Turpaz Industries Ltd.

Annual report for the year ended December 31, 2023

This is an English translation of a Hebrew Periodic report that was published on March 19, 2024 (reference no.: 2024-01-023989) (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, 2023 (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 term Group will include the Company and any of the companies under its control.

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 and/or a consolidated company
"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
"**Israel Innovation Authority**" **-**	The National Technological Innovation Authority (formerly - the Chief Scientist Office).
"**Periodic and Immediate Reports Regulations**"	Securities Regulations (Periodic and Immediate Reports), 1970.
"Chemada" -	Chemada Industries Ltd
"**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.

"FIT"	Food Ingredients Technology
"LORI"	LORI RKF
"Balirom"	Balirom Ltd.
"Pentaor"	Pentaor Ltd.
"Klabin"	Klabin Fragrances, Inc.
"Aromatique"	Aromatique Food SRL
"Food Base"	Food Base Kft.
"Sunspray"	Sunspray Solutions Proprietary Limited

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 that operates, 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 in liquid and powder form, seasonings, unique functional solutions for the field of baking, and gluten free flours, which are used mainly in the production of food and beverages, specialty fine ingredients for the pharma industry, the agro and fine chemicals industry, the food supplements industry, and citrus products and aromatic chemicals for the flavor and fragrance industries.

The Turpaz Group has an extensive and diversified range of products, which are developed and produced in the Group's plants across the world. As of the report's publication date, the Group develops, produces, markets and sells products to more than 2,650 customers in more than 60 countries across the world, and operates approx. 16 manufacturing facilities, including

R&D centers, laboratories and sales, marketing and regulation offices in Israel, the USA, Poland, Belgium, Vietnam, Latvia, Romania, Hungary, India and South Africa which employ 730 employees.

In the first quarter of 2024, Turpaz recruited a number of leading experts with extensive knowledge and tens of years' worth of experience in leading international companies in the taste and fragrance industry. The experts that were recruited included a global master perfumer, a global senior flavorist and a global procurement. The recruitment of those experts allows Turpaz to continue strengthening its global capabilities both in terms of development and in terms of technology and addressing its customers' needs, while strengthening its global position and continuing its geographic expansion in accordance with the Group's growth strategy.

Furthermore, this recruitment is expected to allow Turpaz to strengthen and increase the synergies between the Group companies and its activities in the different geographic regions, and to position it as a leading company in the field of taste, fragrance and specialty fine ingredients.

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, 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 M&As of activities that are synergetic to Turpaz Group's activity and organic growth, while leveraging the synergies between Group companies in the areas of sales, procurement, development and marketing while complying with regulatory requirements, which contribute to the improvement in profitability. The Company assesses on an ongoing basis options to acquire additional companies, noting the market conditions and the expected contribution from the acquisition, as estimated by the Company.

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 sales function (cross-selling) by expanding the product mix, entering into new markets and recruiting new customers, expanding the R&D, procurement, and finance functions of the acquired company, 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, and that it is taking action on a current basis to fully utilize the potential of those acquisitions.

Company's assessments as to the Group's growth rate, the periods during which the potential embodied in the acquisitions and the new recruitments 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 1.29.

1.3.2. **Areas of activity**

As of the report date, the Company has three areas of activity that are reported as business segments in its financial statements, as follows:[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 relationship between Turpaz Group and its customers across the world. When they select a supplier, customers focus on the suppliers' innovation, uniqueness, high quality, compliance

[1] For information regarding the transition to reporting three segments, see Note 25A to the financial statements.

with international and domestic regulatory requirements, the suppliers' reliability and the excellence of their services and their knowledge of the needs of the customers for whom the specialty extracts were developed.

The taste segment - as part of the taste segment, Turpaz Group is engaged in the development, production, sale and marketing of natural and synthesized, sweet and savory flavor extracts, 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 regulatory requirements. 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 fine ingredients segment - in this segment, Turpaz Group is engaged in the development, production, marketing and sale of specialty fine ingredients used as intermediates and raw materials in the pharma industry, fine specialties ingredients used in various manufacturing processes to be used in a range of industries, mainly flavors and fragrances, agrochemicals, polymers and catalysts, and citrus products and aromatic chemicals for the flavor and fragrance industry. In this segment, Turpaz Group focuses on the production of high-quality products of high added value, and develops and manufactures tailor made products that meet the needs of its customers and comply with prevailing regulations through its development, manufacturing and engineering departments.

