2022, see Section 1.20.2 to Chapter A (Description of the Company's Business).

As of December 31 2022, the Company's working capital is USD 43.2 million, compared with working capital of USD 69.1 million as of December 31 2021.

Furthermore, as of December 31 2022, the Company's operating working capital[15] is USD 31.9 million (26.1% of the sales), compared with working capital of USD 20.7 million (17.4% of sales) as of December 31 2021.

Furthermore, as of December 31 2022, the Company's net cash balance[16] is USD 19,107 thousand.

[15] Operating working capital means - trade receivable plus the balance of inventory and net of trade payables.

[16] Cash net of debt.

Disclosure in accordance with the reportable credit directive:

<table>
<tr><th>Original loan amount (NIS thousand)</th><th>Loan balance as of 31.12.2022 (NIS thousand)</th><th>Date on which the loan was actually taken out</th><th>Amortization schedule (loan principal)</th><th>Interest</th><th>Collaterals provided in respect of the loan</th><th>Financial covenants in relation to loan</th></tr>
<tr><td colspan="6">Credit from an Israeli bank</td><td></td></tr>
<tr><td>15,000</td><td>7,303</td><td>May 2019</td><td>Once a quarter starting in November 2019; the first to the 18th payments will amount to approx. NIS 592 thousand, and the remaining loan amount shall be paid in the last payment in May 2024.</td><td>Fixed (2.5%-3.5%)</td><td>-</td><td rowspan="4">Equity to assets - the Company’s equity shall not be lower than 25% of total assets at any given time.
As of December 31 2022, the equity amounts to 49% of total assets.
Debt coverage ratio - shall not exceed 3.5 at any given time. As of December 31 2022, the said ratio is 0.5.</td></tr>
<tr><td>10,000</td><td>4,868</td><td>May 2019</td><td>Once a quarter starting in November 2019; the first to the 18th payments will amount to approx. NIS 395 thousand, and the remaining loan amount shall be paid in the last payment in May 2024.</td><td>Prime + 0.2%-1.2%</td><td>-</td></tr>
<tr><td>4,000</td><td>2,400</td><td>February 2021</td><td>20 equal quarterly payments starting in February 2021.</td><td>Fixed (1.5%-2.5%)</td><td rowspan="2">See Note 20C to the Company’s consolidated financial statements as of December 31 2022.</td></tr>
<tr><td>3,000</td><td>1,800</td><td>February 2021</td><td>20 equal quarterly payments starting in February 2021.</td><td>Prime + 0.5%-1%</td></tr>
</table>

7. For details regarding the social-economic conditions in Israel and across the world, the war between Russia and Ukraine, inflationary effects and the effects of interest rates, see Section 19 to Chapter A to this report.

Part B - Corporate Governance Aspects

8. Report on directors possessing accounting and financial expertise

The Company's Board of Directors decided that the minimum number of directors possessing accounting and financial expertise that is suitable for the Company as per Section 92(A)(12) to the Companies Law is 2.

As of the report's publications date, the Company has three directors possessing accounting and financial expertise: Ms. Karen Cohen Khazon, Mr. Erez Meltzer and Mr. Mordechai Peled. For information regarding the qualifications, education and experience of those directors, see Regulation 26 in Part D to the report (Additional Details).

9. The corporation's donations policy

As of the report date the Company did not adopt a donations policy.

10. Independent directors

As of the report date, the Company did not adopt in its Articles of Association provisions regarding the number of independent directors. As of the report date, two external directors and one independent director serve in the Company.

11. Internal Auditor

11.1. Details regarding the Company's internal auditor:

The Company's internal auditor is Mr. Noam Farkash of Fahn Kanne Control Management Ltd., who was appointed as the Company's Internal Auditor by the Company's Board of Directors on August 17 2021.

Mr. Farkash renders the internal audit services as a personal appointment (an external service provider), through Fahn Kanne Control Management Ltd.; during the course of his audit the Internal Auditor is supported by his firm's employees, such as auditors and IT personnel.

To the best of the Company's knowledge, and as it was informed by the Internal Auditor, the latter complies with all the provisions of Section 3(A) to the Internal Audit Law, 1992 (hereinafter - the "**Internal Audit Law**").

To the best of the Company's knowledge, and as it was informed by the Internal Auditor, the latter complies with the provisions of Section 146(B) to the Companies Law and Section 8 to the Internal Audit Law; the Internal Auditor does not hold any securities of the Company or a related entities thereof, and has not material business relations with the Company or related entities thereof.

11.2. Manner of appointment:

Mr. Farkash was appointed by the Company's Board of Directors to the role of Company's Internal Auditor on August 17 2021, after he was found suitable to serve as the Company's Internal Auditor, in view of, among other things, his education, qualifications and experience in the field of internal audit, and in analysis of internal audit procedures, and taking into account the scope and complexity of the Company's activities.

11.3. The Internal Auditor reports to the Chairperson of the Company's Board of Directors.

11.4. Scope of Internal Auditor work

The scope of the Internal Auditor's work varies in accordance with the annual audit plan. In 2022, a 560-hour annual audit plan was approved.

11.5. Work plan and audit reports:

In 2022, the Audit Committee approved an annual work plan that included reports regarding the following issues: an internal audit report regarding supervision on subsidiaries, internal audit report on securing means of payments, and an internal audit report on procurement. In March 2023, the Audit Committee approved the internal audit report regarding supervision on subsidiaries.

11.6. Conducting the audit and access to information:

The Internal Auditor conducts the audit in accordance with generally accepted professional standards as prescribed in Section 4(B) to the Internal Audit Law and the Companies Law.

The Internal Auditor has free access as per Section 9 to the Internal Audit Law, including ongoing and direct access, as required, to the Company's IT systems, including its financial data.

11.7. Compensation:

In consideration for his work, the Company pays the Internal Auditor an annual fee, which is determined in advance in accordance with the work plan. In the opinion of the Company's Board of Directors, the compensation is reasonable and will not impact the Internal Auditor's judgement when conducting the audit in the Company.

The compensation paid to the Internal Auditor is an annual and fixed compensation that was agreed in advance and does not change in accordance with the audit's results. The compensation in respect of 2022 totaled USD 117.6 thousand. In the opinion of the Board of Directors, the scope, nature and continuity of the Internal Auditor's work and his work plan are reasonable considering the scope and complexity of the activity, and are sufficient to achieve the goals of internal audit in the Company.

12. Independent auditor

As from January 10 2021, the Company's independent auditor is EY Israel (Ernst & Young - Cost, Forer, Gabbay & Kasierer) (hereinafter - the "**Current Independent Auditor**").

The fees paid to the Company's independent auditor in respect of audit and related services, including tax services and other services related to the audit of the financial statements for 2021 and 2022 in all of the Group's companies amounted to NIS 1,220 thousand and NIS 1,017 thousand, respectively.

Furthermore, the fee of the Company’s independent auditor for transaction support services in 2022 amounted to NIS 183 thousand.

The independent auditor’s fees is calculated as a function of the audited hours it invested. The Board of Directors is the organ approving the independent auditor’s fees.

Company’s management negotiated the fee with the independent auditor. The proposed fee was brought for approval by the Company’s Board of Directors. The Company’s Board of Directors was of the opinion that the said fee is reasonable and acceptable considering the nature and scope of the Company’s activities.

Part C - Disclosure Provisions in Connection with the Corporation's Financial Reporting

13. Valuations and estimates

Information regarding material valuation not attached to the report

Identifying the valuation's subject matter:	Impairment testing of IFT's goodwill
Valuation date:	31.12.2022
Value of the valuation's subject matter as per the valuation:	Carrying amount of the cash generating unit USD 45,757 thousand Recoverable amount USD 54,688 thousand Therefore, it was not required to recognize impairment
Details abut the appraiser:	The valuation was carried out by Ziv Haft Consulting and Management Ltd., BDO. The work was conducted by a team headed by Sagiv Mizrahi (CPA), a partner and team leader in the Corporate Finance Department; Mr. Mizrahi has a BA in Applied Mathematics and an MBA (specializing in finance management); he has more than ten years of experience in advising businesses. The team specializes in valuations, PPAs, impairment testing, financial instruments, due diligence works, accounting and economic consultation and more.
Is there an indemnification agreement with the appraiser?	No
The valuation model used by the appraiser:	Discounted Cash Flows method (DCF)
The assumptions, based on which the appraiser carried out the valuation, in accordance with the valuation model:	Rate of capital in accordance with the pre-tax WACC - 21.79% Average growth rate for years 1-5 10.3%, and growth rate from the 5th year and thereafter - 2.8%.

The Board of Directors wishes to thank the Company's management and its employees for the results achieved in 2022.

Karen Cohen Khazon, CEO and Chairperson of the Board of Directors

Dr. Israel Leshem, Director[17]

Date: March 26 2023

[17] Director authorized by the Board of Directors to sign.

Chapter C

Financial Statements as of December 31, 2022

TURPAZ INDUSTRIES LTD.

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2022

U.S. DOLLARS IN THOUSANDS

INDEX

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AUDITORS' REPORT

To the Shareholders of

TURPAZ INDUSTRIES LTD.

We have audited the accompanying consolidated statements of financial position of Turpaz Industries Ltd. ("the Company") as of December 31, 2022 and 2021, and the related consolidated statements of comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2022. These financial statements are the responsibility of the Company's board of directors and management. Our responsibility is to express an opinion on these financial statements based on our audits.

We did not audit the financial statements of subsidiaries, whose assets included in consolidation constitute about 3.1% and about 7.6% of total consolidated assets as of December 31, 2022 and 2021, respectively, and whose revenues included in consolidation constitute about 6.9%, about 11.9% and about 16.2% of total consolidated revenues for the years ended December 31, 2022, 2021 and 2020, respectively. The financial statements of those companies were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for those companies, is based on the reports of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards in Israel, including standards prescribed by the Auditor's Regulations (Auditor's Mode of Performance), 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the board of directors and management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiaries as of December 31, 2022 and 2021, and the results of their operations, changes in equity and their cash flows for each of the three years in the period ended December 31, 2022, in conformity with International Financial Reporting Standards (IFRS) and with the provisions of the Israeli Securities Regulations (Annual Financial Statements), 2010.

Tel-Aviv, Israel
March 26, 2023

KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	December 31, 2022	December 31, 2021
		U.S. dollars in thousands	
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	6	35,675	55,901
Trade receivables	7	25,164	20,861
Other accounts receivable	8	3,082	13,660
Inventories	9	25,992	15,660
		89,913	106,082
NON-CURRENT ASSETS:			
Deferred taxes	23	515	542
Property, plant and equipment, net	10	21,259	17,918
Right-of-use assets, net	12	18,563	12,395
Intangible assets, net	11	83,930	*) 53,208
		124,267	*) 84,063
		214,180	*) 190,145

*) Restated, see Note 5e below.

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	December 31, 2022	December 31, 2021
		U.S. dollars in thousands	
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Credit from banks and current maturities of long-term loans from banks and others	13	12,036	11,113
Trade payables	14	19,306	15,860
Other accounts payable	15	13,048	7,050
Short-term liabilities in respect of acquisition of activity	5	338	1,198
Current maturities of lease liabilities	12e	1,946	1,811
		46,674	37,032
NON-CURRENT LIABILITIES:			
Long-term loans from banks, less current maturities	16	4,056	7,101
Long-term loans from others, less current maturities	17	476	1,056
Provision for waste removal	17	3,454	5,174
Leases liabilities	12	16,585	10,444
Long-term liabilities in respect of acquisition of activity	17	35,401	*) 31,998
Deferred taxes	23	3,811	3,750
Employee benefit liabilities	19	139	362
Other long-term payables	17	59	112
		63,981	*) 59,997
COMMITMENTS, CHARGES AND CONTINGENT LIABILITIES	20		
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY:	21		
Share capital		1	1
Share premium		74,449	74,449
Other capital reserves		(4,857)	(6,228)
Reserve in respect of translation differences		(6,542)	1,783
Retained earnings		39,633	22,430
		102,684	92,435
Non-controlling interests		841	681
Total equity		103,525	93,116
		214,180	*) 190,145

*) Restated, see Note 5e below.

The accompanying notes are an integral part of the consolidated financial statements.

March 26, 2023			
Date of approval of the financial statements	Karen Cohen Khazon Chairman of the Board and CEO	Dr. Israel Leshem Director Authorized by the Board to sign the financial statements on March 26, 2023	Guy Gill CFO

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Note	2022	2021	2020
		Year ended December 31,		
		U.S. dollars in thousands (except per share data)		
Revenues from sales	25d	118,556	85,334	52,730
Cost of sales	22a	70,897	50,606	30,906
Gross profit		47,659	34,728	21,824
Research and development expenses	22b	3,607	1,949	862
Selling and marketing expenses	22c	10,016	6,274	3,848
General and administrative expenses	22d	15,055	10,257	6,625
Other expenses (income)	22e	(8,349)	208	304
Operating income		27,330	16,040	10,185
Finance expenses	22f	1,513	1,109	783
Income before taxes on income		25,817	14,931	9,402
Taxes on income	12g	4,486	2,119	1,271
Net income for the year		21,331	12,812	8,131
Other comprehensive income (loss) (net of tax effect):				
Amounts that will not be reclassified subsequently to profit or loss:				
Adjustments arising from translating financial statements from functional currency to presentation currency		(12,216)	4,300	(223)
Amounts that will be or that have been reclassified to profit or loss when specific conditions are met:				
Adjustments arising from translating financial statements of foreign operations		3,891	(2,717)	596
Total comprehensive income		13,006	14,395	8,504
Total net income attributable to:				
Equity holders of the Company		21,174	12,607	7,860
Non-controlling interests		157	205	271
		21,331	12,812	8,131
Total comprehensive income attributable to:				
Equity holders of the Company		12,849	14,190	8,233
Non-controlling interests		157	205	271
		13,006	14,395	8,504
Net earnings per share attributable to equity holders of the Company (in U.S. dollars):	24			
Basic net earnings per share		0.21	0.14	(*) 0.21
Diluted net earnings per share		0.21	0.14	(*) 0.21

*) Retroactively adjusted for issuance of bonus shares, see Note 21a(1) below.

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company							
	Share capital	Share premium	Other capital reserves	Reserve in respect of translation differences	Retained earnings	Total	Non-controlling interests	Total equity
	U.S. dollars in thousands							
Balance as of January 1, 2022	1	74,449	(6,228)	1,783	22,430	92,435	681	93,116
Net income	-	-	-	-	21,174	21,174	157	21,331
Total other comprehensive loss	-	-	-	(8,325)	-	(8,325)	-	(8,325)
Total comprehensive income (loss)	-	-	-	(8,325)	21,174	12,849	157	13,006
Share-based payment	-	-	1,371	-	-	1,371	-	1,371
Dividends distributed	-	-	-	-	(3,971)	(3,971)	(8)	(3,979)
Acquisition of non-controlling interests	-	-	-	-	-	-	11	11
Balance as of December 31, 2022	1	74,449	(4,857)	(6,542)	39,633	102,684	841	103,525

	Attributable to equity holders of the Company							
	Share capital	Share premium	Other capital reserves	Reserve in respect of translation differences	Retained earnings	Total	Non-controlling interests	Total equity
	U.S. dollars in thousands							
Balance as of January 1, 2021	1	-	-	200	9,823	10,024	2,754	12,778
Net income	-	-	-	-	12,607	12,607	205	12,812
Total other comprehensive income	-	-	-	1,583	-	1,583	-	1,583
Total comprehensive income	-	-	-	1,583	12,607	14,190	205	14,395
Share-based payment	-	-	184	-	-	184	-	184
Issue of share capital (*) (**)	-	74,449	-	-	-	74,449	-	74,449
Acquisition of non-controlling interests	-	-	(6,412)	-	-	(6,412)	(2,278)	(8,690)
Balance as of December 31, 2021	1	74,449	(6,228)	1,783	22,430	92,435	681	93,116

(*) On May 23, 2021, the registration of the Company's shares for trade on the TASE was completed and the Company became a public company (see Note 21a(1)).

(**) As for issue of shares in a transaction for acquisition of control in FIT, see Note 5e below.

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company						
	Share capital	Share premium	Reserve in respect of translation differences	Retained earnings	Total	Non-controlling interests	Total equity
	U.S. dollars in thousands						
Balance as of January 1, 2020	1	-	(173)	7,249	7,077	-	7,077
Net income	-	-	-	7,860	7,860	271	8,131
Total other comprehensive income	-	-	373	-	373	-	373
Total comprehensive income	-	-	373	7,860	8,233	271	8,504
Issue of share capital (*)	--	-	-	-	-	-	-
Initial consolidation	-	-	-	-	-	2,483	2,483
Distributions to owners	-	-	-	(5,286)	(5,286)	-	(5,286)
Balance as of December 31, 2020	1	-	200	9,823	10,024	2,754	12,778

(*) In November 2020, the Group completed a business restructuring in which Company shares were allocated to shareholders of subsidiaries (see Note 1b).

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2022	2021	2020
	U.S. dollars in thousands		
Cash flows from operating activities:			
Net income for the year	21,331	12,812	8,131
Adjustments to reconcile net income to net cash provided by operating activities (a)	10,607	(529)	3,020
Net cash provided by operating activities	31,938	12,283	11,151
Cash flows from investing activities			
Purchase of property, plant and equipment	(5,850)	(2,934)	(529)
Proceeds from sale of property, plant and equipment	55	108	-
Acquisition of activities (b)	-	(3,331)	(579)
Acquisition of initially consolidated subsidiaries (c)	(32,995)	(316)	(2,344)
Repayment of liability in respect of acquisition of activity	(1,012)	-	-
Net cash used in investing activities	(39,802)	(6,473)	(3,452)
Cash flows from financing activities			
Receipt (repayment) of short-term credit	2,967	(847)	(322)
Issue of share capital (net of issue expenses)	-	62,055	-
Acquisition of shares from non-controlling interests in subsidiary	-	(9,522)	-
Dividend paid to equity holders of the Company	(3,971)	-	(5,286)
Dividend paid to non-controlling interests	(8)	-	-
Repayment of long-term lease liabilities	(2,358)	(1,847)	(1,896)
Repayment of long-term loans	(4,149)	(2,667)	(207)
Repayment of liability in respect of acquisition of activity	-	(1,600)	(1,504)
Net cash provided by (used in) financing activities	(7,519)	45,572	(9,215)
Exchange rate differences on balances of cash and cash equivalents	(4,843)	1,716	163
Increase (decrease) in cash and cash equivalents	(20,226)	53,098	(1,353)
Cash and cash equivalents at the beginning of the year	55,901	2,803	4,156
Cash and cash equivalents at the end of the year	35,675	55,901	2,803

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2022	2021	2020
	U.S. dollars in thousands		
(a) Adjustments to reconcile net income to net cash provided by operating activities:			
Adjustments to profit and loss items:			
Depreciation and amortization	6,338	3,797	3,338
Capital gain from sale of property, plant and equipment	(12)	(61)	--
Change in employee benefit liabilities, net	(326)	51	72
Cost of share-based payment	1,371	184	--
Finance expenses, net	1,513	1,109	783
Taxes on income	4,486	1,518	1,246
	13,370	6,598	5,439
Changes in asset and liability items:			
Increase in trade receivables	(3,372)	(3,580)	(3,408)
Decrease in other accounts receivable	9,144	406	278
Increase in inventories	(8,929)	(5,226)	(3,686)
Increase in trade payables	2,801	4,151	3,112
Increase (decrease) in other accounts payable	1,499	(16)	2,773
	1,143	(4,265)	(931)
	14,513	2,333	4,508
Cash paid and received during the year for:			
Taxes paid	(2,869)	(2,404)	(1,194)
Interest paid, net	(1,037)	(458)	(294)
	10,607	(529)	3,020

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2022	2021	2020
	U.S. dollars in thousands		
(b) Acquisition of activities:			
Inventories	-	984	167
Property, plant and equipment	-	1,444	3
Intangible assets	-	903	547
Liability for acquisition of activity	-	-	(138)
Payment for acquisition of activities	-	3,331	579
(c) Acquisition of initially consolidated subsidiaries:			
The subsidiaries' assets and liabilities at date of acquisition:			
Working capital (excluding cash and cash equivalents)	2,585	(1,246)	1,108
Property, plant and equipment	864	3,697	5,563
Right-of-use assets	5,069	145	4,690
Intangible assets	36,888	46,620*	1,696
Lease liabilities	(5,069)	(145)	(4,793)
Other non-current liabilities	(806)	(1,036)	(922)
Payables for acquisition of investments in subsidiaries	(5,733)	*) (31,769)	(2,516)
Deferred taxes	(792)	(3,556)	-
Investment in exchange for issue of shares	-	(12,394)	-
Non-controlling interests	(11)	-	(2,483)
	32,995	316	2,344
(d) Significant non-cash transactions:			
Right-of-use asset recognized with corresponding lease liabilities	4,518	5,252	1,934
Investment in exchange for issue of shares	-	12,394	-
Purchase of property, plant and equipment on credit	-	-	187

*) Restated, see Note 5e below.

The accompanying notes are an integral part of the consolidated financial statements.

NOTE 1:- GENERAL

a. General description of the Group and its activity:

Turpaz Industries Ltd. ("the Company") was incorporated and registered in Israel in February 2011 under the name BKF Perfume Compounding Ltd. In January 2021, the Company changed its name to Turpaz Industries Ltd.

The Company operates, by itself and through subsidiaries in Israel, the U.S., Southeast Asia and Europe in development, production and marketing in four operating segments: (1) Taste; (2) fragrance; (3) specialty intermediaries for the pharma industry; (4) specialty ingredients.

The listing of the Company's securities on the TASE was completed on May 23, 2021, and the Company became a publicly traded company.

The address of the Company's registered office is 2 Halahav St. Holon.

Ms. Karen Cohen Khazon is the Company's controlling shareholder and serves as the Company's CEO and Chairperson of the Company's Board of Directors.

b. Restructuring:

On November 5, 2020, the Company, Chemada and the latter's shareholders signed a merger agreement that involved exchange of shares in accordance with the provisions of Section 103T to the Income Tax Ordinance; the said agreement was signed after it was approved by the Boards of Directors of each of the companies. In accordance with the merger agreement, the companies will be merged by way of exchange of shares in accordance with the provisions of Section 103T to the Income Tax Ordinance, such that upon completion of the merger transaction, the Company will hold the entire share capital of Chemada.

On November 5, 2020, the Company, Turpaz Perfume and Flavor Extracts Ltd. ("Turpaz Extracts") and the latter's shareholders signed a merger agreement in accordance with the provisions of Section 103T to the Income Tax Ordinance; the said agreement was signed after it was approved by the Boards of Directors of each of the companies. In accordance with the merger agreement, the companies will be merged by way of exchange of shares in accordance with the provisions of Section 103T to the Income Tax Ordinance, such that upon completion of the merger transaction, the Company will hold the entire share capital of Turpaz Extracts.

In view of the merger agreements described above, and since the companies are controlled by the same controlling shareholders before and after each merger, the allocation of shares does not constitute a business combination that falls within the scope of IFRS 3. The Company accounts for the merger in a manner similar to the pooling of interests method. The Company has drawn up consolidated financial statements for the purpose of an IPO of the Company's shares on the TASE in order to account for the merger as if it took place at the beginning of the earliest period presented in the financial statements (January 1, 2020). Furthermore, the consolidated financial statements include the consolidated financial position and the consolidated results of operations and cash flows of the Company and the merged companies.

NOTE 1:- GENERAL (Cont.)

Merger agreement between the Company and Turpaz Extracts:

On December 16, 2021, a merger agreement was signed between the Company and Turpaz Extracts as per the provisions of Section 103C to the Income Tax Ordinance, after it had been approved by the Boards of Directors of each company. Under the merger agreement, the companies will be merged by way of exchange of shares as per Section 103C to the Income Tax Ordinance so that following the merger, the entire operations of Turpaz Extracts will be merged into the Company. The ITA's approval for the merger was obtained on May 2, 2022 and on August 10, 2022, the merger was registered at the Registrar of Companies and the merger was completed.

Merger between the Company and Pentaor Ltd.:

After approval by the Boards of Directors of both companies, a merger agreement was signed on September 21, 2022, pursuant to the provisions of Section 103C to the Income Tax Ordinance, between the Company and Pentaor Ltd. In accordance with the merger agreement, the companies will be merged through the exchange of shares pursuant to Section 103C to the Income Tax Ordinance, so that upon completion of the merger transaction, the Company will hold all of the share capital of Pentaor Ltd. The ITA's approval for the merger was obtained on March 14, 2023 and the relevant merger documents were produced to the Registrar of Companies for approval of the merger.

c. The consequences of the war between Russia and Ukraine:

During February 2022, a war broke out between Russia and Ukraine, which continues to cause major casualties, damage to infrastructures and disruption of the Ukrainian economy. As a result, several countries (including the U.S., U.K. and the EU) imposed economic sanctions on certain entities and individuals in Russia or related to Russia elsewhere in the world. Various sanctions were also levied on Belarus. These sanctions are likely to have a direct impact on these entities and individuals and indirectly affect their business partners as well as certain industries in the Russian and Belarussian economies.

The potential fluctuations in commodity prices, foreign exchange rates, import and export restrictions, availability of materials and local services and access to local resources are all factors that affect entities operating in or with major exposure to Russia, Belarus and Ukraine.

NOTE 1:- GENERAL (Cont.)

The continued fighting, geopolitical deterioration and instability and security crisis in countries in which the Group companies operate are likely to have an adverse effect on the economy and markets in those countries and in neighboring countries and consequently on international trade and global economy, including in the markets in which the Company operates. The continued fighting between Russia and Ukraine and the potential escalation of the situation in East Europe are likely to have an adverse effect on air and maritime shipping capabilities and prices and on prices of raw materials and commodities. Group subsidiaries that have business activity in Asia and East Europe might be adversely affected from the economic instability of countries in which their customers operate and from trade and financial restrictions.

As of the financial statement date, the Company assesses that the war in Ukraine has not had a material impact on the Group's operating results. However, the war's implications challenge the markets in which the Company operates including disruption of supply chains and raw material availability which, together with the rise in inflation, have led to increases in raw material prices. The increases in raw material prices did not have a material effect on the Company's financial statements.

d. The consequences of the Covid-19 crisis:

During the first quarter of 2020, Covid-19 started to spread worldwide; the outbreak was declared a pandemic by the World Health Organization. The global spread of Covid-19 led to the imposition of unprecedented restrictions in Israel and in many countries worldwide, including the countries in which the Company operates, in order to stop the spread of the virus and reduce infection levels.

In most countries where the Company operates its plants are defined as enterprises providing essential services. Accordingly, the Company's sites worked as normal during the lockdowns imposed following the Covid-19 pandemic, and work in Company's offices and plants was carried out while adhering to the Ministry of Health's Covid-19 guidelines.

The Covid-19 crisis' impact on the Company's activity varied across its different areas of activity. This was due to, among other things, the increase in raw materials and logistic services prices, supply shortages and employee absences due to infection rates. Demand for some of the Group's products in the fragrance segment, such as fragrance extracts for cleaning and disinfection products, has increased, whereas demand for other products, such as fine fragrances used in perfumes has decreased. In the taste segment, the Group experienced an increased demand for certain flavors that are incorporated into products for domestic use, and on the other hand there was a decrease in demand for taste extracts used in the commercial market.

The existence of conflicting influences helped the continued growth in the Group's activity as reflected in its financial results.

NOTE 1:- GENERAL (Cont.)

In view of the uncertainty in connection with the impact of the unfolding Covid-19 pandemic on Israeli and global economies, on the volume of private and business consumption, the demand for chemicals, fuel prices, the volume of traffic, travel, aviation etc., the Company is unable to estimate the full impact of the coronavirus pandemic on its activity and financial results in the long term.

Events such as renewed Covid-19 outbreaks and aggravation of infection rates in the countries in which the Company operates are likely to affect the business and economic activities in these countries. Those events may impact the Company's ability to continuously operate its facilities and conduct its marketing and sale activities, including restrictions on access to markets across the world; furthermore, those events might have an adverse effect on the Company's ability to obtain financing to implement its growth strategy through M&As.

In the opinion of the Company's management, as of the report date, the Group's activity and results were not adversely impacted to a material extent by the spread of Covid-19. Nevertheless, further waves of Covid-19 might trigger an ongoing and significant slowdown in global business activity and lead to stricter restrictions, which may result with an adverse effect on the Group's activities and financial results.

e. Effects of inflation and increase in interest rate:

Following the global macroeconomic developments in 2022, there was an increase in rates of inflation in Israel and worldwide. As part of the measures taken to restrain inflationary price increases, central banks around the world, including the Bank of Israel, began raising their benchmark interest rates.

As of the reporting date, the Company has no material indexed or unindexed loans and therefore the above changes are not likely to affect its results. Nevertheless, a future increase in the Company's debt as part of practicing the Group's integrated business strategy will likely lead to an increase in finance expenses and consequently adversely affect the Company's financial results. Due to the increase in raw material prices and in inflation, the Company is taking steps to update the prices of products sold to customers to mitigate the markup effect on its operations.

As of the financial statement date, the Company is unable to assess the future effects of all the factors discussed above, if any, on the markets in which it operates and specifically on its activities. Notwithstanding the aforesaid, the Company estimates that they will not have a material impact on its operating results and ability to realize its business strategy.

NOTE 1:- GENERAL (Cont.)

f. Definitions:

In these financial statements:

The Company	-	Turpaz Industries Ltd.
The Group	-	The Company and its subsidiaries, as detailed in Note 5j below.
Subsidiaries	-	Companies that are controlled by the Company (as defined in IFRS 10) and whose accounts are consolidated with those of the Company.
Related parties	-	As defined in IAS 24.
Interested parties and controlling shareholders	-	As defined in the Israeli Securities Regulations (Annual Financial Statements), 2010.
Dollar	-	United States Dollar.
CPI	-	Consumer Price Index published by the Israel Central Bureau of Statistics.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been applied consistently in the financial statements for all periods presented, unless otherwise stated.

a. Basis of presentation of the financial statements:

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Furthermore, the financial statements have been prepared in conformity with the provisions of the Israeli Securities Regulations (Annual Financial Statements), 2010.

The Company's financial statements have been prepared on a cost basis.

The Company has elected to present the profit or loss items using the function of expense method.

b. The operating cycle:

The Company's normal operating cycle does not exceed one year. Consequently, current assets and current liabilities include items that are expected to be disposed of within the Company's normal operating cycle.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

c. Consolidated financial statements:

The consolidated financial statements comprise the financial statements of companies that are controlled by the Company (subsidiaries). Control is achieved when the Company has power over the investee, is exposed or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. In assessing control, the effect of potential voting rights is considered only if they are substantive. The consolidation of the financial statements commences on the date on which control is obtained and ends when such control ceases.

The financial statements of the Company and of the subsidiaries are prepared as of the same dates and periods. The accounting policies in the financial statements of the subsidiaries have been applied consistently and uniformly with those applied in the financial statements of the Company. Significant intragroup balances and transactions and gains or losses resulting from intragroup transactions are eliminated in full in the consolidated financial statements.

Non-controlling interests in subsidiaries represent the equity in subsidiaries not attributable, directly or indirectly, to a parent. Non-controlling interests are presented in equity separately from the equity attributable to the equity holders of the Company. Profit or loss and components of other comprehensive income are attributed to the Company and to non-controlling interests. Losses are attributed to non-controlling interests even if they result in a negative balance of non-controlling interests in the consolidated statement of financial position.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as a change in equity by adjusting the carrying amount of the non-controlling interests with a corresponding adjustment of the equity attributable to equity holders of the Company less / plus the consideration paid or received.

d. Business combinations and goodwill:

Business combinations are accounted for by applying the acquisition method. The cost of the acquisition is measured at the fair value of the consideration transferred on the acquisition date with the addition of non-controlling interests in the acquiree. In each business combination, the Company chooses whether to measure the non-controlling interests in the acquiree based on their fair value on the acquisition date or at their proportionate share in the fair value of the acquiree's net identifiable assets.

Direct acquisition costs are carried to the statement of profit or loss as incurred.

In a business combination achieved in stages, equity interests in the acquiree that had been held by the acquirer prior to obtaining control are measured at the acquisition date fair value while recognizing a gain or loss resulting from the revaluation of the prior investment on the date of achieving control.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

A put option granted by the Group to non-controlling interests is accounted for using the expected purchase approach under the presumption that the put option will be exercised, and therefore the parent effectively holds an interest in the subsidiary's shares as if the put option had been exercised. A put option granted by the Group to non-controlling interests for which the consideration to be paid in cash or other financial asset is recognized as a liability in the amount of the present value of the option's exercise price.

Contingent consideration is recognized at fair value on the acquisition date and classified as a financial asset or liability in accordance with IFRS 9. Subsequent changes in the fair value of the contingent consideration are recognized in profit or loss. If the contingent consideration is classified as an equity instrument, it is measured at fair value on the acquisition date without subsequent remeasurement.

Goodwill is initially measured at cost which represents the excess of the acquisition consideration and the amount of non-controlling interests over the net identifiable assets acquired and liabilities assumed. If the resulting amount is negative, the acquirer recognizes the resulting gain on the acquisition date.

e. Functional currency, presentation currency and foreign currency:

1. Presentation currency and functional currency:

The presentation currency of the financial statements is the dollar.

The financial statements are presented in dollar since the Company believes that financial statements in dollar provide more relevant information to the investors and users of the financial statements who are located in Israel.

The Group determines the functional currency of each Group entity.

The Company's functional currency is the New Israeli Shekel ("NIS").

Assets and liabilities of an investee which is a foreign operation, including fair value adjustments upon acquisition, are translated at the closing rate at each reporting date. Profit or loss items are translated at average exchange rates for all periods presented. The resulting translation differences are recognized in other comprehensive income (loss).

2. Transactions, assets and liabilities in foreign currency other than the functional currency:

Transactions denominated in foreign currency (other than the functional currency) are recorded upon initial recognition at the exchange rate at the date of the transaction. After initial recognition, monetary assets and liabilities denominated in foreign currency are translated at each reporting date into the functional currency at the exchange rate at that date. Exchange rate differences, other than those capitalized to qualifying assets or accounted for as hedging transactions in equity, are recognized in profit or loss. Non-monetary assets and liabilities denominated in foreign currency and measured at cost are translated at the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currency and measured at fair value are translated into the functional currency using the exchange rate prevailing at the date when the fair value was determined.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

3. Index-linked monetary items:

Monetary assets and liabilities linked to the changes in the Israeli Consumer Price Index ("Israeli CPI") are adjusted at the relevant index at each reporting date according to the terms of the agreement.

f. Cash equivalents:

Cash equivalents are considered as highly liquid investments, including unrestricted short-term bank deposits with an original maturity of three months or less from the date of investment or with a maturity of more than three months, but which are redeemable on demand without penalty and which form part of the Group's cash management.

g. Short-term deposits:

Short-term bank deposits are deposits with an original maturity of more than three months from the date of investment and which do not meet the definition of cash equivalents. The deposits are presented according to their terms of deposit.

h. Inventories:

Inventories are measured at the lower of cost and net realizable value. The cost of inventories comprises costs of purchase and costs incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less estimated costs of completion and estimated costs necessary to make the sale.

Raw materials - at cost of purchase using the "first-in, first-out" method.

Work in progress and finished goods - on the basis of average costs including materials, labor and other direct and indirect manufacturing costs based on normal capacity.

Purchased merchandise and products - using the weighted average cost method.

i. Revenue recognition:

Revenue from contracts with customers is recognized when the control over the goods or services is transferred to the customer. The transaction price is the amount of the consideration that is expected to be received based on the contract terms, excluding amounts collected on behalf of third parties (such as taxes).

In determining the amount of revenue from contracts with customers, the Company evaluates whether it is a principal or an agent in the arrangement. The Company is a principal when the Company controls the promised goods or services before transferring them to the customer. In these circumstances, the Company recognizes revenue for the gross amount of the consideration. When the Company is an agent, it recognizes revenue for the net amount of the consideration, after deducting the amount due to the principal.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Revenue from the sale of goods:

Revenue from sale of goods is recognized in profit or loss at the point in time when the control of the goods is transferred to the customer, generally upon delivery of the goods to the customer.

Variable consideration:

The Company determines the transaction price separately for each contract with a customer. When exercising this judgment, the Company evaluates the effect of each variable amount in the contract, taking into consideration discounts, penalties, variations, claims, and non-cash consideration. In determining the effect of the variable consideration, the Company normally uses the "most likely amount" method described in the Standard. Pursuant to this method, the amount of the consideration is determined as the single most likely amount in the range of possible consideration amounts in the contract. According to the Standard, variable consideration is included in the transaction price only to the extent that it is highly probable that a significant reversal in the amount of revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

Refund liabilities:

Certain of the Company's contracts provide customers with a right to return the products. For contracts with rights of return, the Company recognizes revenue based on the amount of the consideration which the Company expects to receive for products which are not expected to be returned and recognizes a refund liability for the amount not expected to be received. At the end of each reporting period, the Company updates its estimates of expected product returns and adjusts the refund liabilities with a corresponding adjustment in revenues. The Company also separately recognizes in the statement of financial position an asset for products sold to customers in respect of which the Company has the right of return. At the end of each reporting period, the Company adjusts the balance of the asset based on its expectations of product returns with a corresponding adjustment in cost of sales.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

j. Government grants:

Government grants are recognized when there is reasonable assurance that the grants will be received and the Company will comply with the attached conditions.

Government grants received from the Israel Innovation Authority (formerly: the Office of the Chief Scientist in Israel, "the IIA") are recognized upon receipt as a liability if future economic benefits are expected from the research project that will result in royalty-bearing sales.

A liability for grants received is first measured at fair value using a discount rate that reflects a market rate of interest. The difference between the amount of the grant received and the fair value of the liability is accounted for as a Government grant and recognized as a reduction of research and development expenses. After initial recognition, the liability is measured at amortized cost using the effective interest method. Royalty payments are treated as a reduction of the liability. If no economic benefits are expected from the research activity, the grant receipts are recognized as a reduction of the related research and development expenses. In that event, the royalty obligation is treated as a contingent liability in accordance with IAS 37.

At each reporting date, the Company evaluates whether there is reasonable assurance that the liability recognized, in whole or in part, will not be repaid (since the Company will not be required to pay royalties) based on the best estimate of future sales and using the original effective interest method, and if so, the appropriate amount of the liability is derecognized against a corresponding reduction in research and development expenses.

Amounts paid as royalties are recognized as settlement of the liability.

Grants that are conditional on the purchase or construction of assets that are received before the purchase or construction have been completed are recognized as deferred income. Once the purchase or construction are completed, the deferred income is deducted from the cost of the assets or the deferred income is recognized over the useful life of the asset once depreciation of the assets commences.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

k. Taxes on income:

Current or deferred taxes are recognized in profit or loss, except to the extent that they relate to items which are recognized in other comprehensive income or equity.

1. Current taxes:

The current tax liability is measured using the tax rates and tax laws that have been enacted or substantively enacted by the reporting date as well as adjustments required in connection with the tax liability in respect of previous years.

2. Deferred taxes:

Deferred taxes are computed in respect of temporary differences between the carrying amounts in the financial statements and the amounts attributed for tax purposes.

Deferred taxes are measured at the tax rate that is expected to apply when the asset is realized or the liability is settled, based on tax laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is not probable that they will be utilized. Deductible carryforward losses and temporary differences for which deferred tax assets had not been recognized are reviewed at each reporting date and a respective deferred tax asset is recognized to the extent that their utilization is probable.

Taxes that would apply in the event of the disposal of investments in investees have not been taken into account in computing deferred taxes, as long as the disposal of the investments in investees is not probable in the foreseeable future. Also, deferred taxes that would apply in the event of distribution of earnings by investees as dividends have not been taken into account in computing deferred taxes, since the distribution of dividends does not involve an additional tax liability or since it is the Company's policy not to initiate distribution of dividends from a subsidiary that would trigger an additional tax liability.

Deferred taxes are offset if there is a legally enforceable right to offset a current tax asset against a current tax liability and the deferred taxes relate to the same taxpayer and the same taxation authority.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

l. Leases:

The Company accounts for a contract as a lease when the contract terms convey the right to control the use of an identified asset for a period of time in exchange for consideration.

1. The Group as lessee:

For leases in which the Company is the lessee, the Company recognizes on the commencement date of the lease a right-of-use asset and a lease liability, excluding leases whose term is up to 12 months and leases for which the underlying asset is of low value. For these excluded leases, the Company has elected to recognize the lease payments as an expense in profit or loss on a straight-line basis over the lease term. In measuring the lease liability, the Company has elected to apply the practical expedient in IFRS 16 and does not separate the lease components from the non-lease components (such as management and maintenance services, etc.) included in a single contract.

On the commencement date, the lease liability includes all unpaid lease payments (excluding variable lease payments) discounted at the interest rate implicit in the lease, if that rate can be readily determined, or otherwise using the Company's incremental borrowing rate. After the commencement date, the Company measures the lease liability using the effective interest rate method.

On the commencement date, the right-of-use asset is recognized in an amount equal to the lease liability plus lease payments already made on or before the commencement date and initial direct costs incurred. The right-of-use asset is measured applying the cost model and depreciated over the shorter of its useful life and the lease term.

The Company tests for impairment of the right-of-use asset whenever there are indications of impairment pursuant to the provisions of IAS 36.

2. Variable lease payments that depend on an index:

On the commencement date, the Company uses the index rate prevailing on the commencement date to calculate the future lease payments.

For leases in which the Company is the lessee, the aggregate changes in future lease payments resulting from a change in the index are discounted (without a change in the discount rate applicable to the lease liability) and recorded as an adjustment of the lease liability and the right-of-use asset, only when there is a change in the cash flows resulting from the change in the index (that is, when the adjustment to the lease payments takes effect).

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

3. Variable lease payments:

   Variable lease payments that do not depend on an index or interest rate but are based on performance or usage are recognized as an expense as incurred when the Company is the lessee and are recognized as income as earned when the Company is the lessor.

4. Lease extension and termination options:

   A non-cancelable lease term includes both the periods covered by an option to extend the lease when it is reasonably certain that the extension option will be exercised and the periods covered by a lease termination option when it is reasonably certain that the termination option will not be exercised.

   In the event of any change in the expected exercise of the lease extension option or in the expected non-exercise of the lease termination option, the Company remeasures the lease liability based on the revised lease term using a revised discount rate as of the date of the change in expectations. The total change is recognized in the carrying amount of the right-of-use asset until it is reduced to zero, and any further reductions are recognized in profit or loss.

5. Lease modifications:

   If a lease modification does not reduce the scope of the lease and does not result in a separate lease, the Company remeasures the lease liability based on the modified lease terms using a revised discount rate as of the modification date and records the change in the lease liability as an adjustment to the right-of-use asset.

   If a lease modification reduces the scope of the lease, the Company recognizes a gain or loss arising from the partial or full reduction of the carrying amount of the right-of-use asset and the lease liability. The Company subsequently remeasures the carrying amount of the lease liability according to the revised lease terms, at the revised discount rate as of the modification date and records the change in the lease liability as an adjustment to the right-of-use asset.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

m. Property, plant and equipment:

Items of property, plant and equipment are measured at cost, including direct acquisition costs, less accumulated depreciation and excluding day-to-day servicing expenses. Cost includes spare parts and auxiliary equipment that are used in connection with plant and equipment.

The gain or loss from the derecognition of an item of property, plant and equipment is measured as the difference between the proceeds received from the asset's disposal and its carrying amount and is recognized in the statement of profit or loss in the line item, "other expenses (income), net".

Costs of day-to-day servicing of an item of property, plant and equipment are recognized as incurred in the statement of profit or loss.

Depreciation begins when the asset is available for use, that is, when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation is calculated at constant annual rates on a straight-line basis over the useful life of the assets as follows:

	%	Mainly %
Machinery and equipment	15	15
Computers and peripheral equipment	25-33	33
Office equipment and furniture	10	10
Vehicles	15	15
Leasehold improvements	See below	

Leasehold improvements are depreciated on a straight-line basis over the shorter of the lease term (including the extension option held by the Group and intended to be exercised) and the useful life of the improvement.

A part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately using the component method. Depreciation is calculated at constant annual rates on a straight-line basis over the useful life of the assets.

The useful life, depreciation method and residual value of an asset are reviewed at least each year-end and any changes are accounted for prospectively as a change in accounting estimate. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognized.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company recognizes the cost of replacing a part of an item of fixed assets in the carrying amount of an item of fixed assets when that cost is incurred if it is probable that the economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Costs of day-to-day servicing expenses are recognized in profit or loss when incurred.

An asset is derecognized on disposal or when no further economic benefits are expected from its use. The gain or loss arising from the derecognition of the asset (determined as the difference between the net disposal proceeds and the carrying amount in the financial statements) is included in the statement of income when the asset is derecognized.

n. Intangible assets:

Separately acquired intangible assets are measured on initial recognition at cost including direct acquisition costs. Intangible assets acquired in a business combination are measured at fair value at the acquisition date. Expenditures relating to internally generated intangible assets, excluding capitalized development costs, are recognized in profit or loss when incurred.

Intangible assets with a finite useful life are amortized on a straight-line basis over their useful life and reviewed for impairment whenever there is an indication that the asset may be impaired. The amortization period and the amortization method for an intangible asset are reviewed at least at each year end.

Intangible assets with indefinite useful lives are not systematically amortized and are tested for impairment annually or whenever there is an indication that the intangible asset may be impaired. The useful life of these assets is reviewed annually to determine whether their indefinite life assessment continues to be supportable. If the events and circumstances do not continue to support the assessment, the change in the useful life assessment from indefinite to finite is accounted for prospectively as a change in accounting estimate and on that date the asset is tested for impairment. Commencing from that date, the asset is amortized systematically over its useful life.

Research and development expenditures:

Research expenditures are recognized in profit or loss when incurred.

Costs incurred in an internal development project are recognized as an intangible asset only if the Company can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale; the Company's intention to complete the intangible asset and use or sell it; the ability to use or sell the intangible asset; how the intangible asset will generate future economic benefits; the availability of adequate technical, financial and other resources to complete the intangible asset; and the ability to measure reliably the expenditures attributable to the intangible asset during its development.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The asset is measured at cost less any accumulated amortization and any accumulated impairment losses. Costs recognized as intangible assets include directly attributable costs of preparing the asset for its intended use such as cost of materials, direct labor costs, overhead and capitalized borrowing costs.

Amortization of the asset begins when development is complete and the asset is available for use. The asset is amortized over its useful life. Testing of impairment is performed annually over the period of the development project.

When an internally developed intangible asset cannot be recognized, the development costs are recognized as an expense in profit or loss as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

For all reporting periods presented, the above criteria have not been met and therefore all development costs have been recognized as an expense in profit or loss.

The useful life and amortization and production method of intangible assets:

	Goodwill	Customer relations	Product formulae	Brand name	Order backlog
Useful life	Indefinite	1.5-10 years	10-20 years	4-15 years	0.25 years
Amortization method	Undepreciated	Straight-line	Straight-line	Straight-line	Straight-line
Inhouse development or purchase	Purchase	Purchase	Purchase	Purchase	Purchase

o. Impairment of non-financial assets:

The Company evaluates the need to record an impairment of non-financial assets whenever events or changes in circumstances indicate that the carrying amount is not recoverable. If the carrying amount of non-financial assets exceeds their recoverable amount, the assets are reduced to their recoverable amount. The recoverable amount is the higher of fair value less costs of sale and value in use. In measuring value in use, the expected future cash flows are discounted using a pre-tax discount rate that reflects the risks specific to the asset and the time value of money. The recoverable amount of an asset that does not generate independent cash flows is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in profit or loss.

An impairment loss of an asset, other than goodwill, is reversed only if there have been changes in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. Reversal of an impairment loss, as above, shall not be increased above the lower of the carrying amount that would have been determined (net of depreciation or amortization) had no impairment loss been recognized for the asset in prior years and its recoverable amount. The reversal of impairment loss of an asset presented at cost is recognized in profit or loss.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

A reversal of an impairment loss for a cash-generating unit is allocated to the unit's assets, other than goodwill, pro rata to the carrying amount of each asset in the scope of IAS 36 as regards to measurement, only if the carrying amount of the asset after the reversal does not exceed the depreciated cost of the asset that would have been determined had no impairment loss been recognized for the asset.

The following unique criteria are applied in assessing impairment of these specific assets:

Testing the impairment of goodwill in respect of subsidiaries:

The Company reviews goodwill for impairment once a year, on December 31, or more frequently if events or changes in circumstances indicate that there is an impairment.

Goodwill is tested for impairment by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill has been allocated.

Each cash-generating unit to which goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes and which cannot be larger than an operating segment.