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

Acquisition date	The acquired company/activity	The nature of the transaction	Segment	The consideration	Geographic region of activity	Holding rate as of the report's date	Additional information
December 2017	Pollena Aroma	Purchase of the entire share capital of Pollena Aroma	Fragrance and taste	EUR 7.13 million	Poland	100%	
February 2018	Intuiscent (through Turpaz USA)	Acquisition of activity	Fragrance	Approx. USD 200 thousand	USA	100%	
June 2019	Chemada	Acquisition of activity from a trustee, as part of receivership process.	Specialty fine ingredients	Approx. USD 4.1 million	Israel	100%	
August 2019	Flavor Associates (through Turpaz USA)	Acquisition of activity	Fragrance and taste	Approx. USD 1.5 million For more information, see Section 1.4.1.3 to the 2021 Periodic Report.	USA	100%	
January 2020	Florasynth (through the Company)	Acquisition of activity	Taste	NIS 2.5 million	Israel	100%	
July 2020	WFF	Purchase of 60% of the share capital of WFF, a shareholders' loan and an option to purchase the remaining shares	Fragrance	See Section 1.4.1.5 to the 2021 Periodic Report.	Vietnam	70%	Turpaz has an option to purchase 20% of WFF's shares; 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. In addition, 10% of WFF's shares are held by a local investor, who serves as the Company's CEO. For more information about changes in the holding rate, see Note 1A to the financial statements.
November 2020	SDA	Acquisition of control in SDA.	Taste	NIS 12.2 million.	Israel	100%	

Acquisition date	The acquired company/activity	The nature of the transaction	Segment	The consideration	Geographic region of activity	Holding rate as of the report's date	Additional information
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).			
October 2021	FIT	Acquisition of control (60%) in FIT.	Taste	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%	In the fourth quarter of 2023, the parties agreed the postponement of the deadline for exercising the option to purchase the remaining shares of FIT (40% of the issued and paid-up share capital); for more information, see Note 5G to the financial statements. Furthermore, 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.
October 2021	Pilpel - Food Industries Development Ltd. and FC Galilee Herbs Ltd.	Purchase of business activity and assets from Pilpel and Galilee Herbs.	Taste	NIS 12 million (approx. USD 3.75 million)	Israel	100%	
January 2022	LORI	Purchase of the entire issued and paid up share capital of Lori.	Fragrance	Approx. EUR 3.14 million (USD 3.6 million) plus net cash balances.	Latvia	100%	
March 2022	Balirom	Purchase of 60% of the issued and paid up share capital of Balirom.	Taste	NIS 14.5 million (approx. USD 4.6 million)	Israel	70%	For more information about the call options and the put option in relation to the remaining Balirom shares, see Section 1.4.1.2 below.
April 2022	Pentaor	Purchase of the entire issued and paid up share capital of Pentaor.	Taste	NIS 10 million (approx. USD 3.1 million)	Israel	100%	

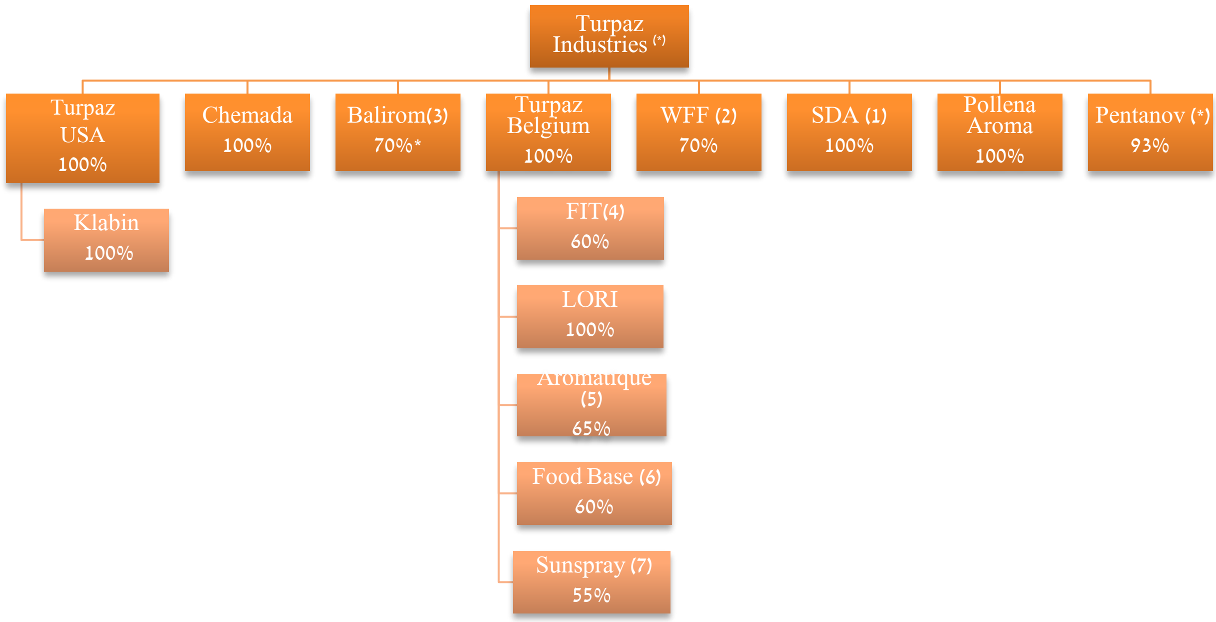
Acquisition date	The acquired company/activity	The nature of the transaction	Segment	The consideration	Geographic region of activity	Holding rate as of the report's date	Additional information
October 2022	Klabin	Purchase of the issued and paid-up share capital and voting rights of Klabin.	Fragrance	Approx. USD 22.4 million. The consideration is subject to adjustments in accordance with Klabin's business performance in 2023-2025.	USA	100%	
January 2023	Aromatique	Purchase of 65% of the issued and paid-up share capital of Aromatique.	Taste	Approx. RON 17 million (approx. USD 3.6 million).	Romania	65%	For more information about the call options and the put option in relation to the remaining Aromatique shares, see Section 1.4.1.5 below.
August 2023	Food Base	Purchase of 60% of the issued and paid-up share capital of Food Base.	Taste	Approx. HUF 3,300 (approx. USD 9.5 million) net of 60% of the debt on the transaction completion date, and future consideration which is based on Food Base's business performance in 2023-2024.	Hungary	60%	For more information about the call options in relation to the remaining Food Base shares, see Section 1.4.1.6 below.
February 2024	Sunspray	Purchase of 55% of the issued and paid-up share capital of Sunspray.	Taste	USD 14.1 million (approx. ZAR 267.8 million). The consideration referred to above is subject to adjustment in accordance with Sunspray's business performance based on the increase in EBITDA in 2024 and 2025, and the adjustment will not exceed ZAR 52.4 million (approx. USD 2.8 million). In addition, the agreement includes future consideration to	South Africa	55%	For more information about the call options and the put option in relation to the remaining Sunspray shares, see Section 1.4.1.7 below. Sunspray's results will be consolidated with the Group's results as from February 2024.