An impairment loss is recognized if the recoverable amount of the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is less than the carrying amount of the cash-generating unit (or group of cash-generating units). Any impairment loss is allocated first to goodwill. Impairment losses recognized for goodwill cannot be reversed in subsequent periods.

p. Financial instruments:

1. Financial assets:

Financial assets are measured upon initial recognition at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets, except for financial assets measured at fair value through profit or loss in respect of which transaction costs are recorded in profit or loss.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

2. Impairment of financial assets:

The Company evaluates at the end of each reporting period the loss allowance for financial debt instruments which are not measured at fair value through profit or loss. The Company distinguishes between two types of loss allowances:

a) Debt instruments whose credit risk has not increased significantly since initial recognition, or whose credit risk is low - the loss allowance recognized in respect of this debt instrument is measured at an amount equal to the expected credit losses within 12 months from the reporting date (12-month ECLs); or

b) Debt instruments whose credit risk has increased significantly since initial recognition, and whose credit risk is not low - the loss allowance recognized is measured at an amount equal to the expected credit losses over the instrument's remaining term (lifetime ECLs).

The Company has short-term financial assets such as trade receivables in respect of which the Company applies the simplified approach in IFRS 9 and measures the loss allowance in an amount equal to the lifetime expected credit losses.

An impairment loss on debt instruments measured at amortized cost is recognized in profit or loss with a corresponding loss allowance that is offset from the carrying amount of the financial asset, whereas the impairment loss on debt instruments measured at fair value through other comprehensive income is recognized in profit or loss with a corresponding loss allowance that is recorded in other comprehensive income and not as a reduction of the carrying amount of the financial asset in the statement of financial position.

The Company applies the low credit risk simplification in IFRS 9, according to which the Company assumes the debt instrument's credit risk has not increased significantly since initial recognition if on the reporting date it is determined that the instrument has a low credit risk, for example when the instrument has an external rating of "investment grade".

In addition, the Company considers that when contractual payments in respect of a debt instrument are more than 30 days past due, there has been a significant increase in credit risk, unless there is reasonable and supportable information that demonstrates that the credit risk has not increased significantly.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

3. Derecognition of financial assets:

A financial asset is derecognized only when:

- The contractual rights to the cash flows from the financial asset has expired; or

- The Company has transferred substantially all the risks and rewards deriving from the contractual rights to receive cash flows from the financial asset or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset; or

- The Company has retained its contractual rights to receive cash flows from the financial asset but has assumed a contractual obligation to pay the cash flows in full without material delay to a third party.

A transaction involving factoring of accounts receivable and credit card vouchers is derecognized when the abovementioned conditions are met.

If the Company transfers its rights to receive cash flows from an asset and neither transfers nor retains substantially all the risks and rewards of the asset nor transfers control of the asset, a new asset is recognized to the extent of the Company's continuing involvement in the asset. When continuing involvement takes the form of guaranteeing the transferred asset, the extent of the continuing involvement is the lower of the original carrying amount of the asset and the maximum amount of consideration received that the Company could be required to repay (guarantee amount).

When the Company continues to recognize an asset based on the level of its continuing involvement therein, the Company also recognizes the associated liability. The associated liability is measured in such a manner that the net carrying amount of the transferred asset and the associated liability is:

- The amortized cost of the rights and obligations retained by the Company, if the transferred asset is measured at amortized cost; or

- Equal to the fair value of the rights and obligations retained by the Company when measured on a stand-alone basis, if the transferred asset is measured at fair value.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

4. Financial liabilities:

Financial liabilities measured at amortized cost:

Financial liabilities are initially recognized at fair value less transaction costs that are directly attributable to the issue of the financial liability.

After initial recognition, the Company measures all financial liabilities at amortized cost using the effective interest rate method, except for:

- Financial liabilities measured at fair value through profit or loss;
- Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies;
- Financial guarantee contracts;
- Commitments to provide a loan at a below-market interest rate;
- Contingent consideration recognized by an acquirer in a business combination to which IFRS 3 applies.

5. Derecognition of financial liabilities:

A financial liability is derecognized only when it is extinguished, that is when the obligation specified in the contract is discharged or canceled or expires. A financial liability is extinguished when the debtor discharges the liability by paying in cash, other financial assets, goods or services; or is legally released from the liability.

When there is a modification in the terms of an existing financial liability, the Company evaluates whether the modification is substantial, taking into account qualitative and quantitative information.

If the terms of an existing financial liability are substantially modified or a liability is exchanged for another liability from the same lender with substantially different terms, the modification or exchange is accounted for as an extinguishment of the original liability and the recognition of a new liability. The difference between the carrying amounts of the above liabilities is recognized in profit or loss.

If the modification in the terms of an existing liability is not substantial or if a liability is exchanged for another liability from the same lender whose terms are not substantially different, the Company recalculates the carrying amount of the liability by discounting the revised cash flows at the original effective interest rate and any resulting difference is recognized in profit or loss.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

6. Offsetting financial instruments:

Financial assets and financial liabilities are offset and the net amount is presented in the statement of financial position if there is a legally enforceable right to set off the recognized amounts and there is an intention either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The right of set-off must be legally enforceable not only during the ordinary course of business of the parties to the contract but also in the event of bankruptcy or insolvency of one of the parties. In order for the right of set-off to be currently available, it must not be contingent on a future event, there may not be periods during which the right is not available, or there may not be any events that will cause the right to expire.

q. Fair value measurement:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value measurement is based on the assumption that the transaction will take place in the asset's or the liability's principal market, or in the absence of a principal market, in the most advantageous market.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

Fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

r. Provisions:

A provision in accordance with IAS 37 is recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects part or all of the expense to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense is recognized in the statement of profit or loss net of any reimbursement.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The amount recognized as a provision should be the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The best estimate of the expenditure required to settle the present obligation is the amount that the Company would rationally pay to settle the obligation at the end of the reporting period or to transfer it to a third party at that time. Where the provision being measured involves a large population of items, the obligation is estimated by weighting all possible outcomes by their associated probabilities. Where a single obligation is being measured, the individual most likely outcome may be the best estimate of the provision.

Following are the types of provisions included in the financial statements:

Warranty:

The Group recognizes a provision for warranty when the product is sold or when the service is provided to the customer.

Legal claims:

A provision for claims is recognized when the Group has a present legal or constructive obligation as a result of a past event, it is more likely than not that an outflow of resources embodying economic benefits will be required by the Group to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Costs of removing waste:

The provision was recognized in the context of the acquisition of the operations of a subsidiary (Chemada Industries Ltd.) in respect of those agreements for which it is obligated to bear the costs of removal of organic chemical waste on the plant site. The Group regularly examines the remaining plant waste and creates a provision accordingly.

s. Employee benefit liabilities:

The Group has several types of employee benefits:

1. Short-term employee benefits:

Short-term employee benefits are benefits that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related services. These benefits include salaries, paid annual leave, paid sick leave, recreation and social security contributions and are recognized as expenses as the services are rendered. A liability in respect of a cash bonus or a profit-sharing plan is recognized when the Group has a legal or constructive obligation to make such payment as a result of past service rendered by an employee and a reliable estimate of the amount can be made.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

2. Post-employment benefits:

The plans are normally financed by contributions to insurance companies or funds and classified as defined contribution plans or as defined benefit plans.

The Group has defined contribution plans pursuant to section 14 to the Severance Pay Law under which the Group pays fixed contributions and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient amounts to pay all employee benefits relating to employee service in the current and prior periods.

3. Other long-term employee benefits:

The Group's employees are entitled to benefits in respect of paid absences, jubilee grants and adaptation grants. These benefits are accounted for as other long-term benefits since the Company estimates that these benefits will be used and the respective Group's obligation will be settled during the employment period and more than twelve months after the end of the annual reporting period in which the employees render the related service.

t. Share-based payment transactions:

The cost of equity-settled transactions with employees is measured at the fair value of the equity instruments granted at grant date. The fair value is determined using an acceptable option pricing model. As for other service providers, the cost of the transactions is measured at the fair value of the goods or services received as consideration for equity instruments granted.

The cost of equity-settled transactions is recognized in profit or loss together with a corresponding increase in equity during the period which the performance and/or service conditions are to be satisfied ending on the date on which the relevant employees become entitled to the award ("the vesting period"). The cumulative expense recognized for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest.

u. Earnings per share:

Earnings per share are calculated by dividing the net income attributable to equity holders of the Company by the weighted number of Ordinary shares outstanding during the period.

Potential Ordinary shares are included in the computation of diluted earnings per share when their conversion decreases earnings per share from continuing operations. Potential Ordinary shares that are converted during the period are included in diluted earnings per share only until the conversion date and from that date in basic earnings per share. The Company's share of earnings of investees is included based on its share of earnings per share of the investees multiplied by the number of shares held by the Company.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

v. Changes in accounting policies and initial application of new financial reporting and accounting standards and amendments to existing financial reporting and accounting standards:

1. Amendments to IFRS 3, "Business Combinations":

In May 2020, the IASB issued Amendments to IFRS 3, "Business Combinations – Reference to the Conceptual Framework", which are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements with a reference to the Conceptual Framework for Financial Reporting, that was issued in March 2018, without significantly changing its requirements.

The IASB added an exception to the recognition principle of IFRS 3 to avoid the issue of potential ‘day 2’ gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies, if incurred separately.

The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to determine at the acquisition date whether as a result of a past event, a present obligation exists or whether the event that creates an obligation to pay the levy occurred by the acquisition date.

The Amendments also clarify that contingent assets do not qualify for recognition at the acquisition date.

The Amendments are applied prospectively for annual reporting periods beginning on or after January 1, 2022.

The application of the Amendments did not have a material impact on the Company's financial statements.

2. Annual improvements to IFRSs 2018-2020:

In May 2020, the IASB issued certain amendments in the context of the Annual Improvements to IFRSs 2018-2020 Cycle. The main amendment is to IFRS 9, "Financial Instruments" ("the Amendment"). The Amendment clarifies which fees a company should include in the "10% test" described in paragraph B3.3.6 of IFRS 9 when assessing whether the terms of a debt instrument that has been modified or exchanged are substantially different from the terms of the original debt instrument.

According to the Amendment, fees paid net of any fees received that are included in the cash flows are only those fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

The Amendment is effective for annual periods beginning on or after January 1, 2022. The Amendment is applied to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the Amendment, that is from January 1, 2022.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

3. Amendment to IAS 37, "Provisions, Contingent Liabilities and Contingent Assets":

   In May 2020, the IASB issued an amendment to IAS 37, regarding which costs a company should include when assessing whether a contract is onerous ("the Amendment").

   According to the Amendment, costs of fulfilling a contract include both the incremental costs (for example, raw materials and direct labor) and an allocation of other costs that relate directly to fulfilling a contract (for example, depreciation of an item of property, plant and equipment used in fulfilling the contract).

   The Amendment is effective for annual periods beginning on or after January 1, 2022 and applies to contracts for which all obligations in respect thereof have not yet been fulfilled as of January 1, 2022. The application of the Amendment does not require of property, plant and equipment the restatement of comparative data. Instead, the opening balance of retained earnings on the date of initial application date is adjusted for the cumulative effect of the Amendment.

   The application of the Amendment did not have a material impact on the Company's financial statements.

NOTE 3:- SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS USED IN THE PREPARATION OF THE FINANCIAL STATEMENTS

In the process of applying the significant accounting policies, the Group has made the following judgments which have the most significant effect on the amounts recognized in the financial statements:

Estimates and assumptions:

The preparation of the financial statements requires management to make estimates and assumptions that have an effect on the application of the accounting policies and on the reported amounts of assets, liabilities, revenues and expenses. In determining its accounting estimates, management relies on past experience, various underlying facts, external factors and reasonable assumptions, based on the relevant circumstances. Changes in accounting estimates are reported in the period of the change in estimate.

- Impairment of goodwill:

  The Group reviews goodwill for impairment at least once a year. This requires management to make an estimate of the projected future cash flows from the continuing use of the cash-generating unit (or a group of cash-generating units) to which the goodwill is allocated and also to choose a suitable discount rate for those cash flows. The potential possible effects on the financial statements are the recording of impairment losses in profit or loss in the period in which they are incurred.

NOTE 3:- SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS USED IN THE PREPARATION OF THE FINANCIAL STATEMENTS (Cont.)

- Symmetrical put and call options on non-controlling interests:

  In acquisitions of non-controlling interests in subsidiaries, the Company has a call option to purchase the remaining shares in the subsidiary and the holders of non-controlling interests have a put option to sell their shares in the subsidiary to the Company. If the Company does not recognize the non-controlling interests, it recognizes the entire liability arising from the exercise of the call option at its discounted amount. The discount rate and average profit forecasts used to derive the exercise price of the option are based on management's evaluation and are periodically tested for their adequacy. Changes in these evaluations are likely to affect the amount of the liability and the finance expenses in its respect.

- Provision for waste removal:

  In the acquisition of Chemada, the Company assumed the liability to remove organic chemical waste from the plant site. The quantities and costs of the economic resources needed to extinguish this liability are based on management's assessment which relies, among others, on quotations received and professional counsel and are periodically tested for their adequacy. Changes in these evaluations are likely to affect the amount of the liability and the finance expenses in its respect.

NOTE 4:- DISCLOSURE OF NEW STANDARDS IN THE PERIOD PRIOR TO THEIR ADOPTION

a. Amendment to IAS 1, "Presentation of Financial Statements":

In January 2020, the IASB issued an amendment to IAS 1, "Presentation of Financial Statements" regarding the criteria for determining the classification of liabilities as current or non-current ("the Original Amendment"). In October 2022, the IASB issued a subsequent amendment ("the Subsequent Amendment").

According to the Subsequent Amendment:

- Only covenants with which an entity must comply on or before the reporting date will affect a liability's classification as current or non-current.

NOTE 4:- DISCLOSURE OF NEW STANDARDS IN THE PERIOD PRIOR TO THEIR ADOPTION (Cont.)

- An entity should provide disclosure when a liability arising from a loan agreement is classified as non-current and the entity's right to defer settlement is contingent on compliance with future covenants within twelve months from the reporting date. This disclosure is required to include information about the covenants and the related liabilities. The disclosures must include information about the nature of the future covenants and when compliance is applicable, as well as the carrying amount of the related liabilities. The purpose of this information is to allow users to understand the nature of the future covenants and to assess the risk that a liability classified as non-current could become repayable within twelve months. Furthermore, if facts and circumstances indicate that an entity may have difficulty in complying with such covenants, those facts and circumstances should be disclosed.

According to the Original Amendment, the conversion option of a liability affects the classification of the entire liability as current or non-current unless the conversion component is an equity instrument.

The Original Amendment and Subsequent Amendment are both effective for annual periods beginning on or after January 1, 2024 and must be applied retrospectively. Early application is permitted.

b. Amendment to IAS 8, "Accounting Policies, Changes to Accounting Estimates and Errors":

In February 2021, the IASB issued an amendment to IAS 8, "Accounting Policies, Changes to Accounting Estimates and Errors" ("the Amendment"), in which it introduces a new definition of "accounting estimates".

Accounting estimates are defined as "monetary amounts in financial statements that are subject to measurement uncertainty". The Amendment clarifies the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors.

The Amendment is to be applied prospectively for annual reporting periods beginning on or after January 1, 2023 and is applicable to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Early application is permitted.

NOTE 4:- DISCLOSURE OF NEW STANDARDS IN THE PERIOD PRIOR TO THEIR ADOPTION (Cont.)

c. Amendment to IAS 12, "Income Taxes":

In May 2021, the IASB issued an amendment to IAS 12, "Income Taxes" ("IAS 12"), which narrows the scope of the initial recognition exception under IAS 12.15 and IAS 12.24 ("the Amendment").

According to the recognition guidelines of deferred tax assets and liabilities, IAS 12 excludes recognition of deferred tax assets and liabilities in respect of certain temporary differences arising from the initial recognition of certain transactions. This exception is referred to as the "initial recognition exception". The Amendment narrows the scope of the initial recognition exception and clarifies that it does not apply to the recognition of deferred tax assets and liabilities arising from transactions that are not a business combination and that give rise to equal taxable and deductible temporary differences, even if they meet the other criteria of the initial recognition exception.

The Amendment applies for annual reporting periods beginning on or after January 1, 2023, with earlier application permitted. In relation to leases and decommissioning obligations, the Amendment is to be applied commencing from the earliest reporting period presented in the financial statements in which the Amendment is initially applied. The cumulative effect of the initial application of the Amendment should be recognized as an adjustment to the opening balance of retained earnings (or another component of equity, as appropriate) at that date.

The Company estimates that the initial application of the Amendment is not expected to have a material impact on its financial statements.

d. Amendment to IAS 1 - Disclosure of Accounting Policies:

In February 2021, the IASB issued an amendment to IAS 1, "Presentation of Financial Statements" ("the Amendment"), which replaces the requirement to disclose 'significant' accounting policies with a requirement to disclose 'material' accounting policies. One of the main reasons for the Amendment is the absence of a definition of the term 'significant' in IFRS whereas the term 'material' is defined in several standards and particularly in IAS 1.

The Amendment is applicable for annual periods beginning on or after January 1, 2023. Early application is permitted.

The Company is evaluating the effects of the Amendment on its financial statements.

NOTE 5:- BUSINESS COMBINATIONS

a. Acquisition of LORI:

On January 17, 2022, the Company, through a wholly owned company, completed a transaction to acquire the entire share capital of LORI RKF ("LORI"), a private company incorporated in Latvia and operating in the fragrances industry, from its shareholders.

The Company acquired LORI shares for approximately € 3.1 million (approximately $ 3.6 million) plus net cash balance.

LORI manufactures fragrances and markets them in Eastern Europe and has a wide range of development and application capabilities. The acquisition of LORI will expand the Group's sales in the field of fragrances, their development and marketing in Central and Eastern Europe and its customer base in the regions where LORI operates, while leveraging synergies between the Group's companies in Israel and around the world.

The purchase price was allocated to tangible assets, intangible assets and liabilities acquired at their fair value on the purchase date. The table below summarizes the purchase price and the purchase price allocation (PPA):

	January 17, 2022
	U.S. dollars in thousands
Working capital, net	65
Right-of-use asset	533
Property, plant and equipment	354
Net identifiable assets	952
Customer relations	395
Product formulae	211
Software	50
Goodwill arising on acquisition	2,582
Lease liability	(533)
Deferred taxes	(97)
Total purchase price	3,560

From the consolidation date through December 31, 2022, the acquired operation has contributed approximately $ 7,890 thousand to revenues and approximately $ 774 thousand to net income.

NOTE 5:- BUSINESS COMBINATIONS (Cont.)

b. Acquisition of Balirom:

On March 1, 2022, the Company completed a transaction to acquire 60% of the issued and outstanding share capital and voting rights in Balirom Ltd., a private company incorporated in Israel ("Balirom acquisition agreement" and "Balirom", respectively) from its shareholders, for approximately NIS 14.5 million (approximately $ 4.6 million). The Balirom acquisition agreement contains certain adjustments as of the acquisition date and a symmetrical put/call option to acquire the remaining shares of Balirom which can be exercised over 12 months beginning 4 years from the transaction completion date, namely until March 31, 2027, at a price that will be determined based on the business performance of the Company's activity in the sweet taste extracts field in Israel combined with Balirom's activity during eight (8) calendar quarters prior to the exercise of the option.

Based on the option terms that were similar for all parties to the transaction, the Group recorded the acquisition of full control (100%) of Balirom as well as the full liability implied from exercising the option at its discounted value.

Balirom, which was founded in 2001, is engaged in research, development, production, marketing, sales and supply of flavor extracts and non-sweet savory flavor as well as accessories and supplements for the food industry. The facility of Balirom is located in Beer Tuvia.

The purchase price was allocated to tangible assets, intangible assets and liabilities acquired at their fair value on the purchase date. The table below summarizes the purchase price and the PPA:

	March 31, 2022
	U.S. dollars in thousands
Working capital, net	2,233
Right-of-use asset	2,228
Property, plant and equipment	466
Net identifiable assets	4,927
Customer relations	1,123
Product formulae	1,089
Goodwill arising on acquisition	4,765
Lease liability	(2,228)
Deferred taxes	(473)
Other non-current liabilities	(734)
Total purchase price	8,469
Cost of purchase:	
Paid in cash	4,580
Contingent consideration and adjustments on acquisition date	3,889
Total purchase price	8,469

From the consolidation date through December 31, 2022, the acquired operation has contributed approximately $ 4,044 thousand to revenues and approximately $ 447 thousand to net income.

NOTE 5:- BUSINESS COMBINATIONS (Cont.)

c. Acquisition of Pentaor:

On April 12, 2022, the Company completed the acquisition of all the issued and outstanding share capital and voting rights of Pentaor Ltd., a private company incorporated in Israel ("Pentaor acquisition agreement" and "Pentaor", respectively), from its shareholders, for NIS 10 million (approximately $ 3.1 million).

Pentaor, which was founded in 1997, is engaged in development, production, marketing and sale of unique functional solutions for the baking industry, utilizing state-of-the-art technology, under the PentaCake brand, which combines advantages such as softness, moisture, volume, texture, and long shelf life. Pentaor operates in Zarzir industrial zone near the Company's development center in Zarzir and exports most of its products to emerging markets, such as Vietnam, India and Southeast Asia.

The purchase price was allocated to tangible assets, intangible assets and liabilities acquired at their fair value on the purchase date. The table below summarizes the purchase price and the PPA:

	April 12, 2022
	U.S. dollars in thousands
Working capital, net	504
Right-of-use asset	141
Property, plant and equipment	40
Net identifiable assets	685
Product formulae	2,955
Deferred taxes	(222)
Lease liability	(141)
Other non-current liabilities	(83)
Total purchase price	3,194
Cost of purchase:	
Paid in cash	3,149
Contingent consideration and adjustments on acquisition date	45
Total purchase price	3,194

Pentaor's activity was fully merged into the Company in the beginning of the fourth quarter of 2022 including the transfer of Pentaor's plant to the Company, see paragraph i below regarding the merger of the Company and Pentaor.

NOTE 5:- BUSINESS COMBINATIONS (Cont.)

d. Acquisition of Klabin:

In keeping with the Company's immediate report of September 18, 2022 (TASE reference: 2022-01-118207) regarding the acquisition, through Turpaz USA, a wholly owned subsidiary of the Company, of 81% of the issued and outstanding share capital and voting rights of Klabin Fragrances, Inc. ("Klabin"), a private company incorporated in the United States, from Klabin's shareholders ("the sellers") in return for $ 24.3 million, subject to adjustments based on Klabin's operating results for 2022 ("the acquisition agreement") and with the Company's immediate report of October 3, 2022 (TASE reference: 2022-01-100530) regarding the closing of the acquisition agreement, the Company reported the following developments:

From the date of its acquisition and in the first quarter of 2023, Klabin focused on expanding its production line and invested resources in integrating and consolidating the activity of Turpaz USA into its own activities at its innovative production site in New Jersey, USA. In this context, Klabin assimilated Turpaz USA's production, development, IT and finance functions. As of the financial statement date, the consolidation of Turpaz USA's operations with Klabin's operations has been completed.

Klabin's operations in the fourth quarter of 2022 were affected by reduced inventories of customers as part of the inventory reduction trend currently practiced in this industry due to interest rises around the world and market uncertainty, which impaired Klabin's EBITDA in 2022.

Consequently, the parties held negotiations for adjusting the purchase price and transaction terms and agreed that instead of adjusting the purchase price, the acquisition agreement will be amended as follows: (i) the remaining issued and outstanding share capital and voting rights in Klabin (19%) will be immediately transferred to Turpaz USA so that the latter will hold 100% of Klabin's shares and rights; (ii) the immediate purchase price for 100% of the shares of Klabin will be reduced to $ 22.4 million; (iii) the sellers will be entitled to an earnout of up to $ 3 million based on Klabin's business results in 2023-2025.

Klabin began operating in 1998 and is engaged in research, development, production, marketing, sale and supply of custom fragrances, natural oils, essences, natural and synthetic ingredients, functional solutions and applications for the cosmetic industry, toiletries, candles, body and hair products, ambiance fragrances, detergents and fine fragrances. The acquisition of Klabin represents a strategic acquisition for Turpaz USA's operations by allowing the expansion of the Group's fragrance product portfolio and clientele while leveraging the development, procurement, marketing and sale synergies between the Group companies.

NOTE 5:- BUSINESS COMBINATIONS (Cont.)

The purchase price will be allocated to tangible assets, intangible assets and liabilities acquired at their fair value on the purchase date. The fair value measurement of the assets and liabilities is subject to a final purchase price allocation (PPA) of the fair value of the assets and liabilities, which has not yet been completed as of the date of approval of these financial statements. In these financial statements, the excess purchase price has been provisionally allocated to goodwill. The table below summarizes the purchase price and provisional PPA:

	October 3, 2022
	U.S. dollars in thousands
Working capital, net	457
Right-of-use asset	2,167
Property, plant and equipment	5
Net identifiable assets	2,628
Goodwill arising on acquisition	23,718
Lease liabilities	(2,167)
Total purchase price	24,179
Cost of purchase:	
Paid in cash less refund for adjustments	22,380
Contingent consideration	1,799
Total purchase price	24,179

From the consolidation date through December 31, 2022, the acquired operation has contributed approximately $ 661 thousand to revenues and approximately $ 311 thousand to net income.

e. The acquisition of FIT

On October 28, 2021, the Company completed a transaction for the purchase of control (60%) in Food Ingredients Technology ("FIT"). FIT is engaged in the development, production and marketing of savory flavor extracts to extensive segments in the food industry, including the meat, fish, ready meals, plant-based solutions, coatings for the fast-food industry, soups and sauces. The Company acquired FIT in consideration of approximately € 12.8 million (approximately $ 14.5 million), of which € 1.99 million (approximately $ 2.25 million) were paid in cash, and the remaining balance was paid by way of allocating shares, based on the average share price in the 30 days preceding the date on which the agreement was entered into, constituting - on allocation date - about 1.74% of the issued and outstanding share capital (about 1.73% on a fully diluted basis). The value of the shares is measured in accordance with the share price on completion date.

NOTE 5:- BUSINESS COMBINATIONS (Cont.)

In accordance with agreements between the parties, the consideration is subject to further adjustments that were carried out in cash within 90 days from the transaction completion date. In February 2022, the Company paid E€ 0.9 million ($ 1 million) in respect of the said adjustment.

Furthermore, the agreement includes a mutual option to purchase FIT's remaining shares (40%) three years from the transaction completion date for a period of one year, and at a price based on FIT's business performance in the twelve quarters preceding the date of the option exercise notice. Taking into consideration the identical option terms for each of the parties to the transaction, the Group recorded the purchase of all of FIT's share capital (100%), while recording the entire constructive obligation arising from the exercise of the option in accordance with its discounted value (see Note 18c(2)).

In the reporting period, the Company adjusted the PPA in respect of the acquisition of FIT after the fair value of FIT's identifiable assets and liabilities had been provisionally measured. The Company retroactively adjusted the provisional amounts recognized on the acquisition date in order to reflect new information obtained in respect of the facts and circumstances that were available on the acquisition date. As a result, the Company updated the value of the liabilities in respect of the put option for purchasing FIT's remaining shares in a total of € 15,441 thousand ($ 17,976 thousand) against goodwill.

The Company hired an independent appraiser to carry out the excess purchase price allocation as of purchase date. The excess purchase price was allocated to product formulae, customer relations and goodwill, as described below.

The table below summarizes the purchase price paid for FIT and the identifiable amounts of assets acquired and liabilities assumed on the acquisition date at their fair value:

	October 28, 2021
	U.S. dollars in thousands
Working capital, net	642
Property, plant and equipment	3,697
Net identifiable assets	4,339
Customer relations	8,798
Product formulae	5,424
Goodwill arising on acquisition	32,509
Deferred taxes	(3,556)
Total purchase price	47,514

NOTE 5:- BUSINESS COMBINATIONS (Cont.)

f. Acquisition of the activity of Pilpel and Galilee Herbs:

On October 3, 2021, the Company completed the purchase of assets and business activity from Pilpel - Food Industries Development Ltd. and FC Galilee Herbs Ltd. (collectively – "the seller") in consideration for NIS 12 million (approximately $ 3.75 million).

The acquired activity focuses on the production of savory seasonings for the meat, cured meats, fish, gluten-free flours, flavor extracts and meat substitutes industries. The company also has an extensive R&D activity.

The consideration is subject to adjustments of NIS 1 million ($ 0.32 million) in each of the years 2021 and 2022; adjustments will be added or deducted from the consideration based on the EBITDA arising from the purchased activity in each of the said years; the consideration is also subject to a further adjustment at the value of the inventory; this adjustment shall be reviewed a year after the completion date.

The purchase price was allocated to inventory, property, plant and equipment items, that were purchased based on their fair value at the time of acquisition; furthermore, the intangible assets that were recognized include customer relations, product formulae and goodwill as described below:

	October 3, 2021
	U.S. dollars in thousands
Inventory	984
Property, plant and equipment	1,444
Net identifiable assets	2,428
Customer relations	525
Product formulae	175
Goodwill arising on acquisition	203
Total purchase price	3,331

g. Acquisition of the activity of SDA:

On October 26, 2020, Turpaz Extracts signed an agreement with Kibbutz Sde Eliyahu for the purchase of rights and investment in SDA Spice Agricultural Cooperative Society Ltd. (currently – SDA Spice Industries Ltd., "SDA"). Under the agreement, Turpaz Extracts was allocated rights constituting 51% of the rights in SDA's capital in consideration for $ 2 million (NIS 6.63 million). Turpaz Extracts also undertook to pay Kibbutz Sde Eliyahu a performance-based payment of up to $ 1.75 million (NIS 5.61 million), which will be paid within 30 days from the approval date of SDA's 2023 audited financial statements. As from the transaction's completion date, Turpaz Extracts undertook to indemnify Kibbutz Sde Eliyahu for any amount it paid under the personal guarantees it provided in favor of SDA's activity in respect of the period subsequent to the transaction's completion date.

NOTE 5:- BUSINESS COMBINATIONS (Cont.)

On September 1, 2021, Turpaz Extracts completed the purchase of the remaining share capital of SDA (49%) from the Kibbutz, such that subsequent to the completion of the purchase Turpaz Extracts holds the entire issued and outstanding share capital of SDA.

On completion date, Turpaz Extracts paid a total of approximately $ 7.5 million (NIS 24.5 million). Furthermore, Turpaz Extracts undertook to pay the Kibbutz a performance-based payment of approximately $ 0.9 million (NIS 3 million) that will be paid no later than April 30, 2025, based on the increase in SDA's average annual EBITDA for the years 2022-2024. Furthermore, on transaction completion date, Turpaz Extracts paid the Kibbutz a total of approximately $ 1.72 million (approximately NIS 5.61 million), in respect of contingent consideration for meeting targets, which the Kibbutz was entitled to under the purchase transaction of October 2020.

As part of the transaction, Turpaz Extracts undertook to repay the shareholders' loans the Kibbutz extended to SDA, whose balance as of December 31 2022 is approximately $ 924 thousand (approximately NIS 3.25 million).

h. On December 16, 2021, a merger agreement which is immaterial to the Company was signed between the Company and Turpaz Extracts as per the provisions of Section 103C to the Income Tax Ordinance, after it had been approved by the Boards of Directors of each company. Following the merger, the entire operations of Turpaz Extracts were merged into the Company. The ITA's approval for the merger was obtained on May 2, 2022 and on August 10, 2022, the merger was registered at the Registrar of Companies and the merger was completed.

i. On September 21, 2022, after approval by the Boards of Directors of both companies, a merger agreement which is immaterial to the Company was signed pursuant to the provisions of Section 103C to the Income Tax Ordinance between the Company and Pentaor Ltd. In accordance with the merger agreement, the companies will be merged through the exchange of shares pursuant to Section 103C to the Income Tax Ordinance, so that upon completion of the merger transaction, Pentaor Ltd.'s entire operations will be merged into the Company. The ITA's approval for the merger was obtained on March 14, 2023 and the relevant merger documents were produced to the Registrar of Companies for approval of the merger.

NOTE 5:- BUSINESS COMBINATIONS (Cont.)

j. Table of the Company's holdings as of December 31, 2022:

Company name	Country of incorporation	Holding rate: Voting rights	Holding rate: Equity rights
Turpaz Industries Ltd.	Israel	100%	100%
Chemada Industries Ltd.	Israel	100%	100%
Balirom Ltd.	Israel	60%	60%
Pentaor Ltd.	Israel	100%	100%
Turpaz Fragrances and Flavors Aroma Inc.	USA	100%	100%
Klabin Fragrances Inc.	USA	81%	81%
Pollena-Aroma	Poland	100%	100%
Western Flavors Fragrances Production JSC	Vietnam	60%	60%
SDA Spice Industries Ltd.	Israel	100%	100%
Food Ingredients Technologies	Belgium	60%	60%
Turpaz Belgium	Belgium	100%	100%
LORI RKF	Latvia	100%	100%

NOTE 6:- CASH AND CASH EQUIVALENTS

	December 31, 2022	December 31, 2021
	U.S. dollars in thousands	
Cash and deposits for immediate withdrawal in NIS	22,718	43,780
Cash and deposits for immediate withdrawal in USD	6,092	4,857
Cash and deposits for immediate withdrawal in Zloty	752	582
Cash and deposits for immediate withdrawal in Euro	5,800	6,538
Cash and deposits for immediate withdrawal in other currency	313	144
	35,675	55,901

NOTE 7:- TRADE RECEIVABLES

	December 31, 2022	December 31, 2021
	U.S. dollars in thousands	
Open debts	23,824	19,939
Checks receivable	1,470	1,029
	25,294	20,968
Less – allowance for doubtful accounts	130	107
Trade receivables, net	25,164	20,861

Movement in allowance for doubtful accounts:

	2022	2021
	U.S. dollars in thousands	
Balance as of January 1	107	82
Provision for the year	23	25
Balance as of December 31	130	107

Following is information about the credit risk exposure of the Company's trade receivables:

December 31, 2022:

	Not past due	Past due trade receivables < 30 days	31- 60 days	61 - 90 days	91 - 120 days	>120 days	Total
	U.S. dollars in thousands						
Gross carrying amount	17,512	5,296	1,234	362	553	337	25,294
Allowance for doubtful accounts	-	-	-	-	-	130	130

December 31, 2021:

	Not past due	Past due trade receivables < 30 days	31- 60 days	61 - 90 days	91 - 120 days	>120 days	Total
	U.S. dollars in thousands						
Gross carrying amount	17,189	3,088	338	130	101	122	20,968
Allowance for doubtful accounts	-	-	-	-	-	107	107

NOTE 8:- OTHER ACCOUNTS RECEIVABLE

	December 31, 2022	December 31, 2021
	U.S. dollars in thousands	
Prepaid expenses and advances to suppliers	1,473	826
Government institutions	1,080	554
Income receivable (see Note 27)	-	12,099
Other	529	181
	3,082	13,660

NOTE 9:- INVENTORIES

	December 31, 2022	December 31, 2021
	U.S. dollars in thousands	
Raw materials	13,365	8,680
Work in process	2,544	279
Finished goods	10,083	6,701
	25,992	15,660

NOTE 10:- PROPERTY, PLANT AND EQUIPMENT

a. Composition and movement:

2022

	Land, buildings	Leasehold improvements	Vehicles	Computers and office equipment and furniture	Machinery and equipment	Total
			U.S. dollars in thousands			
Cost:						
Balance at January 1, 2022	10,855	1,689	420	1,996	19,394	34,354
Purchases	167	1,452	-	570	3,478	5,667
Newly consolidated company and purchase of activity	-	546	482	254	1,062	2,344
Adjustments arising from translating financial statements from functional currency to presentation currency	(1,234)	(593)	(68)	(240)	(2,243)	(4,378)
Adjustments arising from translating financial statements of foreign operations	691	53	1	70	580	1,395
Disposals in the year	-	-	(137)	-	-	(137)
Balance at December 31, 2022	10,479	3,147	698	2,650	22,271	39,245
Accumulated depreciation:						
Balance at January 1, 2022	2,899	654	239	1,427	11,217	16,436
Depreciation	282	183	60	239	1,085	1,849
Newly consolidated company and purchase of activity	-	255	320	153	751	1,479
Adjustments arising from translating financial statements from functional currency to presentation currency	(342)	(319)	(34)	(185)	(1,170)	(2,050)
Adjustments arising from translating financial statements of foreign operations	178	18	2	39	129	366
Disposals in the year	-	-	(94)	-	-	(94)
Balance at December 31, 2022	3,017	791	493	1,673	12,012	17,986
Depreciated cost at December 31, 2022	7,462	2,356	205	977	10,259	21,259

NOTE 10:- PROPERTY, PLANT AND EQUIPMENT (Cont.)

2021

	Land, buildings	Leasehold improvements	Vehicles	Computers and office equipment and furniture	Machinery and equipment	Total
	U.S. dollars in thousands					
Cost:						
Balance at January 1, 2021	7,564	544	586	1,426	19,255	29,375
Purchases	75	228	41	192	2,398	2,934
Newly consolidated company and purchase of activity	3,644 1	1,238	-	678	2,810	8,370
Adjustments arising from translating financial statements from functional currency to presentation currency	398	62	14	71	648	1,193
Adjustments arising from translating financial statements of foreign operations	(826)	(74)	(1)	(74)	(576)	(1,551)
Disposals in the year (see Note 27)	-	(309)	(220)	(297)	(5,141)	(5,967)
Balance at December 31, 2021	10,855	1,689	420	1,996	19,394	34,354
Accumulated depreciation:						
Balance at January 1, 2021	1,270	246	313	1,128	10,558	13,515
Depreciation	213	67	60	126	924	1,390
Newly consolidated company and purchase of activity	1,538	386	-	411	894	3,229
Adjustments arising from translating financial statements from functional currency to presentation currency	109	24	13	50	379	575
Adjustments arising from translating financial statements of foreign operations	(231)	(39)	(1)	(57)	(286)	(614)
Disposals in the year (see Note 27)	-	(30)	(146)	(231)	(1,252)	(1,659)
Balance at December 31, 2021	2,899	654	239	1,427	11,217	16,436
Depreciated cost at December 31, 2021	7,956	1,035	181	569	8,177	17,918

b. In December 2020, the subsidiary, Chemada Industries Ltd., was granted approval for a plan for investment in property, plant and equipment by the Authority for Investments and Development of the Industry and Economy pursuant to the Law for the Encouragement of Capital Investments, 1959, for the purpose of expanding Chemada's plant in Kibbutz Nir Yitzhak. The execution of investments in a total of approximately NIS 11 million in accordance with the plan will entitle Chemada to a grant accounting for 20% of said investments. The instrument of approval is subject to generally accepted conditions, including achieving business targets that were set therein. The plan may be executed by December 30, 2026. The Company commenced the construction of part of the planned extension, and the remaining part of the expansion is in the planning stage. As of the financial statement approval date, the Company has not yet received grants.

c. See information of charges in Note 20.

NOTE 11:- GOODWILL AND OTHER INTANGIBLE ASSETS

a. Composition and movement:

2022

	Customer relations	Product formulae	Trademark	Order backlog	Non-compete	Goodwill	Software	Total
	U.S. dollars in thousands							
Cost:								
Balance at January 1, 2022	15,400	6,696	242	2,230	10	36,265	-	60,843
Additions	-	-	-	-	-	-	183	183
Additions for purchase of activities	1,521	4,255	-	-	-	31,061	51	36,888
Adjustments arising from translating financial statements of foreign operations	2,064	458	8	-	-	2,172	1	4,703
Adjustments arising from translating financial statements from functional currency to presentation currency	(3,271)	(1,315)	(26)	-	-	(4,664)	(14)	(9,290)
Balance at December 31, 2022	15,714	10,094	224	2,230	10	64,834	221	93,327
Accumulated depreciation and impairment losses:								
Balance at January 1, 2022	4,666	490	242	2,230	7	-	-	7,635
Depreciation in the year	1,452	509	-	-	3	-	31	1,995
Adjustments arising from translating financial statements of foreign operations	222	39	8	-	-	-	1	270
Adjustments arising from translating financial statements from functional currency to presentation currency	(376)	(100)	(26)	-	-	-	(1)	(503)
Balance at December 31, 2022	5,964	938	224	2,230	10	-	31	9,397
Net balance at December 31, 2022	9,750	9,156	-	-	-	64,834	190	83,930

NOTE 11:- GOODWILL AND OTHER INTANGIBLE ASSETS (Cont.)

2021

	Customer relations	Product formulae	Trademark	Order backlog	Non-compete	Goodwill	Total
	U.S. dollars in thousands						
Cost:							
Balance at January 1, 2021	6,165	1,144	227	2,230	10	4,318	14,094
Additions for purchase of activities	9,323	5,599	-	-	-	*) 32,509	*) 47,431
Adjustments arising from translating financial statements of foreign operations	(743)	(352)	-	-	-	*) (1,002)	*) (2,097)
Adjustments arising from translating financial statements from functional currency to presentation currency	655	305	15	-	-	440	1,415
Balance at December 31, 2021	15,400	6,696	242	2,230	10	*) 36,265	*) 60,843
Accumulated depreciation and impairment losses:							
Balance at January 1, 2021	3,922	368	193	2,230	5	-	6,719
Depreciation in the year	597	160	58	-	2	-	817
Adjustments arising from translating financial statements from functional currency to presentation currency	147	(38)	(9)	-	-	-	99
Balance at December 31, 2021	4,666	490	242	2,230	7	-	7,635
Net balance at December 31, 2021	10,734	6,206	-	-	3	*) 36,265	*) 53,208

*) Restated, see Note 5e.

NOTE 11:- GOODWILL AND OTHER INTANGIBLE ASSETS (Cont.)

b. Purchases in the year:

The goodwill and intangible assets were purchased in business combinations, see Note 5 above.

c. Amortization expenses:

Amortization expenses of intangible assets are classified in profit or loss under research and development expenses and selling and marketing expenses.

d. Impairment in goodwill and intangible assets with a definite useful life:

In the preparation of the financial statements as of December 31, 2022, the Company identified eights cash-generating units ("CGUs") to which goodwill is allocated. An aggregate amount of $ 34,886 thousand was allocated to seven of these CGUs (including provisional allocation of the entire excess purchase price in Klabin totaling $ 23,718 thousand, see Note 5d above). The Company prepared internal valuations using the DCF method based on an analysis of the Company's operations on a going concern assumption. Moreover, the Company recognized an amount of $ 29,966 thousand in respect of one CGU to which goodwill is allocated based on an external valuation. The assumptions used by the external valuation expert based on the valuation model were a pretax WACC rate of 21.79%, an average growth rate of 10.3% for years 1-5 and a growth rate of 2.8% from the fifth year onwards. The comparison of the fair value as per the external valuation to the carrying amount as of December 31, 2022 indicates that no provision for impairment is needed.

Sensitivity analysis for changes in assumptions:

Regarding the assumptions that have been used in the determination of the cash-generating unit's value in use, management is of the opinion that there are no possible changes in the key assumptions, which have been set forth above, which may cause the carrying amount of the cash-generating unit to materially exceed its recoverable amount.

NOTE 12:- LEASES

Disclosures for leases in which the Company acts as lessee:

The Company has entered into leases of buildings and vehicles which are used for the Company's operations. As of the reporting date, the Company operates 11 production sites around the world.

Leases of buildings have lease terms of between 2 and 25 years whereas leases of vehicles have lease terms of 3 years.

Some of the leases entered into by the Company include extension and/or termination options and variable lease payments.

a. Information on leases:

	Year ended December 31,		
	2022	2021	2020
	U.S. dollars in thousands		
Interest expense on lease liabilities	625	515	360
Expenses relating to short-term leases	85	65	65
Expenses relating to lease payments	2,358	1,847	1,896
Total cash outflow for leases	3,068	2,427	2,321

b. Lease extension and termination options:

The Company has leases that include extension and termination options. These options provide flexibility in managing the leased assets and align with the Company's business needs.

The Company exercises significant judgement in deciding whether it is reasonably certain that the extension and termination options will be exercised.

In leases that contain noncancelable lease periods of between 3 and 10 years, the Company generally includes in the lease term the exercise of extension options existing in the lease agreements. In these leases, the Company usually exercises the extension option to avoid a significant adverse impact to its operating activities in the event that an alternative asset is not available immediately upon termination of the noncancelable lease period.

In leases of vehicles, the Company does not include in the lease term the exercise of extension options since the Company does not ordinarily exercise options that extend the lease period beyond 3 years (without exercising the extension option).

Lease terms that include termination options will include the period covered by the termination option when it is reasonably certain that the termination option will not be exercised.

NOTE 12:- LEASES (Cont.)

c. Disclosure of right-of-use assets:

2022

	Land and buildings	Vehicle	Total
	U.S. dollars in thousands		
Cost:			
Balance as of January 1, 2022	12,830	2,177	15,007
Additions during the year:			
New leases	4,161	814	4,975
Newly consolidated company	4,792	277	5,069
Adjustments for indexation	253	-	253
Adjustments arising from translating financial statements of foreign operations	682	348	1,030
Adjustments arising from translating financial statements from functional currency to presentation currency	(1,901)	(321)	(2,222)
Disposals during the year	(978)	(97)	(1,075)
Balance as of December 31, 2022	19,839	3,198	23,037
Accumulated depreciation:			
Balance as of January 1, 2022	1,513	1,099	2,612
Additions during the year:			
Depreciation and amortization	1,681	813	2,494
Adjustments arising from translating financial statements of foreign operations	105	275	380
Adjustments arising from translating financial statements from functional currency to presentation currency	(231)	(163)	(394)
Disposals during the year	(534)	(84)	(618)
Balance as of December 31, 2022	2,534	1,940	4,474
Depreciated cost at December 31, 2022	17,305	1,258	18,563

NOTE 12:- LEASES (Cont.)

2021

	Land and buildings	Vehicle	Total
	U.S. dollars in thousands		
Cost:			
Balance as of January 1, 2021	11,931	2,044	13,975
Additions during the year:			
New leases	4,594	658	5,252
Newly consolidated company	-	145	145
Adjustments for indexation	33	1	34
Adjustments arising from translating financial statements of foreign operations	(177)	(77)	(254)
Adjustments arising from translating financial statements from functional currency to presentation currency	396	97	493
Disposals during the year (see Note 27)	(4,638)	-	(4,638)
Balance as of December 31, 2021	12,139	2,868	15,007
Accumulated depreciation:			
Balance as of January 1, 2021	1,663	543	2,206
Additions during the year:			
Depreciation and amortization	1,041	549	1,590
Adjustments arising from translating financial statements of foreign operations	(27)	(32)	(59)
Adjustments arising from translating financial statements from functional currency to presentation currency	49	39	88
Disposals during the year (see Note 27)	(1,213)	-	(1,213)
Balance as of December 31, 2021	1,513	1,099	2,612
Depreciated cost at December 31, 2021	10,626	1,769	12,395

NOTE 12:- LEASES (Cont.)

d. Lease liabilities:

	2022	2021
	U.S. dollars in thousands	
Balance as of January 1,	12,255	11,631
Additions	4,975	5,252
Initial consolidation	5,069	145
Disposals	(457)	(3,799)
Interest expenses	625	515
Lease payments	(2,358)	(1,847)
Other changes	(1,578)	358
Balance as of December 31,	18,531	12,255

e. maturity analysis of lease liabilities:

	2022	2021
	U.S. dollars in thousands	
First year – current maturities	1,946	1,811
Second year	1,659	982
Third year	1,476	687
Fourth year	1,360	490
Fifth year	1,286	509
Sixth year and thereafter	10,804	7,776
Balance as of December 31,	18,531	12,255

f. The Company has leases for a period of up to 12 months and low value leases of office equipment. The Company applies the practical expedient in IFRS 16 in respect of these leases and recognizes lease payments as an expense using the straight-line method over the lease term

NOTE 13:- CREDIT FROM BANKS

a. Composition:

December 31, 2022

	Linkage terms	Effective interest rate 31.12.2022	Balance U.S. dollars in thousands
Current maturities of long-term loans from banks and others	Euro-linked	See Note 16a	2,982
Loans from banks	USD-linked	1.4%	91
Loans from banks	Unlinked	SOFR+1.9%	3,202
Loans from banks		P+0.34%-P+1.5%	5,761
			12,036

December 31, 2021

	Linkage terms	Effective interest rate 31.12.2021	Balance U.S. dollars in thousands
Current maturities of long-term loans from banks and others	Euro-linked	See Note 16a	3,411
Loans from banks	Unlinked	1.6%	1,103
Loans from banks		2.1%	6,599
			11,113

b. As of December 31, 2022, the Company completed factoring transactions totaling approximately $ 1,875 thousand (December 31, 2021 – approximately $ 280 thousand).

c. See Note 16 for the Company's credit terms, financial covenants and other liabilities.

d. At the end of 2022, the Company has unutilized credit facilities totaling approximately $ 2.9 million (December 31, 2021 – approximately $ 6.3 million).

e. For collaterals, see Note 20.

f. For charges, see Note 20.

NOTE 14:- TRADE PAYABLES

	December 31,	
	2022	2021
	U.S. dollars in thousands	
Open debts	19,044	13,390
Notes payable	262	2,470
	19,306	15,860

Trade payables do not bear interest. The average supplier credit days are 103 days.