Acquisition date	The acquired company/activity	The nature of the transaction	Segment	The consideration	Geographic region of activity	Holding rate as of the report's date	Additional information
				the Sellers, which is based on Sunspray's business performance based on the increase in the average EBITDA in 2023-2025 compared to an agreed amount of ZAR 79.4 million (approx. USD 4.2 million), with the increase being multiplied by 1.65.			

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

Set forth below is the Group's holdings chart as of the report's publication 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. 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 .

10% (2)of WFF's shares are held by a local investor. The Group has an option to purchase 20% of the issued and paid-up share capital of WFF; the option may be exercised at any time through July 2024.

(3) On March 13, 2024, the Company purchased further 10% of the share capital of Balirom from one of the minority shareholders. The Group has an option to purchase the remaining holdings in Balirom; the option is exercisable starting 4 years after the transaction completion date, that is to say, through March 31, 2027. For more information, see Section 1.4.1.2 below .

(4) The Group has an option to purchase the remaining holdings in FIT; for more information, see Note 5G

(5) The Group has an option to purchase the remaining holdings in Aromatiqe; the option may be exercised at any time as from January 1, 2025. For more information, see Section 1.4.1.5 below.

(6) The Group has an option to purchase the remaining holdings in Food Base; the option may be exercised at any time from August 14, 2026 through August 13, 2028. For more information, see Section 1.4.1.6 below.

(7) The Group has an option to purchase the remaining holdings in Sunspray; the option may be exercised at any time as from January 1, 2027. For more information, see Section 1.4.1.7 below.

(*) On June 22, 2023, Pentaor Ltd., a wholly-owned subsidiary of the Company, was merged with and into the Company; the merger came into effect on September 30, 2022. As a result of the merger, Pentanov became a subsidiary controlled by the Company.

1.4.1. **Material purchases in 2022-2023**

1.4.1.1. **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 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.

1.4.1.2. **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 adjustments as of the purchase 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 flavor extracts, and the activity in Balirom during the eight (8) quarterly calendars prior to the exercise of the option. On March 13, 2024, the Company purchased further 10% of the share capital of Balirom from one of the minority shareholders. The provisions of the option shall continue to apply in respect of the remaining holdings in Balirom. Accordingly, as of the publication date of the report, the Company holds 70% of the share capital of Balirom.

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.

1.4.1.3. **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. The merger between the Company and Pentaor was completed on June 22, 2023, in accordance with Section 103C to the Income Tax Ordinance, such that as of the date of this report, Pentaor was merged with and into the Company's activity.

1.4.1.4. **Acquisition of Klabin**

On October 3, 2022, the Company completed - through a wholly-owned subsidiary - a transaction for the purchase of 81% of the issued share capital and voting rights of Klabin, a privately-owned company incorporated in the USA from its shareholders (hereinafter in this section - the "**Sellers**"), in consideration for USD 24.3 million, subject to adjustments in accordance with Klabin's results in 2022 (hereinafter in this section - the "**Acquisition Agreement**"). On March 26, 2023 after negotiations that were held between the parties for the assessment of the adjustment of the purchase price and the terms of the transaction, the parties agreed that instead of adjusting the consideration as per the Acquisition Agreement, the latter was revised such that: (1) The remaining balance of issued and paid up share capital and voting rights of Klabin (19%) were transferred immediately to Turpaz USA, such that Turpaz holds the entire (100%) issued share capital and voting rights of Klabin; (2) the immediate consideration for the acquisition (for 100% of Klabin's shares) was 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.

In the second quarter of 2023, the transfer of the production, development and sales activity of Turpaz USA's site to Klabin's site in New Jersey was completed.

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

On January 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 in a privately-owned company incorporated in Romania from its only shareholder (hereinafter in this section - the "**Seller**") in consideration for RON 17 million (approx. USD 3.6 million). 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, 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.

1.4.1.6. **Acquisition of Food Base**

On August 14, 2023, the Company completed - through a wholly-owned subsidiary - the acquisition of 60% of the issued and paid up share capital and voting rights of FOOD Base, a privately-owned company incorporated in Hungary, from its sole shareholder (hereinafter - the "**Seller**") in consideration for approx. HUF 3,300 million (approx. USD 9.3 million), net of 60% of the net debt of Food Base on the transaction completion date, and a future consideration based on Food Base's business performance during 2023-2024. As part of the agreement, Turpaz was awarded a call option to purchase Food Base's remaining shares from the Seller; the option is exercisable starting from 3 years after the transaction's completion date and until the end of 5 years from that date, at a price based on Food Base's business performance during the period from the transaction's completion date through the option's exercise date. To finance the acquisition, the Company took a short-term mezzanine bank loan that will be replaced with a long-term loan. Food Base, which was incorporated in 2004, is engaged in the development, manufacturing, marketing and sale of flavor extracts and plant-based natural extracts for the food and beverages industry, with an emphasis on the field of convenience food, health drinks and snacks, and specialty raw materials for the food supplements industry.

1.4.1.7. **Acquisition of Sunspray**

On February 14, 2024, the Company completed - through a wholly-owned subsidiary - the acquisition of 55% of the issued and paid up share capital and voting rights of Sunspray, a privately-owned company incorporated in South Africa from its shareholders - leading private equity funds in South Africa (hereinafter in this section - the "**Sellers**"), in consideration for USD 14.1 million (approx. ZAR 267.8 million). The consideration referred to above is subject to adjustment in accordance with Sunspray's business performance based on the increase in EBITDA in 2024 and 2025, and the adjustment will not exceed ZAR 52.4 million (approx. USD 2.8 million). In addition, the agreement includes future consideration to the Sellers, which is based on Sunspray's business performance based on the increase in the average EBITDA in 2023-2025 compared to an agreed amount of ZAR 79.4 million (approx. USD 4.2 million), with the increase being multiplied by 1.65. The agreement includes a (call/put) option to purchase Sunspray's remaining shares by Turpaz, which is exercisable as from January 1, 2027. The option's exercise price is based on Sunspray's business performance during the 12 quarters that preceded the option's exercise date. Sunspray is a leading company in its area of activity, which provides exclusive solutions to the food and beverages industry, while using a spray-drying technology that is tailored to the needs of multinational and local companies. Sunspray has two plants and innovative and advanced development laboratories in South Africa. Sunspray has hundreds of natural and artificial products, which are used, among other things, in the meat, baking, snacks, seasonings, beverages, sauces, dairy and animal food industries. Sunspray's results will be consolidated with the Group's results as from February 2024.

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 the reporting period there were no investments in the Company's capital and transactions involving its shares

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)
2022	3.97
2023	5.0
Total	**8.97**

1.6.2. As of December 31, 2023, the Company had a retained earnings balance of USD 47,123 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 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 2022 and 2023, by operating segments, based on the Company's consolidated financial statements (in USD thousands):

2023						
		Fragrance segment	**Taste segment**	**Specialty fine ingredients segment**	**Adjustments**	**Total**
Revenues	From external entities	32,768	65,361	29,226		127,355
	Intersegment			141	(141)	-
Total income		32,768	65,361	29,367	(141)	127,355
Costs	To external entities	(24,602)	(55,912)	(22,665)		(103,179)
	Intersegment	(141)			141	-
Total costs		(24,743)	(55,912)	(22,665)	141	(103,179)
Unallocated joint expenses					(5,996)	(5,996)
Profit (loss) from operations		8,025	9,449	6,702	(5,996)	18,180
Total liabilities		22,438	67,579	14,684		104,701
Total assets		89,182	102,415	30,431		222,028

		Fragrance segment	**Taste segment**	**Specialty fine ingredients segment**	**Total**
Revenues	From external entities	27,490	59,325	31,741	118,556
Costs	To external entities	(20,100)	(41,658)	22,655	(84,413)
Unallocated joint expenses					(6,813)
Profit (loss) from operations		7,390	17,667	9,086	27,330
Operating profit (loss), net of one-off profit from the fire		7,390	8,873	9,086	18,536
Total liabilities		22,487	69,745	17,649	109,881
Total assets		84,248	98,739	30,419	213,406

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.