NOTE 15:- OTHER ACCOUNTS PAYABLE

	December 31,	
	2022	2021
	U.S. dollars in thousands	
Employees and payroll accruals	2,816	2,268
Government institutions	3,134	792
Provision for wastewater removal	800	800
Accrued expenses (a)	3,214	2,621
Provision for crop removal	2,717	-
Other	367	569
	13,048	7,050

(a) Includes interested party, companies owned by the interested party and related parties (see Note 26).

NOTE 16:- LONG-TERM LOANS FROM BANKS

a. Composition:

	Interest rate	December 31,	
		2022	2021
	31.12.2022	U.S. dollars in thousands	
Long-term loans	2.3%-5.88% P+0.6%-P+1.5%	7,038	10,512
Less - current maturities (see also Note 13 above)		(2,982)	(3,411)
		4,056	7,101

b. For collaterals, see Note 20.

NOTE 16:- LONG-TERM LOANS FROM BANKS (Cont.)

c. Financial covenants:

1. The Company:

The Company has undertaken to meet the following financial covenants in connection with liabilities to lenders:

(a) The ratio of the Company's equity to total balance sheet will not be lower than 25% at all times.

(b) The debt coverage ratio (total debt to financial institutions and other lenders including debt to shareholders to EBITDA) (on a proforma basis) will not exceed 3.5 at all times.

As of December 31, 2022, the Company is meeting the above financial covenants: the ratio of equity to total balance sheet is 48.3% and the debt coverage ratio is 0.6.

2. SDA Spice Industries Ltd. ("SDA"):

SDA has undertaken towards a bank to meet the following financial covenants:

(a) The ratio of SDA's equity to total balance sheet will not be lower than 18% and not less than NIS 12 million at all times.

(b) The DSCR will not be lower than 1.2 at all times.

(c) The long-term debt to EBITDA ratio will not be higher than 5 at all times.

(d) There will be no change in control in SDA without the bank's advance consent.

(e) Any repayment of owner's loans requires the bank's advance consent.

As of December 31, 2022, SDA is meeting the above financial covenants: the ratio of equity to total balance sheet is 43.9% and the equity approximates NIS 50 million, the DSCR is 8.7 and the long-term debt to EBITDA ratio is (negative) -1.08.

NOTE 17:- OTHER LIABILITIES

	December 31, 2022	December 31, 2021
	U.S. dollars in thousands	
Liabilities for waste removal	3,454	5,174
Other long-term payables	59	112
Loans from others less current maturities	476	1,056
Liabilities for purchase of activities	35,401	31,998
	39,390	38,340

NOTE 18:- FINANCIAL INSTRUMENTS

a. Financial risks factors:

The Group's activities expose it to various financial risks such as market risk (foreign currency risk, CPI risk and interest rate risk), credit risk and liquidity risk. The Group's comprehensive risk management plan focuses on activities that reduce to a minimum any possible adverse effects on the Group's financial performance.

Risk management is performed by the Company's Finance Department which assesses and hedges financial risk in collaboration with the Group's operating units. The Board sets forth the overall risk management policy and specific policies for certain exposures to risks such as exchange rate risk, interest rate risk and credit risk. The policies also cover areas such as cash management and raising short-term and long-term debt.

1. Market risks:

a) Foreign currency risk:

The Group operates globally, and some of its sales are made in the functional currencies, mainly Euro, NIS, Polish Zloty, and Vietnamese Dong. Exchange rate fluctuations impact the Group's net income and financial position, which are presented in USD. The Company purchases some of its raw materials from various countries across the world and is exposed to an exchange rate risk stemming from exposure to various currencies, mainly the Euro, NIS, USD, Polish Zloty and Vietnamese Dong.

Exchange rate risk stems from future commercial transactions and assets and liabilities recognized, which are denominated in foreign currency other than the functional currency. Exposure to change in exchange rates may also arise in the process of consolidating the financial statements of consolidated companies presented in foreign currencies. The impact of this exposure on the Group's comprehensive income is presented as currency translation differences.

NOTE 18:- FINANCIAL INSTRUMENTS (Cont.)

	NIS representative exchange rate	Euro representative exchange rate	Zloty representative exchange rate	Dong representative exchange rate
	U.S. dollar			
As of				
December 31, 2022	0.284	1.066	0.228	0.000042
December 31, 2021	0.322	1.132	0.247	0.000044
December 31, 2020	0.311	1.227	0.268	0.000043
	%			
Rate of change in the year ended				
December 31, 2022	(11.8)	(5.83)	(7.69)	(4.55)
December 31, 2021	3.38	(7.74)	(7.50)	1.12
December 31, 2020	7.24	9.00	1.52	0.00

b) Interest rate risk:

Since the Group has no material interest-bearing assets, its revenues and operating cash flows are not dependent on interest rates. The Group's interest rate risk derives from exposure to changes in market interest on short-term and long-term loans received bearing variable interest rates.

2. Credit risk:

The Group does not have significant concentrations of credit risks. The Group has a policy ensuring that wholesales of products are carried out with customers with good credit history; some of those sales are insured under credit insurance. Retail sales are normally conducted in cash or through credit cards.

The Group's revenues stem from customers in Israel and across the world. The Group monitors customer debts on a regular basis, and the financial statements include allowances for doubtful accounts, which, in Group management's opinion, reflect fairly the potential loss from debts doubtful of collection.

NOTE 18:- FINANCIAL INSTRUMENTS (Cont.)

b. Concentration of liquidity risk:

The table below summarizes the maturity profile of the Group's financial liabilities based on contractual undiscounted payments (including interest payments):

December 31, 2022:

	Less than 1 year	1-5 years	5 years and onwards	Total
	U.S. dollars in thousands			
Trade payables	19,306	-	-	19,306
Other payables	6,298	-	-	6,298
Lease liability	1,946	5,781	10,804	18,531
Liability in respect of purchase of activity	338	35,401	-	35,739
Provision for waste removal	800	3,200	254	4,254
Credit from banks and others	12,036	4,532	-	16,568
Other	-	59	-	59
	40,724	48,973	11,058	100,755

December 31, 2021:

	Less than 1 year	1-5 years	5 years and onwards	Total
	U.S. dollars in thousands			
Trade payables	15,860	-	-	15,860
Other payables	6,200	-	-	6,200
Lease liability	1,811	2,668	7,776	12,255
Liability in respect of purchase of activity	1,198	14,522	-	15,720
Provision for waste removal	800	3,200	1,974	5,974
Credit from banks and others	11,113	8,157	-	19,270
Other	-	112	-	112
	36,982	28,659	9,750	75,391

NOTE 18:- FINANCIAL INSTRUMENTS (Cont.)

c. Fair value:

1. The carrying amount of cash and cash equivalents, trade receivables, other accounts receivable, credit from banks and others (mostly bearing variable interest), trade payables and other accounts payable approximates their fair value.

2. Liabilities in respect of put options:

   Some of the business combinations executed by the Company include a mechanism whereby the previous owners have a put option to sell their remaining shares and the Company has a call option to buy those shares (symmetrical put-call options).

   As of December 31, 2022, the put option amounted to $ 32,784 thousand. The value of the liabilities was estimated in accordance with the average EBITDA achieved over the term of the agreement. The weighted annual discount rate of the options is 8.6%. The fair value of the put option is measured at level 3 in the fair value hierarchy. The key non-observable input used by the Company to assess the value of the option is the future EBITDA that will be achieved; in order to assess the liabilities in respect of the options and update their value, the Company used the companies' ongoing results and updated forecasts.

d. Sensitivity tests of changes in market factors:

	Sensitivity test to changes in USD exchange rate in relation to other currencies	
	Gain (loss) from change	
	10% increase in exchange rate	10% decrease in exchange rate
	U.S. dollars in thousands	
2022	8,820	(8,820)
2021	3,787	(3,787)

	Sensitivity test to changes in interest	
	Gain (loss) from change	
	0.5% increase in interest rate	0.5% decrease in interest rate
	U.S. dollars in thousands	
2022	(59)	59
2021	(67)	67

NOTE 18:- FINANCIAL INSTRUMENTS (Cont.)

e. Sensitivity tests and key work assumptions:

The changes selected for the relevant risk factors were determined in accordance with management's estimates of potential reasonable changes in these risk factors. The Company conducted sensitivity tests to key market risk factors that may affect the reported operating results or financial position. The sensitivity tests present the pre-tax comprehensive income for each financial instrument in respect of the relevant risk factor, that was selected for it as of each reporting date. The assessment of the risk factors was carried out based on the materiality of the operating results or financial position's exposure in respect of each risk factor, in relation to the functional currency and assuming that all other parameters remain constant: In long-term loans with fixed interest the Group does not have an exposure to interest risk.

NOTE 19:- EMPLOYEE BENEFIT ASSETS AND LIABILITIES

Employee benefits consist of short-term benefits and post-employment benefits.

Post-employment benefits:

According to the labor laws and Severance Pay Law in Israel, the Company and Israeli subsidiaries are required to pay compensation to an employee upon dismissal or retirement or to make current contributions in defined contribution plans pursuant to section 14 to the Severance Pay Law, as specified below (including employees who retire under different circumstances). The computation of the employee benefit liability is made according to the current employment contract based on the employee's salary and employment term which establish the entitlement to receive the compensation.

Section 14 to the Severance Pay Law, 1963 applies to the compensation payments, pursuant to which the fixed contributions paid by the Group into pension funds and/or policies of insurance companies release the Group from any additional liability to employees for whom said contributions were made. These contributions and contributions for benefits represent defined contribution plans.

NOTE 20:- CONTINGENT LIABILITIES, COMMITMENTS, CHARGES AND GUARANTEES

a. Commitments:

1. Collective labor agreement:

Chemada's employees are employed in accordance with a special collective labor agreement of May 31, 2016, as amended and extended on September 17, 2018 and on September 22, 2022. The key points of the collective agreement are as follows:

The agreement applies to Chemada's non-managerial employees. Furthermore, pursuant to the agreement, Chemada may exclude other positions from its scope, provided that the ratio between those Chemada employees to whom the agreement applies and those to whom the agreement does not apply shall not be less than 1:3.
The agreement covers work in shifts, annual leave, compensation in respect of unscheduled work and overtime, and contributions to an advanced education fund (2.5% by the employee and 4%-5% by Chemada), depending on the employee's position.
In addition to the said collective labor agreement, Chemada's employees are also covered by the collective agreement regarding comprehensive pension in the industry, which was signed between the Manufacturers Association of Israel and the General Organization of Workers in Israel (Histadrut).

2. Chemada's purchase agreement with the Bromine Companies:

On August 12, 1999, Chemada and Bromine Compounds Ltd. and Dead Sea Bromine Company Ltd. ("the Bromine Companies") signed an agreement according to which Chemada purchases bromine and bromine compounds from the Bromine Companies. The agreement ended in June 2022 and since then the parties have been negotiating tis renewal. Chemada continues to purchase bromine from the Bromine Companies based on commercial understandings.

b. Contingent liabilities:

The total amount of outstanding claims against the Group is approximately $ 25 thousand (2021 - $ 25 thousand). According to the Group's legal counsel, the chances of the claims to be approved are low.

c. Charges:

In 2021, the Company signed new letters of undertaking with two banks in which it undertook not to place and not to undertake to place any floating charges on some or all or part of its assets, of any type or kind, without the banks' advance written consent. Accordingly, the two banks cancelled the fixed charges placed on the share capital and goodwill, and the general floating charge placed on all other assets and rights in Group companies, including other assets and other current assets.

d. Guarantees:

The Group has guarantees in a total amount of approximately $ 429 thousand.

NOTE 21:- EQUITY

a. Composition of share capital:

	December 31, 2022		December 31, 2021	
	Authorized	Issued and outstanding	Authorized	Issued and outstanding
	No. of shares with no par value		No. of shares of NIS 1 par value	
Ordinary shares	1,000,000,000	100,084,776	1,000,000,000	100,084,776

1. Immediately before the listing of the securities on the TASE: (a) the par value per share was cancelled; and (b) the Company allotted bonus shares to Company's shareholders as they were immediately before the said listing of securities, such that for each Ordinary share, the shareholders were allotted 3,199 Ordinary shares.

   On May 23, 2021, the Company completed an IPO of 23,334,100 shares on the TASE by way of non-uniform offer to institutional investors. The overall gross proceeds amounted to approximately NIS 207,995 thousand before issuance expenses. The issuance costs amounted to approximately NIS 5,700 thousand and were presented net of share premium.

2. As to the issuance of 1,742,276 Ordinary shares as part of the transaction for the purchase of control in FIT, see Note 5e.

b. Allocation of options to a Company director:

In May 2021, the Company's Board and the general meeting of the Company's shareholders approved a plan whereby a Company director will be awarded - without consideration - 757,560 unregistered options, which are exercisable into an identical number of shares. The option exercise price shall be equal to the share price as determined in the IPO.

The options award plan complies with the provisions of Section 102 to the Income Tax Ordinance. The options were allocated to a trustee on May 23, 2021 ("the allocation date").

The options vest in equal tranches over four years from the allocation date; the first tranche (25% of the options) shall vest a year after the allocation date, and all remaining options shall vest in six semi-annual tranches (12.5% of the option in each such tranche) starting 18 months after the allocation date. The first tranche will be exercisable over two years from vesting date, and each further tranche shall be exercisable over a year from vesting date on a cashless basis. Any options not exercised by the end of the said period will expire, and no rights shall be conferred upon their holders.

NOTE 21:- EQUITY (Cont.)

The following table presents the inputs used in the measurement of the fair value of the Company's equity-settled financial instruments using the Black & Scholes model:

Dividend yield per share (%)	34.83%-39.26%
Risk-free interest rate (%)	0.52%-0.25%
Expected life of the share options (in years)	As per vesting dates
Share price (NIS)	NIS 8.91

Based on the above inputs, the fair value of the share options was determined at approximately $ 575 thousand on the grant date.

Total salary expense carried by the Company in the year ended December 31, 2022 approximated $ 221 thousand (year ended December 31, 2021 – approximately $ 184 thousand).

c. Allocation of options to employees, executives and consultants in the Group:

In March 2022, the Company's Board approved the grant of 1,396,000 unregistered options, which are exercisable into an identical number of shares, to employees, executives and consultants in the Group. The Board also approved the grant of 262,000 unregistered options, which are exercisable into an identical number of shares, to Mr. Shay Khazon, the Director of Israeli Fragrance Operations, and to Ms. Shir Kesselman, Director of Fragrance Sales and Development, following the approval of the grant by the general meeting of the Company's shareholders in May 2022. The exercise price of each option is NIS 23.51, representing the average share price in the 30 trading days before the Board's grant approval date.

The options were granted in accordance with a share-based payment plan adopted by the Company and related companies for employees, service providers and officers pursuant to the provisions of Sections 102 and 3(i) to the Income Tax Ordinance. The options were allocated to a trustee on May 8, 2022.

The options vest in equal tranches over four years from the allocation date; the first tranche (25% of the options) shall vest a year after the allocation date, and all remaining options shall vest in six semi-annual tranches (12.5% of the option in each such tranche) starting 18 months after the allocation date. The options are exercisable over two years from vesting date on a cashless basis. Any options not exercised by the end of the said period will expire, and no rights shall be conferred upon their holders.

NOTE 21:- EQUITY (Cont.)

The following table presents the inputs used in the measurement of the fair value of the Company's equity-settled financial instruments using the Black & Scholes model:

Expected volatility in share price (%)	32.96%-27.89%
Risk-free interest rate (%)	0.69%-0.22%
Expected life of the share options (in years)	As per vesting dates
Share price (NIS)	NIS 23.78

Based on the above inputs, the fair value of the share options was determined at approximately $ 3,119 thousand on the grant date.

Total salary expense carried by the Company in the year ended December 31, 2022 in respect of the above plan approximated $ 1,124 thousand.

In keeping with the Remuneration Committee's recommendation and with the Company's share-based payment policy and plan, the Board's meeting of September 21, 2022 approved an immaterial and ordinary private placement of 105,000 unregistered options to an officer who is an employee of the Company under the same terms as the grant from March 2022 described above, except for an exercise price of NIS 20.37 per option, representing the average share price in the 30 trading days before the Board's grant approval date. The fair value of the options was determined as approximately $ 169 thousand on the grant date.

Total salary expense carried by the Company in the year ended December 31, 2022 in respect of the above grant approximated $ 26 thousand.

d. Rights attached to shares:

Right to vote in general meetings, right to receive dividends and rights upon a deemed liquidation event.

e. Dividend distribution:

In March 2022, the Company declared and paid a dividend of approximately NIS 12.6 million (approximately $ 3.97 million), representing about NIS 0.126 per Ordinary share of the Company.

NOTE 22:- ADDITIONAL INFORMATION TO PROFIT OR LOSS ITEMS

a. Cost of sales and services:

	Year ended December 31,		
	2022	2021	2020
	U.S. dollars in thousands		
Materials consumed	52,639	33,983	18,584
Wages and related expenses	9,668	6,912	5,004
Depreciation and amortization	3,361	2,354	2,147
Other	5,229	7,357	5,171
	70,897	50,606	30,906

b. Research and development expenses:

	Year ended December 31,		
	2022	2021	2020
	U.S. dollars in thousands		
Wages and related expenses	2,437	1,510	489
Depreciation and amortization	595	68	27
Other	575	371	346
	3,607	1,949	862

c. Selling and marketing expenses:

	Year ended December 31,		
	2022	2021	2020
	U.S. dollars in thousands		
Wages and related expenses	2,677	1,954	1,339
Marketing commissions	1,645	742	672
Transport	2,933	2,605	1,202
Depreciation and amortization	1,556	120	56
Other	1,205	853	579
	10,016	6,274	3,848

NOTE 22:- ADDITIONAL INFORMATION TO PROFIT OR LOSS ITEMS (Cont.)

d. General and administrative expenses:

	Year ended December 31,		
	2022	2021	2020
	U.S. dollars in thousands		
Wages and related expenses	8,527	6,473	4,417
IT, office and media expenses	833	485	324
Professional consulting	1,347	1,164	294
Depreciation and amortization	2,195	1,236	990
Other	2,153	899	600
	15,055	10,257	6,625

e. Other expenses (income)

	Year ended December 31,		
	2022	2021	2020
	U.S. dollars in thousands		
Income from insurance compensation for fire incident (see Note 27)	(8,794)	-	-
Other	445	208	304
	(8,349)	208	304

e. Finance income (expenses):

	Year ended December 31,		
	2022	2021	2020
	U.S. dollars in thousands		
<u>Finance income:</u>			
Exchange rate differences	306	710	295
Other	114	52	112
	420	762	407
<u>Finance expenses:</u>			
Finance expenses in respect of banks	573	583	495
Exchange rate differences	205	312	260
Finance expenses on lease liability	625	515	360
Other	530	461	75
	1,933	1,871	1,190

NOTE 23:- TAXES ON INCOME

a. Tax laws applicable to the Group companies:

Income Tax (Inflationary Adjustments) Law, 1985:

According to the law, until 2007, the results for tax purposes were adjusted for the changes in the Israeli CPI.

In February 2008, the Israeli parliament passed an amendment to the Income Tax (Inflationary Adjustments) Law, 1985, which limits the scope of the law starting 2008 and thereafter. Since 2008, the results for tax purposes are measured in nominal values, excluding certain adjustments for changes in the Israeli CPI carried out in the period up to December 31, 2007. Adjustments relating to capital gains such as for sale of property (betterment) and securities continue to apply until disposal. Since 2008, the amendment to the law includes, among others, the cancellation of the inflationary additions and deductions and the additional deduction for depreciation (in respect of depreciable assets purchased after the 2007 tax year).

The Law for the Encouragement of Capital Investments, 1959 ("the Encouragement Law"):

According to the Encouragement Law, the companies are entitled to various tax benefits by virtue of the "approved enterprise" and/or "beneficiary enterprise" status granted to part of their enterprises, as implied by the Encouragement Law.

Amendment 73 to the Encouragement Law:

In December 2016, the Economic Efficiency Law (Legislative Amendments for Applying the Economic Policy for the 2017 and 2018 Budget Years), 2016, which includes Amendment 73 to the Encouragement Law ("Amendment 73") was enacted. According to Amendment 73, a preferred enterprise located in development area A will be subject to a tax rate of 7.5% instead of 9% effective from January 1, 2017 and thereafter (the tax rate applicable to preferred enterprises located in other areas remains at 16%).

Also, according to Amendment 73, dividends distributed to individuals or foreign residents from the preferred enterprise's earnings as above will be subject to tax at a rate of 20%.

The Law for the Encouragement of Industry (Taxation), 1969:

The Company has the status of an "industrial company", as defined by this law. According to this status and by virtue of regulations published thereunder, the Company is entitled to claim a deduction of accelerated depreciation on equipment used in industrial activities, as determined in the regulations issued under the Inflationary Adjustments Law.

NOTE 23:- TAXES ON INCOME (Cont.)

b. Tax rates applicable to the Group companies:

1. In Israel:

The Israeli corporate income tax rate was 23% in 2022, 2021 and 2020.

A company is taxable on its real capital gains at the corporate income tax rate in the year of sale.

In August 2013, the Law for Changing National Priorities (Legislative Amendments for Achieving Budget Targets for 2013 and 2014), 2013 ("the Budget Law") was enacted. The Law includes, among others, provisions for the taxation of revaluation gains effective from August 1, 2013. The provisions regarding revaluation gains will become effective only after the publication of regulations defining what should be considered as "retained earnings not subject to corporate tax" and regulations that set forth provisions for avoiding double taxation of foreign assets. As of the date of approval of these financial statements, these regulations have not been published.

2. The following are the main tax rates that apply to subsidiaries which are incorporated outside of Israel:

	Tax rate
USA	30%
Latvia	20%
Poland	19%
Vietnam	20%
Belgium	25%

c. Final tax assessments:

The Company has prepared its own tax assessments that are deemed final through the 2017 tax year.

d. Carryforward losses for tax purposes:

Carryforward business losses and capital losses of the Group total approximately $ 4,440 thousand as of December 31, 2022. A deferred tax asset of approximately $ 340 thousand relating to carryforward losses of approximately $ 2,081 thousand was recognized in the financial statements.

NOTE 23:- TAXES ON INCOME (Cont.)

e. Composition of deferred taxes:

	December 31, 2022	December 31, 2021
	U.S. dollars in thousands	
Non-current assets	515	542
Non-current liabilities	(3,811)	(3,750)
	(3,296)	(3,208)

f. Movement in deferred taxes:

	2022	2021
	U.S. dollars in thousands	
Balance at beginning of year	(3,208)	(147)
Acquisition of initially consolidated subsidiary and activity	(792)	(3,556)
Changes carried to profit or loss	428	232
Changes carried to other comprehensive income	276	263
Balance at end of year	(3,296)	(3,208)

g. Taxes on income included in the statement of comprehensive income:

	Year ended December 31, 2022	2021	2020
	U.S. dollars in thousands		
Current taxes	4,914	2,351	1,285
Deferred taxes	(428)	(232)	(14)
	4,486	2,119	1,271

NOTE 23:- TAXES ON INCOME (Cont.)

h. Theoretical tax:

The reconciliation between the tax expense, assuming that all the income, expenses, gains and losses in profit or loss were taxed at the statutory tax rate and the taxes on income recorded in the statement of comprehensive income is as follows:

	Year ended December 31,		
	2022	2021	2020
	U.S. dollars in thousands		
Income before taxes on income	25,817	14,931	9,402
Statutory tax rate	23%	23%	23%
Tax computed at the statutory tax rate	5,938	3,434	2,162
Tax benefit from beneficiary tax rates as per the Encouragement Law	(1,754)	(1,320)	(942)
Different tax rate in foreign subsidiary	2	(20)	63
Nondeductible expenses	121	34	27
Losses and benefits for tax purposes for which no deferred taxes were created	247	542	4
Update of deferred taxes in respect of previous years	-	(593)	-
Other differences, net	(68)	42	(43)
Taxes on income	4,486	2,119	1,271

NOTE 24:- NET EARNINGS PER SHARE

Details of the number of shares and income used in the computation of net earnings per share:

	Year ended December 31,					
	2022		2021		2020	
	Weighted number of shares	Net income attributable to equity holders of the Company	Weighted number of shares	Net income attributable to equity holders of the Company	Weighted number of shares	Net income attributable to equity holders of the Company
	In thousands	U.S. dollars in thousands	In thousands	U.S. dollars in thousands	In thousands	U.S. dollars in thousands
For computation of basic net earnings per share	100,085	21,174	89,374	12,607	(*) 37,418	7,860
Effect of potentially dilutive Ordinary shares	422	-	230	-	-	-
For computation of diluted net earnings per share	100,507	21,174	89,604	12,607	(*) 37,418	7,860

(*) Retroactively adjusted for issuance of bonus shares, see Note 21a(1).

NOTE 25:- OPERATING SEGMENTS

a. General:

The Group applies the provisions of IFRS 8, "Operating Segments", according to which operating segments are reported in a manner consistent with the internal reporting regarding the Group's components which are regularly reviewed by the Group's chief operating decision maker ("CODM") for the purpose of allocating resources and assessing performance of the operating segments.

The operating segments were determined based on the information assessed by the CODM for the purpose of making decisions regarding the allocation of resources and assessment of the performance of the operating segments. Accordingly, the Group has been organized for management purposes into four operating segments based on the products and services of its business units, as described below: taste, fragrance, specialty intermediates for the pharma industry and specialty ingredients.

The segments' performances (segment profits) are estimated based on operating income (income before net finance expenses and unallocated expenses), as presented in the financial statements.

Segment results include items that can be directly allocated to the segment as well as those that can be allocated on a reasonable basis.

Unallocated items, which include mainly the Group's headquarters assets, general and administrative costs, finance costs and taxes on income, are managed on a Group basis.

The accounting policy of the operating segments is identical to the accounting policy presented in Note 2.

In the second half of 2022, given the Company's economies of scale, the CODM ceased analyzing the operating segments of specialty intermediates for the pharma industry and specialty ingredients separately and began analyzing them aggregately as a single reportable operating segment (specialty ingredients).

The Company also examined the possibility of aggregating its entire operating segments into a single operating segment and exercised judgment in accordance with IFRS 8 including the economic features which are shared by the operating segments. The Company concluded that the two segments mentioned above should be reported as a single reportable segment as per the CODM and in compliance with IFRS 8.

However, since the change in segment reporting occurred in the reporting year, the Company chose to present in these consolidated financial statements four operating segments as reported before and will begin reporting three operating segments from the financial statements for the first quarter of 2023.

NOTE 25:- OPERATING SEGMENTS (Cont.)

b. Operating segment reporting:

	Year ended December 31, 2022				
	Taste	Fragrance	Specialty intermediaries for the pharma industry	Specialty ingredients	Total
	U.S. dollars in thousands				
Segment revenue	59,325	27,490	16,061	15,680	118,556
Segment operating income net of unallocated joint expenses	17,667	7,390	5,083	4,003	34,143
Unallocated joint expenses					6,813
Finance expenses, net					1,513
Income before taxes on income					25,817

	Year ended December 31, 2021				
	Taste	Fragrance	Specialty intermediaries for the pharma industry	Specialty ingredients	Total
	U.S. dollars in thousands				
Segment revenue	33,292	19,436	20,873	11,733	85,334
Segment operating income net of unallocated joint expenses	2,533	6,804	6,615	3,317	19,269
Unallocated joint expenses					3,229
Finance expenses, net					1,109
Income before taxes on income					14,931

NOTE 25:- OPERATING SEGMENTS (Cont.)

	Year ended December 31, 2020				
	Taste	Fragrance	Specialty intermediaries for the pharma industry	Specialty ingredients	Total
	U.S. dollars in thousands				
Segment revenue	9,717	15,144	14,213	13,656	52,730
Segment operating income net of unallocated joint expenses	927	5,054	3,450	3,085	12,516
Unallocated joint expenses					2,331
Finance expenses, net					783
Income before taxes on income					9,402

c. Additional information on revenues:

	Year ended December 31,		
	2022	2021	2020
	U.S. dollars in thousands		
Revenues from a customer accounting for more than 10% of total revenues:			
Customer A – fragrance segment	12,270	1,848	-

d. Geographical information:

The revenues reported in the financial statements were produced in the Company's country of residence (Israel) and outside thereof based on customer location as follows:

	Year ended December 31,		
	2022	2021	2020
	U.S. dollars in thousands		
Israel and the Middle East	29,099	20,421	11,049
North America	21,555	25,804	8,832
Europe	48,922	30,870	24,167
Asia and other	18,980	8,239	8,682
	118,556	85,334	52,730

NOTE 26:- RELATED AND INTERESTED PARTY BALANCES AND TRANSACTIONS

a. Related and interested party balances:

1. Composition:

December 31, 2022

	For terms, see paragraphs	Controlling shareholder and companies owned by controlling shareholder	Interested parties and other related parties	Highest balance in the year
		U.S. dollars in thousands		
Payables	(a)-(e)	864	37	864

December 31, 2021

	For terms, see paragraphs	Controlling shareholder and companies owned by controlling shareholder	Interested parties and other related parties	Highest balance in the year
		U.S. dollars in thousands		
Payables	(a)-(e)	814	940	940

2. Management and employment agreement, rental agreements and other:

a) Karen Cohen Khazon, Chairperson of the Company's Board of Directors and Company CEO:

As from January 1, 2021, Ms. Karen Cohen Khazon, the Company's controlling shareholder, provides the Company her services as Chairperson of the Company's Board of Directors and Company CEO through a privately held company she owns ("Ms. Cohen Khazon" and "the management agreement", respectively). In consideration for the management services, Ms. Cohen Khazon is entitled to monthly management fees of NIS 220,000 linked to the CPI in respect of November 2020 ("the management fees").

NOTE 26:- RELATED AND INTERESTED PARTY BALANCES AND TRANSACTIONS (Cont.)

Furthermore, every year, Ms. Cohen Khazon is entitled to a performance-based consideration equal to 5% of the aggregate operating income of the Company and its subsidiaries; this consideration will not exceed the amount of the annual management fees paid in respect of that year (and in respect of part of a year, the performance-based consideration will be paid proportionately to Ms. Cohen Khazon's term in office during that year). For purposes of the payment of the said consideration the operating income of each subsidiary shall be calculated in accordance with the Company's stake in that subsidiary.

Furthermore, the Company provides Ms. Cohen Khazon with a car, and bears all expenses pertaining to its maintenance, including the grossing up of the tax in respect thereof.

The term of the management agreement is not limited in time, and each of the parties may terminate it by giving a six-month advance notice in writing. The management agreement includes a confidentiality clause whereby Ms. Cohen Khazon undertook to maintain confidentiality with regard to the Company; furthermore, under the agreement, upon the end of the engagement with Ms. Cohen Khazon , the Company may require Ms. Cohen Khazon not to compete with the Company for a 12-month period that will start at the end of the engagement period, in consideration for a monthly amount equal to half the monthly management fees amount as they will be as of that date.

b) Mr. Eyal Azulay, CEO of Chemada and Deputy CEO of the Company

Mr. Eyal Azulay ("Mr. Azulay") servied as Chemada's CEO from June 1, 2019, and as Deputy Company CEO from January 1, 2021 to August 21, 2022 on which date he terminated his service in the Group. As part as his terms of employment, Mr. Azulay was entitled to a monthly salary of NIS 85,000, linked to the increase in the CPI in each quarter. From January 2021, Mr. Azulay was entitled to a monthly salary of NIS 100,000, linked to the increase in the CPI in each quarter.

Furthermore, until 2021, Mr. Azulay was entitled to a bonus equal to 3% of the EBITDA in accordance with Chemada's audited annual financial statements. From January 2021, Mr. Azulay was entitled to a performance-based consideration at a total equal to 2% of the Company's aggregate operating income in 2021 and no more than a total equal to the annual management fees paid in respect of that year, and to a bonus of up to four gross monthly salaries, at the recommendation of the Chairman of the Board of Directors, and the approval of the Board of Directors of Chemada, provided that Chemada meets its targets and fulfills its business plan and/or personal KPIs the Board of Directors will set.

NOTE 26:- RELATED AND INTERESTED PARTY BALANCES AND TRANSACTIONS (Cont.)

Furthermore, Mr. Azulay was entitled to annual leave, recreation pay, pension fund and/or managers insurance, education fund, social benefits that do not exceed those that are normally acceptable for employees in his position, and to other benefits normally provided by Chemada to its employees. Mr. Azulay's employment agreement included a confidentiality clause.

Furthermore, the Company provided Mr. Azulay with a car as is generally accepted in the Company, and bore all expenses pertaining to its maintenance, including the grossing up of the tax in respect thereof.

The term of the employment agreement was not limited in time, and each of the parties could terminate it by giving a 90-day advance notice in writing. Upon the termination of his employment and in addition to the advance notice period, Mr. Azulay was entitled to a four-month adaptation period, and to a retirement grant at a total equal to his last salary multiplied by the number of his years of service in Chemada.

c) Engagement with Ms. Shir Kesselman, Head of Sales and Development in the Fragrances Segment:

Ms. Shir Kesselman ("Ms. Kesselman"), the daughter in law of the Company's controlling shareholder, has been employed by the Company since January 27, 2014, originally as a sales manager. As from January 1, 2021, Ms. Kesselman serves as the Head of Sales and Development in the Fragrances Segment. From January 1, 2020, Ms. Kesselman is entitled to a monthly salary of NIS 22,000, and as from June 1, 2021, her monthly salary will amount to NIS 25,000. Ms. Kesselman is entitled to an annual bonus in accordance with the Company's remuneration policy. Furthermore, Ms. Kesselman is entitled to annual leave, recreation pay, pension fund and managers insurance, social benefits that do not exceed those that are normally acceptable, and to other benefits normally provided by Company to its employees.

Furthermore, the Company provides Ms. Kesselman with a car as is generally accepted in the Company, and bears all expenses pertaining to its maintenance.

The term of the employment agreement is not limited in time, and each of the parties may terminate it by giving advance notice in writing in accordance with the law. Ms. Kesselman's employment agreement includes a confidentiality clause.

As part of the Company's share option plan for 2022, following the approval of the Company's Board and Remuneration Committee, a special general meeting of the Company's shareholders approved the grant of 105,000 options which are exercisable into 105,000 Ordinary shares of the Company to Ms. Kesselman for an exercise price of NIS 23.51 per share, subject to the terms of the Company's option plan.

NOTE 26:- RELATED AND INTERESTED PARTY BALANCES AND TRANSACTIONS (Cont.)

d) Engagement with Mr. Shay Khazon, Director of Israeli Fragrances Operations:

As from March 15, 2015, Mr. Shay Khazon, the husband of Ms. Karen Cohen Khazon, the Company's controlling shareholder, provides the Company services relating to operation, supply chain and maintenance through a privately held company he owns ("Mr. Khazon" and "the management agreement", respectively). In consideration for the management services provided over four days a week, on average, Mr. Khazon was entitled to monthly management fees of NIS 40,000 and from March 2021, the monthly management fees were increased to NIS 50,000, linked to the CPI of February 2021.

Furthermore, through March 2021, the Company has borne all expenses pertaining to Mr. Khazon's car.

The term of the management agreement is not limited in time, and each of the parties may terminate it by giving a 90-day advance notice in writing. Mr. Khazon's employment agreement includes a confidentiality clause.

As part of the Company's share option plan for 2022, following the approval of the Company's Board and Remuneration Committee, a special general meeting of the Company's shareholders approved the grant of 157,000 options which are exercisable into 157,000 Ordinary shares of the Company to Mr. Khazon for an exercise price of NIS 23.51 per share, subject to the terms of the Company's option plan.

e) Engagement with Mr. Alon Granot, business consultant:

As from September 1, 2021, Mr. Alon Granot provides the Company consulting and management services at a 50% position in return for monthly management fees of NIS 50,000, linked to the CPI of January 15, 2021 ("Mr. Granot" and "the management agreement", respectively).

Furthermore, the Company provides Mr. Granot with a car as is generally accepted in the Company, and bears all expenses pertaining to its maintenance.

The term of the management agreement is not limited in time, and each of the parties may terminate it by giving a 90-day advance notice in writing. The management agreement with Mr. Granot includes confidentiality and non-compete clauses towards the Company.
As part of the Company's share option plan for 2022, following the approval of the Company's Board and Remuneration Committee, a special general meeting of the Company's shareholders approved the grant of 521,000 options which are exercisable into 521,000 Ordinary shares of the Company to Mr. Granot for an exercise price of NIS 23.51 per share, subject to the terms of the Company's option plan.

NOTE 26:- RELATED AND INTERESTED PARTY BALANCES AND TRANSACTIONS (Cont.)

c. Related and interested party transactions:

	Year ended December 31,		
	2022	2021	2020
	U.S. dollars in thousands		
Wages and related expenses	2,251	3,002	2,350
Management and consulting fees to related parties and others	413	312	-
Share-based payment	428	184	-
Number of recipients of salary and management fees in the Company out of interested parties	6	6	3
Directors' remuneration	85	20	-
Number of directors entitled to remuneration (*)	3	3	-

(*) One of the directors waived his right to remuneration in 2021 and 2022.

NOTE 27:- FIRE INCIDENT

On November 24, 2021, a fire broke out in SDA's spices plant in Beit Kama. The plant was severely damaged. The equipment, inventory and buildings were covered by loss of profit insurance. SDA's management acted swiftly to transfer its manufacturing activities to its other plants, and to purchase ingredients in order to minimize the damage caused to its customers and sales, and the damages due to the fire, and in order to ensure it can continue with its activity in an orderly manner.

On January 31, 2022, the Company and the landlord, who owns the buildings of the Beit Kama plant that had been burned down, entered into an agreement whereby the owner will assign to SDA all its rights to insurance benefits in respect of the owner's share in the fire damages in consideration for NIS 47 million. Further to the signing of the agreement and the said payment, SDA alone is entitled to receive all insurance benefits for the damages caused by the fire to buildings, equipment, inventories and for loss of profits.

The entire insurance compensation in an aggregate of $ 39.6 million was received in the course of 2022. Following the above arrangement, the Company recognized a nonrecurring pretax gain of approximately $ 8.8 million. The receipt of the insurance compensation will contribute to improving the Group's cash flow and allow pursuing its integrated growth strategy.

NOTE 28:- MATERIAL EVENTS AFTER THE REPORTING PERIOD

a. On January 9, 2023, after obtaining the regulatory approvals from Romania, the Company, through a wholly owned subsidiary, completed the purchase of 65% of the issued and outstanding share capital and voting rights of Aromatique Food Srl, a private company incorporated in Romania ("Aromatique"), from its single shareholder ("the seller"), in return for RON 17 million (approximately $ 3.35 million) and for a future consideration based on Aromatique's business performances in the second half of 2022. The purchase agreement consists of call/put options for purchasing the remaining shares of Aromatique by the Company which can be exercised from January 1, 2025 for a price based on Aromatique's business performances in the period from January 1, 2023 through the option exercise date. Aromatique was founded in 2013 and is engaged in the research, development, production, marketing, sale and supply of savory functional ingredients and flavor mixtures mainly for the Romanian food industry.

b. On March 26, 2023, the Company declared the distribution of a dividend of approximately $ 5 million, representing $ 0.0496 per share. The dividend amount was not recognized in the period as a distribution to owners.

c. On March 26, 2023, the Company signed an amendment to the Klabin acquisition agreement, see Note 5d above.

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TURPAZ INDUSTRIES LTD.

FINANCIAL INFORMATION FROM

THE CONSOLIDATED FINANCIAL STATEMENTS

ATTRIBUTABLE TO THE COMPANY

AS OF DECEMBER 31, 2022

U.S. DOLLARS IN THOUSANDS

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Building a better working world

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To:
The Shareholders of
Turpaz Industries Ltd.

Special Auditors' Report on the Separate Financial Information in accordance with Regulation 9C to the Israeli Securities Regulations (Periodic and Immediate Reports), 1970

We have audited the separate financial information presented in accordance with Regulation 9C to the Israeli Securities Regulations (Periodic and Immediate Reports), 1970 of Turpaz Industries Ltd. ("the Company") as of December 31, 2022 and 2021, and for each of the three years the last of which ended on December 31, 2022. This separate financial information is the responsibility of the Company's board of directors and management. Our responsibility is to express an opinion on this separate financial information based on our audits.

We did not audit the separate financial information derived from the financial statements of investees, for which the assets net of liabilities attributable to them total approximately $ 2,615 thousand and $ 7,742 thousand as of December 31, 2022 and 2021, respectively, and the Company's share of their earnings amounted to approximately $ 677 thousand, $ 1,410 thousand and $ 1,255 thousand for the years ended December 31, 2022, 2021 and 2020, respectively. The financial statements of those companies were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for those companies, is based on the reports of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards in Israel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the separate financial information is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the separate financial information. An audit also includes assessing the accounting principles used and significant estimates made by the board of directors and management, as well as evaluating the overall separate financial information presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the separate financial information referred to above is prepared, in all material respects, in conformity with Regulation 9c of the Israeli Securities Regulations (Periodic and Immediate Reports), 1970.

Tel-Aviv, Israel
March 26, 2023

KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

Special Report Pursuant to Regulation 9C

Financial Data and Financial Information from the

Consolidated Financial Statements Attributable to the Company

Below are separate financial data and financial information attributable to the Company from the Group's consolidated financial statements as of December 31, 2022, published as part of the periodic reports ("consolidated financial statements"), presented pursuant to Regulation 9C to the Israeli Securities Regulations (Periodic and Immediate Reports), 1970.

The significant accounting policies applied in the presentation of these financial data are detailed in Note 2 to the consolidated financial statements.

Investees are defined in Note 1f to the consolidated financial statements.

Financial Data from the Consolidated Statements of Financial Position Attributable to the Company

	Note	December 31, 2022	December 31, 2021
		U.S. dollars in thousands	
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	1	1,346	41,900
Trade receivables		5,610	1,987
Other accounts receivable		381	103
Inventories		4,796	1,267
		12,133	45,257
NON-CURRENT ASSETS:			
Deferred taxes		-	2
Property, plant and equipment		2,799	1,479
Right-of-use assets		6,932	5,089
Intangible assets, net		2,103	1,417
Assets less liabilities attributable to investees, net, including goodwill		101,440	53,423
		113,274	61,410
		125,407	106,667
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Short-term credit		6,498	1,719
Trade payables		4,002	1,326
Other accounts payable	2	1,484	648
Short-term liabilities in respect of acquisition of activity		-	154
Current maturities of lease liabilities		484	369
		12,468	4,216
NON-CURRENT LIABILITIES:			
Long-term loans from banks, less current maturities		3,503	5,264
Long-term leases liabilities		6,586	4,752
Deferred taxes	3e	166	-
		10,255	10,016
EQUITY:			
Share capital		1	1
Share premium		74,449	74,449
Other capital reserves		(4,857)	(6,228)
Reserve in respect of translation differences		(6,542)	1,783
Retained earnings		39,633	22,430
Total equity		102,684	92,435
		125,407	106,667

The accompanying additional information forms an integral part of the financial data and financial information.

March 26, 2023			
Date of approval of the financial statements	Karen Cohen Khazon Chairman of the Board and CEO	Dr. Israel Leshem Director Authorized by the Board to sign the financial statements on March 26, 2023	Guy Gill CFO

Financial Data from the Consolidated Statements of Comprehensive Income Attributable to the Company

	Note	2022	2021	2020
		Year ended December 31,		
		U.S. dollars in thousands		
Revenues from sales		21,355	2,441	531
Cost of sales		12,328	1,949	578
Gross profit (loss)		9,027	492	(47)
Research and development expenses		598	231	-
Selling and marketing expenses		1,102	328	135
General and administrative expenses		7,466	1,740	360
Other expenses		361	240	-
Operating loss		(500)	(2,047)	(542)
Finance income		111	55	83
Finance expenses		(237)	(243)	(9)
Loss before taxes on income		(626)	(2,235)	(468)
Taxes on income	3g	103	-	(2)
Company's share of earnings of companies accounted for at equity, net		21,903	14,842	8,326
Net income attributable to the Company		21,174	12,607	7,860
Other comprehensive income (net of taxes):				
Amounts that will not be reclassified subsequently to profit or loss:				
Adjustments arising from translating financial statements from functional currency to presentation currency		(12,216)	4,300	(223)
Amounts that will be or that have been reclassified to profit or loss when specific conditions are met:				
Adjustments arising from translating financial statements of foreign operations		3,891	(2,717)	596
Total comprehensive income attributable to the Company		12,849	14,190	8,233

The accompanying additional information forms an integral part of the financial data and financial information.

Financial Data from the Consolidated Statements of Cash Flows Attributable to the Company

	Year ended December 31,		
	2022	2021	2020
	U.S. dollars in thousands		
Cash flows from operating activities of the Company:			
Net income attributable to the Company	21,174	12,607	7,860
Adjustments to reconcile net income to net cash provided by (used in) operating activities (a)	(20,297)	(15,770)	(1,840)
Net cash provided by (used in) operating activities	877	(3,163)	6,020
Cash flows from investing activities			
Purchase of property, plant and equipment	(1,702)	(49)	(24)
Investments in investees	(31,523)	(16,176)	-
Dividend received from subsidiary	(3,843)	-	-
Acquisition of activities (b)	-	(3,331)	(579)
Repayment of liability in respect of acquisition of activity	(143)	-	-
Net cash used in investing activities	(37,211)	(19,556)	(603)
Cash flows from financing activities			
Receipt of short-term credit	5,885	-	-
Repayment of long-term loans	(3,668)	(1,242)	-
Dividend paid	(3,971)	-	(5,286)
Issuance of share capital (net of issuance expenses)	-	62,055	-
Repayment of long-term lease liabilities	(647)	(175)	(93)
Net cash provided by (used in) financing activities	(2,401)	60,638	(5,379)
Exchange rate differences on balances of cash and cash equivalents	(3,285)	3,922	-
Increase (decrease) in cash and cash equivalents	(42,020)	41,841	38
Cash and cash equivalents at the beginning of the year of a merged subsidiary (d)	1,466	-	-
Cash and cash equivalents at the beginning of the year	41,900	59	21
Cash and cash equivalents at the end of the year	1,346	41,900	59

The accompanying additional information forms an integral part of the financial data and financial information.

Financial Data from the Consolidated Statements of Cash Flows Attributable to the Company

	Year ended December 31, 2022	2021	2020
	U.S. dollars in thousands		
(a) Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Adjustments to profit and loss items:			
Depreciation and amortization	1,077	288	132
Change in employee benefit liabilities, net	-	184	-
Company's share of earnings of companies accounted for at equity, net	(21,903)	(14,842)	(3,223)
Finance expenses, net	126	188	-
Share-based payment	1,371	-	-
Taxes on income	103	-	(2)
	(19,226)	(14,182)	(3,093)
Changes in asset and liability items:			
Increase in trade receivables	(857)	(1,601)	(305)
Increase in other accounts receivable	(296)	(44)	(55)
Decrease (increase) in inventories	(1,981)	36	(99)
Increase in trade payables	2,099	992	371
Increase (decrease) in other accounts payable	691	(806)	1,341
	(344)	(1,423)	1,253
	(19,570)	(15,605)	(1,840)
Cash paid and received during the year for:			
Taxes paid	(322)	-	-
Interest paid, net	(405)	(165)	-
	(20,297)	(15,770)	(1,840)
(b) Acquisition of activities:			
Inventories	-	984	167
Property, plant and equipment	-	1,444	3
Intangible assets	-	903	547
liability in respect of acquisition of activity	-	-	(138)
Payment for acquisition of activities	-	3,331	579
(c) Significant non-cash transactions:			
Right-of-use asset recognized with corresponding lease liabilities	2,631	4,812	353
Acquisition of investees in exchange for issue of shares	-	12,394	-
Loan assignment	-	7,892	-

The accompanying additional information forms an integral part of the financial data and financial information.

Financial Data from the Consolidated Statements of Cash Flows Attributable to the Company

	Year ended December 31,		
	2022	2021	2020
	U.S. dollars in thousands		
(d) Merged subsidiary			
Assets and liabilities of the subsidiary as of the date of the merger:			
Working capital (excluding cash and cash equivalents)	2,846	-	-
Property, plant and equipment	191	-	-
Right-of-use assets	456	-	-
Intangible assets	1,340	-	-
Assets less liabilities in respect of investees	(4,534)	-	-
Deferred taxes	(146)	-	-
Lease liabilities	(352)	-	-
Other non-current liabilities	(1,267)	-	-
	1,466	-	-

The accompanying additional information forms an integral part of the financial data and financial information.