1.8. **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 fragrance industry**

The taste and fragrance markets and the specialty intermediates market are generally viewed as a single market. As of 2022, the global taste and fragrance market was estimated at approx. USD 32.2 billion, and it is estimated to increase to approx. USD 43.6 billion in 2032 with a CAGR of 3.3% between 2024 and 2032.[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 IFF-DuPont Nutrition & Biosciences, DSM-Firmenich, Givaudan and Symrise have a sales turnover higher than USD 3 billion each. Each of the large global companies has a sales turnover of USD 1 billion to USD 3 billion. These companies 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.

The medium global companies have a sales turnover of USD 300 million to USD 1 billion. Generally, these companies have development, marketing and sales activities that focus on one area of activity, or two at most.

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

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

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

Furthermore, suppliers of flavor 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.

Flavor and fragrance extracts affect the consumer's decision to purchase the product. Generally, flavor 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 flavor 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 flavor or fragrance extracts).

1.8.2. **Specialties chemicals market**

As of 2023, the global specialties chemicals market was estimated at USD 641.5 billion, and it is expected to grow at an average annual rate of 5.2% between 2023 to 2030. The specialty ingredients segment, includes raw materials and intermediates for the pharma, agrochemicals, flavor 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

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

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. **Social-economic situation in Israel and across the world**

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 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. **The "Iron Swords" War**

The "Iron Swords" War broke out in Israel on October 7, 2023. As of the date of this report, the War is still ongoing both in the Gaza Strip and in the northern border in response to attacks from Lebanon and Syria. Following these difficult events, a special situation was declared in the Israeli home front and an extensive drafting of reservists was carried out; many settlements were evacuated in the first few days, both in the Gaza Envelop settlements and in settlements bordering Israel's northern border, and steps were taken to ensure the safety of the public, including restrictions on workplaces and the education system, in line with their proximity to the war zones. As of the report date, there was a reduction in the scale of the war in Gaza, which led to the discharge of some of the reservists that were drafted, alongside partial return to routine in those parts of the south of Israel that are not close to Gaza. At the same time, economic activity at the center of Israel was fully restored with no restrictions in place. However, only some of the residents of settlements in the north and the Gaza Envelope returned to their homes and the war has not ended yet. The Company is unable to estimate the duration, nature or scope of the war. This is an extraordinary event, which is characterized with a high level of uncertainty, and its short and long-term effects on the Israeli economy are unknown.

Furthermore, the threat posed by Houthi rebels in Yemen might affect the global supply chain, and accordingly energy and commodities prices. However, in the opinion of the Company, this will not have a material effect on the Group's financial results.

Further to an immediate report of October 10, 2023 (Ref. No. 2023-01-114471), which is incorporated herein by way of reference, it should be clarified that as of that date all of the Company's sites in Israel and abroad are operating as normal.

The Company is an international company and a material part of its production, marketing and sales activities are carried out outside Israel, and its foreign subsidiaries are affected by the conditions in Israel to a negligible extent.

In the opinion of the Company, the reduction in the agricultural cultivation areas due to the war, together with the cut in the Ministry of Agriculture's budget, as well as the research budgets of the Agricultural Research Center - Volcani Institute might lead to an increase in the prices of agricultural crops in Israel and a reduction in the availability of agricultural areas required for cultivation. In view of the above, the Company assesses the economic viability of the products of SDA, a wholly-owned subsidiary of the Company. As the war is protracted, it may be difficult for SDA's suppliers, that grow crops it requires for the production of its products, to supply SDA with the said crops, which might affect SDA's sales. However, in the opinion of the Company, this will not have a material effect on the Group's financial results.

The Company has liquidity sources, available financial means and financing sources (as described in this report), which make it financially resilient and allow it to continue with its planned activities, including acquisitions of companies or activities.

The Company assessed the effects of the war so far and in the foreseeable future, in terms of its production capacity, sales, purchase of raw materials, cash flows and financing resources, and processes for the expansion of its activity, including by way of purchasing further companies and activities. In the opinion of the Company, in view of its areas of activity, its global deployment, the fact that most of its sales are to foreign customers, the customers' identity and the nature of products, the war does not have and is not expected to have a material effect on its businesses and financial results (assuming that there will be no substantial changes in the scope and intensity of the war and that there will be no substantial geopolitical changes).

The Company's assessments in this section above in connection with the effects of the war on the Company and its financial results constitute forward-looking information, as defined in Section 32A to the Securities Law, 1968; those assessments are based on information available to the Company as of the report's publication date, and the assumptions listed above. Those assessments may not materialize, in whole or in part, or materialize in a manner materially different

than expected, since, among other things, they are impacted by factors outside the Company's control. Should the war continue, expand to other regions in the country, or if the guidance issued by the Israeli government and the Home Front Command change, the pace of recovery of the Israeli economy, the growth trends in Israel and across the world, as well as other changes that will stem from what is stated above, might impact the Company's activity and results of operations in a manner that is different than the assessments listed above.

1.8.5. **<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.

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.

The protraction of the war and a deterioration in the geopolitical situation, instability and security crisis in countries in Asia and Eastern Europe in which Group companies have business activity might have an adverse effect on the Company's activity due to the instability of their customers' economic system in the said countries and due to restrictions on trade and financial restrictions.