Additional Information

1. Cash and cash equivalents attributable to the Company (excluding amounts in respect of investees)

	December 31, 2022	December 31, 2021
	U.S. dollars in thousands	
Cash and deposits for immediate withdrawal	1,346	41,900

2. Disclosure of financial liabilities attributable to the Company (excluding amounts in respect of investees)

a. Accounts payable attributable to the Company:

	December 31, 2022	December 31, 2021
	U.S. dollars in thousands	
Employees and payroll accruals	794	347
Related parties	506	134
Accrued expenses	183	152
Other payables	1	15
	1,484	648

b. Liquidity risk attributable to the Company:

The table below summarizes the maturity profile of the Company's financial liabilities based on contractual undiscounted payments (including interest payments):

December 31, 2022

	Less than one year	1 to 5 years	5 years and onwards	Total
	U.S. dollars in thousands			
Trade payables	4,002	-	-	4,002
Other accounts payable	689	-	-	689
Long-term loans from banks	6,498	3,503	-	10,001
Lease liabilities	484	6,586	-	7,070
	11,673	10,089	-	21,762

December 31, 2021

	Less than one year	1 to 5 years	5 years and onwards	Total
	U.S. dollars in thousands			
Trade payables	1,326	-	-	1,326
Other accounts payable	648	-	-	648
Long-term loans from banks	1,719	5,264	-	6,983
Lease liabilities	369	4,752	-	5,121
Liabilities in respect of acquisition of activity	154	-	-	154
	4,216	10,016	-	14,232

3. Disclosure of balances of deferred tax assets and liabilities attributable to the Company (excluding amounts in respect of investees) and disclosure of tax income or expense attributable to the Company (excluding amounts in respect of investees)

   a. Tax laws applicable to the Company:

      Income Tax (Inflationary Adjustments) Law, 1985

      According to the law, until 2007, the results for tax purposes were adjusted for the changes in the Israeli CPI.

      In February 2008, the "Knesset" (Israeli parliament) passed an amendment to the Income Tax (Inflationary Adjustments) Law, 1985, which limits the scope of the law starting 2008 and thereafter. Since 2008, the results for tax purposes are measured in nominal values, excluding certain adjustments for changes in the Israeli CPI carried out in the period up to December 31, 2007. Adjustments relating to capital gains such as for sale of property (betterment) and securities continue to apply until disposal. Since 2008, the amendment to the law includes, among others, the cancellation of the inflationary additions and deductions and the additional deduction for depreciation (in respect of depreciable assets purchased after the 2007 tax year).

      The Law for the Encouragement of Capital Investments, 1959 ("the Encouragement Law"):

      According to the Encouragement Law, the companies are entitled to various tax benefits by virtue of the "approved enterprise" and/or "beneficiary enterprise" status granted to part of their enterprises, as implied by the Encouragement Law.

      Amendment 73 to the Encouragement Law:

      In December 2016, the Economic Efficiency Law (Legislative Amendments for Applying the Economic Policy for the 2017 and 2018 Budget Years), 2016, which includes Amendment 73 to the Encouragement Law ("Amendment 73") was enacted. According to Amendment 73, a preferred enterprise located in development area A will be subject to a tax rate of 7.5% instead of 9% effective from January 1, 2017 and thereafter (the tax rate applicable to preferred enterprises located in other areas remains at 16%).

      Also, according to Amendment 73, dividends distributed to individuals or foreign residents from the preferred enterprise's earnings as above will be subject to tax at a rate of 20%.

      The Law for the Encouragement of Industry (Taxation), 1969:

      The Company has the status of an "industrial company", as defined by this law. According to this status and by virtue of regulations published thereunder, the Company is entitled to claim a deduction of accelerated depreciation on equipment used in industrial activities, as determined in the regulations issued under the Inflationary Adjustments Law.

3. Disclosure of balances of deferred tax assets and liabilities attributable to the Company (excluding amounts in respect of investees) and disclosure of tax income or expense attributable to the Company (excluding amounts in respect of investees) (Cont.)

b. Tax rates applicable to the Company:

The Israeli corporate income tax rate is 23%.

A company is taxable on its real capital gains at the corporate income tax rate in the year of sale.

In August 2013, the Law for Changing National Priorities (Legislative Amendments for Achieving Budget Targets for 2013 and 2014), 2013 ("the Budget Law") was enacted. The Law includes, among others, provisions for the taxation of revaluation gains effective from August 1, 2013. The provisions regarding revaluation gains will become effective only after the publication of regulations defining what should be considered as "retained earnings not subject to corporate tax" and regulations that set forth provisions for avoiding double taxation of foreign assets. As of the date of approval of these financial statements, these regulations have not been published.

c. Final tax assessments:

The Company's tax assessment for the 2017 tax year is considered final.

d. Carryforward tax losses and other temporary differences attributable to the Company:

The Company has business losses and capital losses that can be carried forward totaling approximately $ 2,160 thousand as of December 31, 2022.
The Company created deferred taxes totaling approximately $ 27 thousand in respect of carried forward losses totaling approximately $ 171 thousand as it expects to generate taxable income in the foreseeable future.

e. Deferred taxes composition:

	December 31,	
	2022	2021
	U.S. dollars in thousands	
Non-current assets	-	2
Non-current liabilities	166	-
	(166)	2

Additional Information

3. Disclosure of balances of deferred tax assets and liabilities attributable to the Company (excluding amounts in respect of investees) and disclosure of tax income or expense attributable to the Company (excluding amounts in respect of investees) (Cont.)

f. Deferred taxes movement:

	December 31,	
	2022	2021
	U.S. dollars in thousands	
Balance at the beginning of the year	2	2
Merger with a subsidiary	(146)	-
Changes carried to profit or loss	(22)	-
Balance at the end of the year	(166)	2

g. Taxes on income included in the statement of comprehensive income:

	Year ended December 31,	
	2022	2021
	U.S. dollars in thousands	
Current taxes	81	-
Deferred tax expense (income)	22	-
Taxes on income (tax benefit)	103	-

h. Theoretical tax:

The reconciliation between the tax expense, assuming that all the income, expenses, gains and losses in profit or loss were taxed at the statutory tax rate and the taxes on income recorded in profit or loss is as follows:

	Year ended December 31,		
	2022	2021	2020
	U.S. dollars in thousands		
Loss before taxes on income	(626)	(2,235)	(468)
Statutory tax rate	23%	23%	23%
Tax benefit computed at the statutory tax rate	(144)	(514)	(108)
Nondeductible expenses	403	-	-
Differences in tax rates	(44)	-	-
Increase (decrease) in unrecognized tax losses in the year	(112)	514	106
Taxes on income (tax benefit)	103	-	(2)

Additional Information

4. Balances and transactions with investees

a. Balances with investees

Composition

	December 31, 2022	December 31, 2020
	U.S. dollars in thousands	
Trade payables	412	889
Other accounts payable	-	-

b. Transactions with investees

	Year ended December 31, 2022	Year ended December 31, 2021	Year ended December 31, 2020
	U.S. dollars in thousands		
Cost of sales	538	881	128
Selling and marketing expenses	-	-	212
General and administrative expenses	-	-	89

c. On March 9, 2022, the subsidiary Cheamada Industries Ltd. announced the distribution of a dividend in the amount of NIS 12,620 thousand, which was paid to the Company on March 28, 2022.

5. Material event during the reporting period

Further to Note 1b in the financial data from the consolidated financial statements as of December 31, 2022, the merger between Turpaz Fragrances Ltd. and the Company entered into force after receiving the approval of the Tax Authority, which was received on May 22, 2022. In accordance with the approval, the merger applies retroactively as of January 1, 2022 and from that date the two companies are merged.

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Chapter D - Additional Details About the Company

Company's name: Turpaz Industries Ltd

Company's number: 514574524

Address: 2 Halahav St. Holon

Telephone: 03-5560913

Fax: 03-5560915

Email address: karen@turpaz.co.il

Balance sheet date: December 31 2022

Report date: March 26 2023

Regulation 9D: Report of the Status of Liabilities according to Repayment Dates

See immediate report (T126) published by the Company simultaneously with this report. The information included in the said report is incorporated herein by way of reference.

Regulation 10A: Condensed quarterly statements of income

Condensed semi-annual income statements on a quarterly basis for the year ended December 31 2022 (USD thousand):

	For the year ended December 31 2022	For the three months			
		10-12/22	7-9/22	4-6/22	1-3/22
Revenues from sales	118,556	30,500	30,346	30,305	27,405
Cost of sales	70,897	17,155	18,396	18,645	16,701
Gross profit	47,659	13,345	11,950	11,660	10,704
Research and development expenses	3,607	1,278	827	717	785
Selling and marketing expenses	10,016	3,006	2,496	2,171	2,343
General and administrative expenses	15,055	4,559	3,632	3,837	3,027
Other expenses	(8,349)	(8,325)	3	(19)	(8)
Income from ordinary operations	27,330	12,827	4,992	4,954	4,557
Finance expenses, net	1,513	729	326	136	322
Taxes on income	4,486	2,557	1,075	579	275
Net income for the year	21,331	9,541	3,591	4,239	3,960

Regulation 10C: Use of Proceeds for Securities

In May 2021, the Company completed an initial public offering of its shares in accordance with a supplementary prospectus, an initial public offering of May 20 2021, and a supplementary notice of May 23 2021 (Ref. Nos.: 2021-01-027967 and 2021-01-028936, respectively) (hereafter - the "**Prospectus**").

The proceeds paid to the Company in respect of the shares issued in accordance with the Prospectus amounted to NIS 208,000 thousand (USD 65 million).

The proceeds received are designed to be used by the Company, among other things, to fund its operating activities and implement its business strategy, strengthen its capital, improve its leveraging ratios, and reduce or refinance the Company's debt. For more information about the purpose of the proceeds received from the IPO as per the Prospectus, see Section 5.2 to Chapter 5 to the Prospectus.

As of the publication date of this report, the Company used the IPO proceeds to purchase the remaining rights (49%) of SDA Spice Industries Ltd., the activity and assets of Pilpel - Food Industries Development Ltd. and FC Galilee Herbs Ltd., the control in Food Ingredients Technology SA in Western Europe, the entire share capital of Lori RKF, control in Balirom Ltd., all shares of Pentaor Ltd., and control in Klabin Fragrances, Inc and Aromatique Food SRL.

Furthermore, during the reporting period the Company invested in property, plant and equipment for the purpose of improving and expanding the Group's plants in Israel.

Regulation 11: List of Investments in Subsidiaries and Associates

Set forth below is a list of the Company's investments as of December 31 2022 in each of its subsidiaries and associates as of December 31 2022:

Company's name	Security type	Par value	Number held	Rate of holdings in equity and voting rights	Value as per separate financial statements (USD thousand)	Loans' balances and key terms (USD thousand)
Companies held directly by the Company						
Chemada Industries Ltd	Ordinary	NIS 0.01 par value	860	100%	15,322	-
SDA Spice Industries Ltd.[1]	Ordinary	NIS 1	10,000	100%	10,351	Approx USD 2,423 thousand, at

[1]On December 19, 2022 SDA became a limited liability company, further for a plan submitted to the Registrar of Cooperatives to turn SDA from a cooperative to a limited liability company.

Company's name	Security type	Par value	Number held	Rate of holdings in equity and voting rights	Value as per separate financial statements (USD thousand)	Loans' balances and key terms (USD thousand)
Companies held directly by the Company						
						Prime+0.34% interest Approx. USD 1,669 thousand, at Prime+1.5% interest Approx USD 923 thousand, at Prime+1% interest
Western Flavors Fragrances Production Joint Stock Company	Ordinary	10,000 Vietnamese dong	1,200,000	60%	2,022	USD 476 thousand, 6% interest
Turpaz Fragrances and Flavors Aroma Inc.	Ordinary	of no par value	10,000	100%	785	-
Pollena Aroma SP. z.o.o	Ordinary	50 Zloty	13,928	100%	9,420	-
Balirom Ltd.	Ordinary	NIS 1 par value	900	60%	4,474	Approx. USD 109 thousand, at average interest of 5.88%.
Turpaz Belgium	Ordinary	of no par value	1,000	100%	19,147	-

<u>Regulation 12</u>: <u>List of Investments in Subsidiaries and Associates</u>

As of December 31, 2022 there were no changes in the investments in subsidiaries and related companies, other than:

(1) Completion of the purchase of 60% of the issued and paid up share capital of Balirom Ltd. For more information, see Section 1.4.1.5 to Chapter A to this report.

(2) Completion of the purchase of the entire issued and paid up share capital of Pentaor on April 12, 2022. For more information, see Section 1.4.1.6 to Chapter A to this report.

(3) Completion of the purchase of the entire issued and paid up share capital of Klabin. For more information, see Section 1.4.1.7 to Chapter A to this report.

<u>Regulation 13</u>: <u>Income of Subsidiaries and Associates and Income of the Corporation Therefrom</u>

Company's name	Comprehensive income		Company's revenues in 2022		
	Income (loss)	Other comprehensive income	Dividend	Management fees	Interest
	USD thousand				
Companies held directly by the Company					
Chemada Industries Ltd	8,034	8,034	3,843	-	-
SDA Spice Industries Ltd.	9,122	8,514	-	-	177
Western Flavors Fragrances Production Joint Stock Company	392	353	-	-	40
Turpaz Fragrances and Flavors Aroma Inc.	(200)	(200)	-	-	-
Pollena Aroma SP. z.o.o	797	681	-	-	-
Balirom Ltd.	356	340	-	-	-
Turpaz Belgium	4,183	4,127	-	-	-

<u>Regulation 20</u>: <u>Trading on the Stock Exchange</u>

During the report period, no securities were registered for trading.

<u>Regulation 21</u>: <u>Compensation of Interested Parties and Senior Officers</u>

Following is a breakdown of the compensation paid to each of the five highest paid senior executives of the Company or companies under its control paid to them in connection with their service in the Company or companies under its controlled in 2022 and compensation paid to interested parties in the Company (USD thousand):

Details of compensation recipient				Compensation* for services							Other compensation*			Total
Name	**Title**	**Appointment percentage**	**Percentage of holding in corporation's share capital**	**Salary**	**Bonus**	**Share-based payment**	**Management fees**	**Advisory fees**	**Fees**	**Other***	**Interest**	**Rent**	**Other**	
Karen Khazon Cohen (1)	Chairperson of the Company's Board of Directors and Company's CEO	100%	44.31%	914	834	-	-	-	-	-	-	-	-	1,748
Eyal Azulay	CEO of Chemada and Deputy CEO of the Company	100%	-	463	521	-	-	-	-	-	-	-	-	984
Michael Reiss(5)	CEO of Pollena Aroma	100%	-	192	48	39	-	-	-	-	-	10	-	289
Ari Rosenthal	Head of the Flavors & Food Division	100%	-	271	65	83	-	-	-	-	-	-	-	419
David Landau	CEO FIT	100%	-	-	-	-	221	-	-	-	-	-	-	221
Directors				85	-	-	-	-	-	-	-	-	-	85
Erez Meltzer[2]	Advisor, a Company director	25%	-	-	-	140	192	-	-	-	-	-	-	332
Shay Khazon (2)	Chief Operating	80%	-	179	52	58	-	-	-	-	-	-	-	289

[2]As from December 1, 2023, Mr. Meltzer is entitled to directors fees as is generally accepted in the Company and to a monthly compensation of NIS 5,000 per month for his service as a company advisor.

Details of compensation recipient				Compensation* for services							Other compensation*			Total
Name	**Title**	**Appointment percentage**	**Percentage of holding in corporation's share capital**	**Salary**	**Bonus**	**Share-based payment**	**Management fees**	**Advisory fees**	**Fees**	**Other***	**Interest**	**Rent**	**Other**	
	Officer at the fragrance segment in Israel													
Shir Kesselman (3)	Head of Global Sales in the fragrance segment	100%	-	148	20	39	-	-	-	-	-	-	-	207
Alon Granot (4)	Advisor	50%	[3]7.16%	-	-	191	221	-	-	-	-	-	-	412

* The compensation amounts are in terms of cost to the Company.

(1) The Company's controlling shareholder. For more information about her terms of employment, see Regulation 21(1.1) below.

(2) Husband of Ms. Karen Cohen Khazon, the Company's controlling shareholder. Chief Operating Officer at the fragrance segment in Israel through a company under his ownership. For more information about the terms of the engagement with him, see Regulation 22(2) below.

(3) Daughter in law of Ms. Karen Cohen Khazon, the Company's controlling shareholder. For more information about her terms of employment, see Regulation 22(1) below.

(4) Interested party in the Company by virtue of holdings therein. Renders management and advisory services to the Company and subsidiaries for an unlimited period. Mr. Granot serves as a director in Chemada, Pollena Aroma and Turpaz Belgium.

(5) Ms. Limor Avidor, external director in the Company, holds 0.01% of the Company's issued and paid up share capital

[3]Holds together with his wife, Rivka Granot.

1. <u>Additional details about the terms to which the above-mentioned recipients of compensation are entitled:</u>

   1.1. <u>Karen Cohen Khazon, Chairperson of the Company's Board of Directors and Company's CEO</u>

   Ms. Karen Cohen Khazon, the Company's controlling shareholder, serves as Chairperson of the Company's Board of Directors and Company's CEO since 2011 (hereinafter - "**Ms. Cohen Khazon**"). As from January 1 2021, Ms. Cohen Khazon provides the Company her services as Chairperson of the Company's Board of Directors and Company's CEO through a privately held company she owns as described below (hereinafter - the "**Management Agreement**").In consideration for the management services, Ms. Cohen Khazon is entitled to monthly management fees of NIS 220,000 linked to the CPI in respect of November 2020 (hereinafter - the "**Management Fees**").

   Furthermore, every year Ms. Cohen Khazon will be entitled to a performance-based consideration equal to 5% of the aggregate operating income of the Company and its subsidiaries; this consideration will not exceed the amount of the annual management fees paid in respect of that year (and in respect of part of a year, the performance-based consideration will be paid proportionately to Ms. Cohen Khazon's term in office during that year). The operating profit shall be determined in accordance with the Company's audited financial statements in respect of the year ended immediately before the date of calculation of the annual bonus and only in relation to that year. In relation to each subsidiary that is not wholly-owned by the Company the operating income of that subsidiary shall be calculated in accordance with the Company's stake in that subsidiary. The amount of the annual bonus in 2022 was NIS 834 thousand.

   Furthermore, the Company provides Ms. Cohen Khazon with a car, and bears all expenses pertaining to its maintenance, including the grossing up of the tax in respect thereof.

   The term of the Management Agreement is not limited in time, and each of the parties may terminate it by giving a six-month advance notice in writing[4]. The Management Agreement includes a confidentiality clause whereby Ms. Cohen Khazon undertook to maintain confidentiality with regard to the Company; furthermore, under the agreement, upon the end of the engagement with Ms. Cohen Khazon, the Company may require Ms. Cohen Khazon not to compete with the Company for a 12-month period that will start at the end of the engagement period, in consideration for a monthly amount equal to half the monthly Management Fees amount as they will be as of that date.

[4] In accordance with the provisions of the Companies Law, 1999, and the regulations promulgated thereunder as they may be as of the date of this report, the Company will bring the engagement forward for reapproval 5 years after the IPO date, if the engagement is not terminated earlier in accordance with its terms.

The Management Agreement also stipulates that if during a period of 3 years from the IPO's completion date, i.e., as from May 23 2021, Ms. Cohen Khazon ceases serving as the Company's CEO, but continues serving as a full-time Chairperson of the Board of Directors, and subject to the approval of the Company's Audit Committee and Board of Directors to the effect that the Company's interest at that time requires segregation of duties and the appointment of a CEO, she will be entitled to payment of all her service terms as per the Management Agreement, as described above. Under the above circumstances, Ms. Cohen Khazon's roles as the Chairperson of the Board of Directors shall include the management of the Board of Directors' activity, formulation of strategic, business and managerial plans for the Company and monitoring their implementation, business development, and assessment of options to expand the Company's activities, including supervisory responsibility to M&As by the Company, and providing professional and management advice to the Company's management and managers.

1.2. Mr. Eyal Azulay, former CEO of Chemada and Deputy CEO of the Company

Mr. Eyal Azulay (hereinafter - "**Mr. Azulay**") has been serving as Chemada's CEO since June 1 2019, and as Deputy Company CEO since January 1 2021 and through August 21, 2022, when he terminated is service in the Group. For details about Mr. Eyal Azulay employment conditions, see regulation 21 of the periodic report for 2021 published on March 14, 2022 (reference: 2022-01-029359).

1.3. Mr. Michael Reiss, Chief Executive Officer Pollena Aroma

Mr. Michael Reiss (hereinafter - "**Mr. Reiss**") serves as the CEO of Pollena Aroma since April 1 2018. As part as his terms of employment, Mr. Reiss is entitled to a monthly salary of USD 16,000.

Furthermore, Mr. Reiss is entitled to an annual bonus at an amount equal to: (1) 2% of the increase in the annual profit in any year compared to the annual profit of the previous year; plus (2) 3% of the increase in the annual EBIT compared to the previous year's EBIT[5]. Furthermore, Mr. Reiss will be entitled to another annual bonus at a rate of 2% of the increase in the annual profit in any year compared to the annual profit of the previous year in connection with business development activity in the field of fragrance extracts in Europe, in which he was involved directly. The bonuses shall be calculated based on Pollena Aroma's consolidated financial statements, and will be paid in April of each year, after the publication of the previous year's financial statements. The amount of the annual bonus in 2022 was USD 48 thousand.

[5] In order to calculate Mr. Reiss' bonus, the "increase in profit" and the "annual EBIT" shall be calculated based on Pollena Aroma's consolidated financial statements for that year, drawn up in accordance with IFRS.

Furthermore, Mr. Reiss is entitled to annual leave, including the right to redeem unutilized annual leave, USD 500 in monthly participation in accommodation expenses in Poland, and health insurance as is generally accepted in the Company. Furthermore, the Company provides Mr. Reiss with a car, as is generally accepted in the Company, and bears all expenses pertaining to its maintenance. Mr. Reiss's employment agreement includes a confidentiality clause, and a non-competition undertaking for 12 months from termination of employment. Starting on employment termination date and over the entire non-competition period, Pollena Aroma has undertaken to pay Mr. Reiss monthly payments, each of which will be equal to 25% of his latest monthly salary prior to termination.

The term of the employment agreement is not limited in time, and each of the parties may terminate it by giving a 3-month advance notice in writing.

1.4. Mr. Ari Rosenthal, Head of the Flavors & Food Division

Mr. Ari Rosenthal (hereinafter **-** "**Mr. Rosenthal**"), has been employed by the Company since May 1 2020, and as from March 13 2022 he is employed by the Company in consideration for a monthly salary of NIS 55,000.

Furthermore, Mr. Rosenthal is entitled to annual leave, recreation pay, comprehensive pension fund and/or managers insurance, education fund, social benefits that do not exceed those that are normally acceptable for employees in his position, and to other benefits normally provided by the Company to its employees.

Furthermore, the Company provides Mr. Rosenthal with a car as is generally accepted in the Company, and bears all expenses pertaining to its maintenance, including the grossing up of the tax in respect thereof.

The term of the employment agreement is not limited in time, and each of the parties may terminate it by giving a 180-day advance notice in writing. The employment agreement includes a confidentiality clause whereby Mr. Rosenthal undertook to maintain confidentiality with regard to the Company, and a 12-month non-competition period that will start on termination date. In March 2022, The Company's Compensation Committee and Board of Directors approved the allocation of 157,000 non-marketable options, which are exercisable into 157,000 ordinary Company shares, at an exercise price of NIS 23.51 per share, in accordance with and subject to the Company's option plan. On March 26, 2023, the Company's Compensation Committee and Board of Directors approved an annual bonus of USD 65 thousand.

1.5. Mr. David Landau, FIT's CEO

Mr. Landau has been servicing as FIT's CEO since 1998. On October 28, 2021, upon the completion of the acquisition of FIT, a management agreement was signed between FIT and a private company owned by Mr. David Landau (hereinafter - "**Mr. Landau**") for an unlimited period; under the agreement, Mr. Landau will serve as FIT's CEO in consideration for monthly management fees (including car-related expenses) of EUR 17,500.

Furthermore, as from 2023, Mr. Landau is entitled to an annual bonus on the proviso that the annual operating will be higher compared to that of the previous year, as follows: (a) if the increase will be equal to EUR 300 thousand, Mr. Landau will be entitled to an annual bonus of EUR 30,000; (b) if the increase will be between EUR 300,001 and EUR 500,000, Mr. Landau will be entitled to an annual bonus of 7% of the total increase; (c) if the increase will be between EUR 500,001 and EUR 1,000,000, Mr. Landau will be entitled to an annual bonus of 5% of the total increase; (d) if the increase will be higher than EUR 1,000,001, Mr. Landau will be entitled to an annual bonus of EUR 69,000, and to an addition of EUR 50,000 for every further addition of EUR 1,000,000.

The term of the management agreement is not limited in time and either party may bring it to an end with six months' notice. Mr. Landau's employment agreement includes a confidentiality clause, and a non-competition undertaking for five years months from termination of employment.