1.8.6. **<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 the global supply chain 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 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. These steps led to the curb of the price increase trend, and in the first quarter of 2024 the Bank of Israel even cut interest rates.

In Israel, the growth in GDP - which amounted to 8.6% in 2021 and 6.5% in 2022 - declined significantly in 2023 reaching a level of 2% due to the effects of the War in the fourth quarter of 2024. The Bank of Israel is of the opinion that the growth in 2024 will be similar. The annual inflation rate declined to 3% in 2023, compared to 5.3% in 2022 and 2.8% in 2021. The unemployment rate declined to 3.1%, which is similar to the unemployment rate prior to the outbreak of the Covid-19 pandemic.

In January 2024, the Bank of Israel cut the basic interest rate in Israel by 0.25% from 4.75% to 4.5%. As part of their policy for tackling increasing inflation rates across the world, central banks implemented a contractionary fiscal policy alongside interest rate hikes in 2022, which continued mainly in the first half of the year. In Europe, interest rates reached 4.5% in September 2023, which remains unchanged as of the report publication date. In the USA too, interest rates reached 5.5% in July 2023, which remains unchanged as of the report publication date.

In February 2024, the credit rating agency Moody's announced a downgrade of Israel's credit rating to A2 with a negative outlook. The other rating agencies, Fitch and S&P have not yet announced their decision regarding the credit rating which is (A+) and (AA-), respectively. The downgrading of Israel's credit rating may have an adverse effect on the Israeli economy.

As of the reporting period, 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 as part of the Group's combined strategy shall lead to an increase in financing costs, and therefore will affect the Company's financial results.

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 1.8.1 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 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 fragrance segment focuses on the development, production, marketing, sale and distribution of a wide range of natural and synthesized flavor 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, in order to differentiate themselves from their competitors.

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.

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.

As a result of the Covid-19 crisis, there were significant changes in consumers' behavior, which affect the main components of the fragrance segment. Cosmetics and personal care consumers are much more aware of the issue of personal care, and use different 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.

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

The Group's fragrance 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.

During the past year, there were changes in regulatory requirements in connection with the licensing of products in Europe and Israel; as part of these changes, companies are required to list and disclose various allergens in fragrance extracts. The Company adapts the fragrance extracts it manufactures to the regulatory requirements across the world in accordance with the requirements of the target country and customers' requirements, and supplies the required evidence to that effect to its customers upon the supply of the products.

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.
- International regulatory changes apply in each country accordingly.

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. In the first quarter of 2024, the Company recruited an expert in the field of perfumes, who will enhance the Company's development and technology capabilities in this area of activity.
- 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, 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.

<u>Exit barriers</u> -

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

1.9.1.5.6 **<u>Alternatives for segment's products</u>**

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

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 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, 2023, the Group has marketing and sales activities in more than 50 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 1.9.1.1 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 1.28 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, DSM-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 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.

1.10. **Taste segment**

1.10.1. **General information about the segment**

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

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, animal and pet food and pharmaceuticals. Many multinationals as well as local manufacturers operate in this segment.

The global food flavors market size was valued at USD 17 billion in 2022, and is projected to reach USD 25 million by 2032, with a CAGR of 4% between 2023 and

2032.[4]Flavor additives include mainly natural flavors and extracts; in 2023, synthesized flavors had the largest market share in the food taste market. However, there is an increase in global demand and interest in natural and organic products, especially in the food and beverage industry.

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 and 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 market, the flavors extracts market 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 also increase the demand for processed food and in the range of products available in those markets.

The increasing demand for flavor extracts in recent ears is attributed, among other things, to the increase in consumers' demand for convenience (ready-to use) food and fast food, that require very little or are 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 income of middle-class consumers are expected to increase demand for tasty and healthy convenience food; this demand will, in turn, increase demand to flavor 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 flavor extracts based on natural flavors and extraction processes, rather than synthesized flavors extracts.

[4] https://www.precedenceresearch.com/food-flavors-market

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 flavor extracts adopt new technologies in order to create improved natural and synthesized flavors 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 flavors market is normally segmented by type, end-user and region. By type, it is segmented into natural and artificial flavors; 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. **<u>Legislative restrictions, standards and special constraints to which the segment is subject</u>**

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 Section1.22 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, ISO and Halal certifications.

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

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 flavor 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 flavor 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 flavors, food coloring and sweeteners. Furthermore, there has been an increase in demand for clean label and organic products. Adding the label "organic product" on food labels indicates that the food or agricultural product was produced using approved techniques and consumers tend to pay more for products with an "organic product" label.
- Increased demand for convenience food and fast food, including ready-to-eat microwave meals, both in developing and in developed markets. This trend increased the demand for flavor 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. **Segment's critical success factors**

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 flavor extracts, while complying with global and local regulations, in accordance with market demands in the relevant territory, and adapting the flavor 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. In the first quarter of 2024, the Company recruited an expert in the field of flavors, who will enhance the Company's development and technology capabilities in this area of activity.
- 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 flavor extracts in the end product -** flavor extracts determine the character and uniqueness of the end product, and therefore play a crucial role in its success. Flavor extracts play a very important role when it comes to customers and end consumers. Flavor 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 **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 -

In the opinion of the Company, 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 taste 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, coatings, savory pastries, processed meat and fish, convenience food, and 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. **Spices, seasonings and gluten-free flours**

The Company operates independently and through 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 usually also contain savory flavor extracts composed of different flavors, 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.

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

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 2022 and 2023 (in USD thousands):

Product	2022		2023	
	Revenues	Rate out of consolidated revenues	Revenues	Rate out of consolidated revenues
Spices and seasonings	48,963	41%	49,357	39%

1.10.4. **New products and services**

As part of the taste 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.

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 1.28 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 flavor segment; Company's revenues from this customer constitute approx. 12.5% of total Company revenues (USD 15.9 million in 2023). As in the case of most of its customers in the flavor 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. **<u>Orders backlog</u>**

Most customers in the taste extracts 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.

1.10.7. **<u>Competition</u>**

The Company's principal competitors in the field of flavor extracts are multinational and medium-size manufacturers of flavor extracts, such as Givaudan, DSM-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 is 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 flavor 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 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, the taste segment is characterized with seasonality, such that the second and third quarters are stronger compared to the first and fourth quarter; this seasonality stems from demand by Company customers in the food industry - affected by the seasons of the year.

1.11. **Specialty fine ingredients segment**

1.11.1. **General information about the segment**

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

The Group's activity in this segment is carried out at the Group's site in Nir Yitzhak, which specializes in the manufacturing of high-quality products, which are based mainly on brominated fine-chemicals.[5] The Group is engaged in the development, production, marketing and sale of specialty fine ingredients used as intermediates and

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

raw materials in the pharma industry, fine specialty ingredients used in various manufacturing processes to be used in a range of industries, mainly flavors and fragrances, agrochemicals, polymers and catalysts. The Group serves as a supplier of chemicals to a range of customers worldwide from the agrochemicals and specialty and fine chemicals industries, and markets its products across the world. In addition, the Group is engaged in the development and manufacturing of citrus products and aromatic chemicals for the taste and fragrance industry in the Group's plant in Nir Yitzhak and in the Company's plant in Zarzir. In addition, as of the publication date of this report, the Company works to set up production lines for the manufacturing of aromatic chemicals in Romania.

Manufacturing of fine chemicals used as raw materials and intermediates in the pharma industry is characterized with sales to manufacturers of intermediates and active pharmaceutical ingredients. The global APIs market size was valued at approx. USD 211.0 billion in 2021, and is projected to reach USD 349.2 billion by 2030, registering a CAGR of 6.5%.[6] 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.

As stated above, the Company also 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 280.87 billion by the end of 2030, registering a CAGR of 2.7%[7] between 2022 and 2030.

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[6] https://finance.yahoo.com/news/active-pharmaceutical-ingredients-api-market-210000546.html?guccounter=1&guce_referrer=aHR0cHM6Ly93d3cuZ29vZ2xlLmNvbS8&guce_referrer_sig=AQAAAEnSJ0yDv0vtwBOxTMy-yuMoQpWFTDZObWM7_CBtUAiSBKe2p4_w4mgyGenVeabv_wQvrbc_wEU5NhU3MJvy4-tMMmvKc64uFguIdM7wpFuQdhDRb3o6y1R_7E1HBk40KFF_7nmaEj7CFQdhshhHaIOc6YaeESPZU-nl3FbqXO2l

[7] https://www.precedenceresearch.com/agrochemicals-market

The global aroma chemical market was estimated at USD 5.1 billion in 2022, and is expected to reach USD 7.79 billion in 2029, with a CAGR of 6.5% from 2023 to 2029.[8]

The Group 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. On the other hand, stricter regulations in the past few years give a relative advantage to manufacturers from developed countries.

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

The specialty fine ingredients activity is subject to laws, regulations, orders and standards that apply to the products in this segment. Furthermore, the Group operates under various health and safety rules, including rules relating to the operations of its laboratories and plants. For more information, see Section1.22 below.

The Group 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, the Group's activity in its Nir Yitzhak plant is ISO 9001:2015 certified (a quality standard), ISO 14001:2015 certified ISO 45000 certified (health and safety standards). Furthermore, the Group's plant in Nir Yitzhak 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.

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

Most of the products manufactured by the Group's customers in this area of activity require preliminary approvals and compliance with the highest quality standards as part

[8] https://www.maximizemarketresearch.com/market-report/global-aroma-chemicals-market/23657/

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.

2023 was characterized with a destocking trend among customers in this segment due to interest rates hikes across the world and the economic uncertainty in the markets, a trend that in the Company's opinion has ended at the end of 2023.

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

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, and long-term relationships with suppliers of strategic and specialty raw materials from across the world. As part of the engagement with customers from the pharma industry, the development and production process is generally 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 **Development customized to customer's needs -** 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.