2. Directors' fees

On May 18 2021, the General Meeting of the Company's shareholders approved that as from the date of the listing of the Company's securities (i.e., May 25 2021), all directors serving in the Company or that will serve in the Company from time to time, except for the directors for whom specific compensation terms were set (as of the report date: Ms. Karen Cohen Khazon and Mr. Shay Khazon), will be entitled to participation compensation in respect of participation in meetings and to an annual compensation in accordance with the rules set in the Companies Regulations (Rules Regarding Compensation and Expenses for External Director), 2000 (hereinafter - the "**Compensation Regulations**"). The compensation will be equal to the "fixed amount", as it shall be from time to time, in accordance with the Company's rank. In 2022, Dr. Israel Leshem waived his entitlement to directors fees.

Regulation 21A: Control of the Corporation

The Company's controlling shareholder is Ms. Karen Cohen Khazon, who holds 44.31% of the Company's issued and paid up share capital.

<u>Regulation 22</u>: <u>Transactions with the controlling shareholder or in which the controlling shareholder has a vested interest</u>

Other than Ms. Karen Cohen Khazon's service and employment conditions, including her entitlement to officers and directors insurance, indemnification and exemption undertaking, and except as described below, the Company has no transactions with the controlling shareholder, or in which the controlling shareholder has a vested interest:

For information about the terms of employment of Ms. Karen Cohen Khazon as the Company's CEO, See Regulation 20(1.1) above.

1. <u>Engagement with Ms. Shir Kesselman, Head of Global Sales in the Fragrance Segment</u>

Ms. Shir Kesselman (hereinafter - "**Ms. Kesselman**"), the daughter in law of the Company's controlling shareholder, is employed by the Company since January 27 2014 as a sales manager; as from January 1 2021, Ms. Kesselman has been serving as the Head of Sales and Development in the Fragrances Segment. As from June 1 2021, Ms. Kesselman is entitled to a monthly salary of NIS 25,000; Ms. Kesselman is entitled to an annual bonus in accordance with the Company's compensation policy. Furthermore, Ms. Kesselman is entitled to annual leave, recreation pay, pension fund and managers insurance, social benefits that do not exceed those that are normally acceptable, and to other benefits normally provided by Company to its employees.

Furthermore, the Company provides Ms. Kesselman with a car as is generally accepted in the Company, and bears all expenses pertaining to its maintenance, including grossing up of the tax in respect thereof.

The term of the employment agreement is not limited in time, and each of the parties may terminate it by giving advance notice in writing in accordance with the law.[6] Ms. Kesselman's employment agreement includes a confidentiality clause.

In May 2022, an extraordinary meeting of the Company's shareholders approved, after approval by the Company's Compensation Committee and Board of Directors, the allocation of 105,000 options to Ms. Kesselman, which are exercisable into 105,000 ordinary Company shares, at an exercise price of NIS 23.51 per share, in accordance with and subject to the Company's option plan. In addition, the meeting

[6] In accordance with the provisions of the Companies Law, 1999, and the regulations promulgated thereunder as they may be as of the date of this report, the Company will bring the engagement forward for reapproval 5 years after the IPO date, if the engagement is not terminated earlier in accordance with its terms.

approved an annual bonus to Ms. Kesselman in respect of 2021, at the total amount of NIS 50,000 (2 monthly salaries). On March 26, 2023, the Company's Compensation Committee and Board of Directors approved an annual bonus of USD 20 thousand, based on measurable objectives approved to Ms. Kesselman.

2. Engagement with Mr. Shay Khazon, Chief Operating Officer of the Fragrance Segment in Israel

As from March 15 2015, Mr. Shay Khazon, the husband of Ms. Karen Cohen Khazon, the Company's controlling shareholder, has been providing the Company services relating to operation, supply chain and maintenance through a privately held company he owns (hereinafter - "**Mr. Khazon**" and the "**Management Agreement**", respectively). In consideration for the management services provided over 4 days a week, on average, Mr. Khazon was entitled to monthly management fees of NIS 40,000; as from March 2021, the monthly management fees amount were increased to NIS 50,000, linked to the CPI in respect of February 2021.

Furthermore, through March 2021, the Company has borne all expenses pertaining to Mr. Khazon's car and the expenses pertaining to its maintenance.

Mr. Khazon is entitled to the funding of his trips abroad on behalf of the Group, including accommodation and sustenance, provided that any such expense shall be approved in advance and in writing by the Company's CEO.

The term of the Management Agreement is not limited in time, and each of the parties may terminate it by giving a 90-day advance notice in writing.[7] Mr. Khazon's employment agreement includes a confidentiality clause.

In May 2022, an extraordinary meeting of the Company's shareholders approved, after approval by the Company's Compensation Committee and Board of Directors, the allocation of 157,000 options to Mr. Shay Khazon, which are exercisable into 157,000 ordinary Company shares, at an exercise price of NIS 23.51 per share, in accordance with and subject to the Company's option plan. Furthermore the meeting approved that Mr. Khazon will be entitled to annual bonuses in respect of the years 2022 through 2025 in accordance with the Company's Compensation Policy. On March 26, 2023, the Company's Compensation Committee and Board of Directors approved an annual bonus of USD 52 thousand, based on measurable objectives.

[7] In accordance with the provisions of the Companies Law, 1999, and the regulations promulgated thereunder as they may be as of the date of this report, the Company will bring the engagement forward for reapproval 5 years after the IPO date, if the engagement is not terminated earlier in accordance with its terms.

Regulation 24: Holdings of Interested Parties and Senior Officers

For information about the holdings of interested parties and officers in the Company, see the Company's immediate report of January 8 2023 (Ref. No.: 2023-01-004623). The information included in the said report is incorporated herein by way of reference.

Regulation 24A: Registered Capital, Issued Capital and Convertible Securities of the Corporation

For information about registered capital, issued capital and convertible securities of the Company, see the Company's immediate report of January 8 2023 (Ref. No.: 2023-01-004617). The information included in the said report is incorporated herein by way of reference.

Regulation 24B: The Corporation's Shareholder Register

For information about the Company's shareholder register, see the Company's immediate report of January 8, 2023 (Ref. No.: 2023-01-004617). The information included in the said report is incorporated herein by way of reference.

Regulation 25A: Registered Address of the Corporation

For information about the Company's address and the ways of making contacts therewith, see the top of this chapter.

<u>Regulation 26</u>: <u>The Corporation's Directors</u>

Set forth below are details regarding the Company's directors:

	Karen Khazon Cohen	**Israel Leshem**	**Erez Meltzer**	**Shay Shlomo Khazon**	**Ohad Finkelstein**	**Limor Avidor**	**Mordechai Peled**
I.D. Number	024429227	051210177	065861338	058641549	**024429227**	022772628	056092711
Date of Birth	25.8.1969	26.4.1952	30.7.1957	5.2.1964	25.1.1961	07.09.1967	21.10.1959
Address for service of legal documents	2 Halahav St. Holon	16 Abba Hillel Silver, Ramat Gan 5250608	55 Ha'Maayan, Ra'anana	23 Iytzhar, Ramat HaSharon, 4721563	67 Ha'Shahar, Ra'anana	25 HaTikva, Ramat HaSharon, 4721024	47 Ha'Nesher, Ra'anana, 4372633
Citizenship	Israel	Israel	Israel, USA	Israel	Israel	Israel	Israel
Membership in Board of Directors committees	No	No	No	No	The Audit Committee and the Compensation Committee	The Audit Committee and the Compensation Committee	The Audit Committee and the Compensation Committee
External director	No	No	No	No	No	Yes	Yes
Independent director	No	No	No	No	Yes	No	No
Director with accounting and financial expertise or professional qualification	Accounting and financial expertise	No	**Accounting and financial expertise**	No	No	No	Accounting and financial expertise
Employee of the corporation, subsidiary,	Chairperson of the Company's Board of Directors, CEO of the Company,	Director in Chemada, WFF and Klabin.	Director in SDA, Chemada, and Pollena Aroma.	**Chief Operating Officer at the**	No	No	No

	Karen Khazon Cohen	Israel Leshem	Erez Meltzer	Shay Shlomo Khazon	Ohad Finkelstein	Limor Avidor	Mordechai Peled
related company or of an interested party	and director in subsidiaries of the Company.			**fragrance segment in Israel**			
The date on which he/she began his/her term as a director	1.1.2011	1.1.2011	18.5.2021	18.5.2021	30.5.2021	4.7.2021	4.7.2021
Education	B.Sc Organic Medicinal Chemistry, Bar Ilan University MBA - Strategic Planning, London Business School MBA - Financing - Tel Aviv University The PON Program, Harvard Law and Business Administration School	LLB, Tel Aviv University, Doctor of Juridical Science (SJD), Harvard University	BA and MA in Economics, Mathematics and Business Administration, Hebrew University of Jerusalem and Boston University; Advanced Management Course, Harvard University.	B.Sc Civil Engineering, expertise in construction and management, the Technion. M.Sc Civil Engineering, expertise in management, the Technion.	Graduate of PoliSci and Marketing. UCLA	BA in Behavioral Sciences, Ben Gurion University	BA in Economics and Management, Tel Aviv University MBA, Tel Aviv University
Occupation in the past five years:	Chairperson of the Company's Board of Directors and Company CEO.	Partner in Meitar Law Offices	**Chairman of the Board of Directors and director in a**	**Chief Operating Officer at the fragrance segment in Israel**	Partner - Market LLC (2011 to date); managing partner - Danli	Deputy CEO and Company Secretary, Mivtach Shamir	CEO, Pelgo Ltd. (23 years).

	Karen Khazon Cohen	Israel Leshem	Erez Meltzer	Shay Shlomo Khazon	Ohad Finkelstein	Limor Avidor	Mordechai Peled
			number of companies, including the Hadassah Medical Center (PBC), Hadassit Ltd., Hadasit Bio-Holdings Ltd., Hadassah Medical Ltd., Sari Ltd., SupPlant Technologies Ltd. and SupPlant Agro Project Ltd., Plantis Agro Ltd., Tevel Aerobotics Ltd., Smart Agro R&D and Rivolis Ltd.		Capital Ltd. (2007 to date)	Holdings Ltd. (29 years).	
Other corporations in which he/she serves as a director	Chairperson of the Board of Directors of the Company, Chemada, WFF, Pollena Aroma, Turpaz USA, FIT, Lori, K-Vision Holdings, BKF Medical, and	Dr. Israel Leshem, Law Firm, Chemada, WFF, Corinthus, Meitar Trust Services Ltd.	Nano-X Imaging, Hadasit Bio-Holdings, Atlasense; GEM Pharma, SDA, Eltek, Ericom, Friends of Loewenstein Hospital Association, Reut Association; Or		First Media, BankM, KWSC, Dropitshpping, Equalum, Overwolf, Idomoo, Qwilt, Cosmose, Team8, Wakelet.	Hod Ha'Sharon Towers Ltd., Jarvinia Holdings Ltd., Mivtach Or (2021) for the Elderly (Gedera) Ltd., Kesem Energy Ltd., Mivtach Shamir Finance Ltd., Chan Hanamal	Pelgo Ltd. and Razor Labs Ltd.

	Karen Khazon Cohen	Israel Leshem	Erez Meltzer	Shay Shlomo Khazon	Ohad Finkelstein	Limor Avidor	Mordechai Peled
	director in Sde Eliyahu.		Movement Association; Plantis Agro, SupPlant, Rivolis Ltd., Ud Nof.; Tevel Aerobotics, Capital Nature, Chemada.			Ltd., M.B.S.T Real Estate Ltd.,Michtach Shamir Energy 2022 Ltd., M.S.N.M Real Estate Ltd., Galum Investments Ltd., Ili Investments Ltd. and Sanlakol Ltd.	
Relative of an interested party	Wife of Mr. Shay Khazon, Chief Operating Officer	No	No	Husband of Ms. Karen Khazon Cohen, CEO and Chairperson of the Company's Board of Directors	No	No	No

Regulation 26A: **Senior Officers**

Set forth below is information about each of the Company's officers, whose details were not provided in accordance with Regulation 26:[8]

	Ari Rosenthal, Head of the Flavors & Food Division	Guy Gill, Chief Financial Officer	Ms. Shir Kesselman, Head of Global Sales in the Fragrance Segment	Idan Shabtay, Group's Comptroller
I.D. Number	057197550	24223380	204330757	308408194
Date of Birth	15.5.1961	2.2.1969	21.6.1993	18.2.1993
Date of start of service as an officer	1.5.2020	18.9.2022	16.11.2022	11.12.2022
Position in the Company, subsidiary, related company of the Company or an interested party thereof:	Head of the Flavors & Food Division	Chief Financial Officer	Head of Global Sales	Group's Comptroller
Relative of another senior officer or another interested party in the Company:	No	No	Yes, Daughter in law of Ms. Karen Cohen Khazon, the controlling shareholder	No
Education	BA, Science and Economics, University of Haifa; MA Public Administration, Haifa University	BA, Economics and Accounting, University of Haifa CPA - Israel CPA Council	BA, Economics and Business Administration, College of Management Academic Studies	BA, Economics and Accounting, University of Haifa CPA - Israel CPA Council
Business experience in the past five years:	CEO, Israel emerging markets in Frutarom Industries Ltd.	Head of PMI in the Company, and VP Finance in Frutarum Industries Ltd.	sales employee in the Turpaz Group	KPMG - CPA.

[8] Mr. Eyal Azulay ceased to serve as Deputy CEO and CEO of Chemada on August 21, 2022.
On January 1, 2023, Dudu Talmon, Group's Comptroller passed away prematurely.

Regulation 26: The Corporation's Authorized Signatory

As of the report's date, the Company does not have independent authorized signatories.

Regulation 27: The Company's Independent Auditor

EY - Ernst & Young, of 144A Menachem Begin Road, Tel Aviv Yaffo.

Regulation 28: Change in the Memorandum or Articles of Association of the Corporation

During the report period, no changes were approved to the company's memorandum or articles of association.

Regulation 29: Recommendations and Resolutions of the Board of Directors

The Board of Directors' recommendations to the General Meeting and their resolutions that do not require the approval of the General Meeting:

1. In a meeting held on March 13 2022, the Company's Board of Directors decided to approve the distribution of a USD 3.97 million dividend to the Company's shareholders, which will be paid on March 31 2022.
2. In a meeting held on March 26 2023, the Company's Board of Directors decided to approve the distribution of a USD 5 million dividend to the Company's shareholders in accordance with the Company's dividend distribution policy. The amount of dividend per share is 4.96 cents, which will be paid on April 18, 2023. For more information, see the Company's immediate report that will be published by the Company shortly before the publication date of this report.

Decisions of an Extraordinary General Meeting:

1. On May 2, 2022 the general meeting of the Company's shareholders approved the following items: (a) Approval of directives regarding the payment of annual bonuses and allocation of options to Mr. Shay Khazon; (b) approval of an annual bonus to Mr. Shay Khazon in respect of 2021; (c) approval of allocation of options to Ms. Shir Kesselman; (d) approval of an annual bonus to Ms. Shir Kesselman in respect of 2021._For more information, see the meeting summons report of April 27, 2022 (Ref. No.: 2022-01-042303).

Regulation 29A: Company's Resolutions

1. Directors and officers liability insurance:

On May 17, 2022, the Company's Compensation Committee approved, in accordance with the Compensation Policy, the renewal of the purchase of a professional liability insurance policy covering Company's directors and officers as they may be from time to time in effect through May 15, 2023. The terms of the said insurance policies are as follows: Liability limit of up to USD 25 million per claim and per period, plus reasonable legal expenses in excess of the insurer's liability limit. The deductible amount is USD 25 thousand, except for claims in the USA and Canada, in respect of which the deductible amount will be USD 50 thousand, and claims concerning the breach of the Israeli securities law, in respect of which the deductible amount will be USD 100 thousand; the annual premium in respect of the policy amounts to USD 95 thousand.

2. <u>Indemnification and exemption:</u>

On May 13 2021, the Company's Board of Directors approved the award of indemnification to any person serving as a Company officer (including directors), including a Company officer who serves on behalf of the Company in a subsidiary and/or related corporation of the Company and/or another corporation (including a foreign corporation), the securities and/or voting rights and/or right to appoint directors in which the Company holds and/or will hold from time to time; the Board of Directors' resolution was approved by the General Meeting of the Company's shareholders on May 18 2021. The indemnification undertaking was granted in respect of liabilities and expenses in accordance with the Companies Law, in connection with a series of events (grounds for indemnification) listed in the letter of indemnity. The maximum cumulative indemnification amount that the Company may pay to all officers in accordance with the letter of indemnity shall not exceed the higher of: (1) USD 20 million or (2) 25% of the Company's shareholders' equity in accordance with its latest financial statements as they will be as of the indemnification's payment date; to all directors and officers. Furthermore, the Company decided to exempt its officers as aforesaid (including directors) in advance from a liability in respect of damage that was caused and/or will be caused to the Company by the officer due to breach of his/her duty of care to the Company, except in a case of breach of duty of care in distribution, as defined in the Companies Law.

Date: March 26 2023

Names of signatories: Titles:

Karen Cohen Khazon , **Chairperson of the Company's Board of Directors and Company's CEO**

Dr. Israel Leshem **Director**[9] ___________________

____

[9] Director authorized by the Board of Directors to sign.

TURPAZ INDUSTRIES LTD.

Chapter E

Managers' statements

Annual report regarding the effectiveness of internal control over financial reposting and disclosure in accordance with Regulation 9B(a) to the Securities Regulations (Periodic and Immediate Reports), 1970, for 2022:

Turpaz Industries Ltd.'s management (hereinafter - the "Corporation"), under the supervision of the Board of Directors, is responsible for maintaining and implementing appropriate internal control over financial reporting and disclosure in the Corporation.

For that purpose, members of management are:

1. Karen Cohen Khazon, CEO and Chairperson of the Board of Directors

2. Guy Gill, Chief Financial Officer

3. Shauli Egar VP IT

3. Yoni Adini, Chief Legal Counsel and Company Secretary

Idan Shabtay, Comptroller

Internal control over financial reporting and disclosure includes controls and procedures maintained by the Corporation, and designed by the CEO and the most senior financial officer or under their supervision, or by those who effectively execute the said offices, under the supervision of the Corporation's Board of Directors, which were designed to obtain reasonable assurance as to the reliability of the financial reporting and preparation of the reports in accordance with the provisions of the law, and to

ensure that information that the Corporation is required to disclose in the reports it publishes in accordance with the provisions of the law is collected, processed, summarized and reported on the date and in the format prescribed by law.

The internal control, includes, among other things, controls and procedures that were designed to ensure that information that the Corporation is required to disclose as stated above, is collected and transferred to the Corporation's management, including to the CEO and to the most senior financial officer, or to those who effectively execute the said offices, in order to allow making decisions in the appropriate date in connection with the disclosure requirements.

Due to its inherent limitations, internal control over financial reporting and disclosure is not designed to provide absolute assurance that a misstatement or omission of information in the reports will be prevented or detected.

Management, under the supervision of the Board of Directors, tested and assessed the internal control over financial reporting and disclosure, and its effectiveness. The assessment of the effectiveness of internal control over financial reporting and disclosure executed by management under the supervision of the Board of Directors included:

Mapping and identifying those accounts and processes which the Company views as very material to financial reporting and disclosure. Assessing key controls and the effectiveness of the controls: These components of internal controls included controls on the closing of the financial reporting for the period, including drawing up and preparing financial statements and disclosures, entity level controls and general controls of information systems, and controls over business processes: (1) controls over the procurement process, materials consumed and inventory; (2) sales and receivables processes; (3) the process of intangible assets' impairment testing.

Based on the assessment of the effectiveness of internal controls carried out by management under the supervision of the Board of Directors as described above, the Corporation's management and Board of Directors reached the conclusion that the internal controls over financial reporting and disclosure in the Corporation as of December 31, 2022 is effective.

Statement of the Chief Executive Officer in accordance with Regulation 9B(D)(1):

Statement of the Chief Executive Officer

I, Karen Cohen Khazon, hereby declare that:

(1) I have reviewed the periodic report of Turpaz Industries Ltd. (hereafter – the "**Corporation**") for the year 2022 (hereafter – the "**Reports**").

(2) To the best of my knowledge, the Reports do not include any misrepresentation of a material fact, nor do they omit any representation of a material fact so that the representations included therein, in view of the circumstances in which such representations have been included, shall not be misleading with regard to the period covered by the Reports;

(3) To the best of my knowledge, the financial statements and other financial information included in the reports, reflect fairly, in all material respects, the financial position, results of operations and cash flows of the Corporation as of the dates and periods covered by the Reports;

(4) I have disclosed to the independent auditor of the corporation, the Board of Directors, and the Board of Directors' Audit committee, based on my most recent evaluation of the internal control over financial reporting and disclosure, the following:

(a)All significant deficiencies and material weaknesses in the establishment or implementation of the internal controls over financial reporting and disclosure that may adversely affect, in a reasonable manner, the Corporation's ability to collect, process, summate or report financial information in a manner that may give rise to doubt as to the reliability of financial reporting and preparation of the financial statements in accordance with the provisions of the law; and -

(b) any fraud, whether material or immaterial, in which the Chief Executive Officer, or anyone directly reporting to him, or any other employees are involved who have a significant function in the corporation's financial reporting and in internal control over financial reporting and disclosure thereof.

(5) I, severally or jointly with others in the corporation:

(a) have established such controls and procedures, or ensured that such controls and procedures under my supervision be established and in place, designed to ensure that material information relating to the corporation, including its consolidated companies as defined in the Securities Regulations (Preparation of Annual Financial Statements), 2010, is brought to my attention by others in the corporation and the consolidated companies, particularly during the Reports' preparation period; and

(b) have established controls and procedures, or ensured that such controls and provisions under my supervision be established and in place, designed to ensure, in a reasonable manner, the reliability of financial reporting and preparation of financial statements in accordance with the provisions of the law, including in accordance with generally accepted accounting principles;

(c) have assessed the effectiveness of internal controls over financial reporting and disclosure, and presented in this report the Board of Directors and management's conclusions as to the effectiveness of such internal controls as of the Reports' date.

The aforesaid does not derogate from my responsibility or from the responsibility of any other person, pursuant to any law.

March 26 2023

Karen Cohen Khazon,

CEO and Chairperson of the Board of Directors

Statement of the Most Senior Financial Officer Pursuant to Regulation 9B(D)(2):

Statement of the Most Senior Financial Officer:

I, Guy Gill, hereby declare that:

(1) I have reviewed the financial statements and other financial information included in the reports of Turpaz Industries Ltd. for the year 2022 (hereafter – the "**Reports**").

(2) To the best of my knowledge, the financial statements and other financial information included in the Reports do not include any misrepresentation of a material fact, nor do they omit any representation of a material fact so that the representations included therein, in view of the circumstances in which such representations have been included, shall not be misleading with regard to the period covered by the Reports;

(3) To the best of my knowledge, the financial statements and other financial information included in the reports, reflect fairly, in all material respects, the financial position, results of operations and cash flows of the Corporation as of the dates and periods covered by the Reports;

(4) I have disclosed to the independent auditor of the corporation, the Board of Directors, and the Board of Directors' Audit committee, based on my most recent evaluation of the internal control over financial reporting and disclosure, the following:

(a)All significant deficiencies and material weaknesses in the establishment or implementation of the internal controls over financial reporting and disclosure insofar as they relate to the financial statements and the other financial information included in the reports that may adversely affect, in a reasonable manner, the Corporation's ability to collect, process, summate or report financial information in a manner that may give rise to doubt as to the reliability of financial reporting and preparation of the financial statements in accordance with the provisions of the law; and -

(b) any fraud, whether material or immaterial, in which the Chief Executive Officer, or anyone directly reporting to him, or any other employees are involved who have a significant function in the corporation's financial reporting and in internal control over financial reporting and disclosure thereof.

(5) I, severally or jointly with others in the corporation:

(a) have established such controls and procedures, or ensured that such controls and procedures under my supervision be established and in place, designed to ensure that material information relating to the corporation, including its consolidated companies as defined in the Securities Regulations (Preparation of Annual Financial Statements), 2010, to the extent that it is relevant to the financial statements and the other financial information included in the Reports is brought to my attention by others in the corporation and the consolidated companies, particularly during the Reports' preparation period; and -

(b) have established controls and procedures, or ensured that such controls and provisions under my supervision be established and in place, designed to ensure, in a reasonable manner, the reliability of financial reporting and preparation of financial statements in accordance with the provisions of the law, including in accordance with generally accepted accounting principles;

(c) have assessed the effectiveness of internal controls over financial reporting and disclosure, to the extent that they relate to the financial statements and the other financial information included in the Reports as of the Reports' date; my conclusions as to my assessment as stated above were presented to the Board of Directors and management and integrated into this report.

The aforesaid does not derogate from my responsibility or from the responsibility of any other person, pursuant to any law.

March 26 2023

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Guy Gill, Chief Financial Officer