1.11.1.5.3 **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.

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

1.11.1.5.5 **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. Operating the logistic function requires knowhow, skill and operational excellence.

Exit barriers -

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**

As of December 31, 2023, the Company markets and sells more than 100 products in this segment, to approx. 150 customers located in more than 30 countries; the products are customized to meet the needs of each and every customer through the R&D team, the production function and the laboratories.

For details regarding the products and services, see Section 1.11.1.1 to this report.

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, the Group 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**

Company's customers in this segment include leading companies in their respective industries. Most of the Company's customers are manufactures of intermediates and raw materials for the pharmaceuticals industry, and customers operating in the field of agrochemicals and specialty chemicals.

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 1.11.1.3 above.

For information about the revenues from external parties by sales to end customers based on their geographic location, see Section 1.28.1 below.

1.11.6. **Orders backlog**

1.11.7. 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, 2023, the orders backlog amounted to approx. USD 4.8 million, and as of December 31, 2022, the orders backlog amounted to approx. USD 10.4 million. The decrease stems from bringing forward orders from the first quarter of 2024 to the first quarter of 2023.

1.11.8. **Competition**

The activity in the markets in which the Group 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.

After a significant decline in the scope of their activities in recent years due to strict measures taken to tackle the Covid-19 virus (mainly through extensive and long lockdowns), the Chinese manufacturers resumed their activity in this area of activity. The Chinese manufacturers find themselves in direct competition with the Indian market, which enjoys a high-rate growth; they also face taxation in the USA. These restrictions force the Chinese competitors to significantly reduce their prices, sometimes even below the direct costs threshold. Accordingly, global manufacturers are subject to significant pressure to reduce prices in all markets.

As part of the Company's growth and differentiation 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.

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

1.12. 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. 2,650 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.

In the specialty ingredients segment, substantially all of the Group's sales 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 the Company works are granted exclusive rights to act as the distributor of the Company's products in certain territories, such that the Company will not compete with the distributor, and the distributor has undertaken to the Company not to market competitors' products in the relevant territory.

1.13. Ingredients and suppliers

1.13.1. The fragrance and taste segments

1.13.1.1. 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 flavor extracts; and spices and herbs from which the Company produces its seasonings and herb mixes.

1.13.1.2. The Group purchases natural and synthetic ingredients from hundreds of local and international suppliers, with whom it entered into long-term engagements. Some of the ingredients are purchased by the Group's global procurement function, and each Group company has a local procurement department that is managed and monitored by the global procurement department. 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.

1.13.1.3. 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.

1.13.1.4. 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.

1.13.1.5. 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.

1.13.1.6. In addition to its agreements for the purchase of goods from different suppliers in Israel and abroad, the Group 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 purchased ingredients, the Company also sometimes bears the costs of harvesting and transporting the spices to its plants.

1.13.2. **Specialty fine ingredients segment**

1.13.2.1. Approx. 100 different ingredients are used in this segment, including, among other things, solvents, acids and alcohols, purchased from tens of suppliers worldwide.

1.13.2.2. Most of the products of the specialty ingredients segment that are manufactured in the Group's plant in Nir Yitzhak 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 the bromine it uses is purchased. As of 2023, the rate of Company's purchases from those suppliers stood at approx. 45.9% of total purchases of raw materials and packaging in the specialty ingredients segment, and in 2022 it stood at approx. 43.3% of total raw materials and packaging. For more information about the agreement with the Bromine Companies, see Section 1.23.1 below.

1.14. **<u>Property, plant and equipment, land and manufacturing capacity</u>**

1.14.1. As of the report's date, the Group operates 16 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[9]**
Israel	The Group's site in Holon	Fragrance segment	1.023 sq. m	Rented	Rented	2022
<u>Manufacturing capacity and shifts</u> - 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	The Group's site in Kibbutz Sde Eliyahu	The taste segment	Area of land - 12,500 sq. m Area of building - 7,100 sq. m	Rented	Rented	2020
<u>Manufacturing capacity and shifts</u> - 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	The Group's site in Beit Kama	The taste segment	Area of land - 14,500 sq. m	Rented	Rented	2020

[9] 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[9]
			Area of building - 10,900 sq. m			
In November 2021, a fire broke out in this plant; the fire caused heavy damage to the plant. As of the report date, the Company leases areas that were not affected by the fire. The Company is expected to end the lease in the Beit Kama site during the second half of 2024.						
Israel	The Group's site in Kibbutz Nir Yitzhak	Specialty fine 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	The Group's site in Afula	The taste segment	Area of land - 9,240 sq. m Area of building - 3,200 sq. m	Rented	Rented	2021
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.						

Country	Location	Segment	Size of buildings and land in sq. m	Buildings - rented/owned	Land - rented/owned/leased	Year of commencement of activity[9]
Israel	The Group'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	The Group's site in Zarzir	The specialty fine ingredients segment	Area of land - Area of building - 570 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.						
Poland	The Group's site near Warsaw	The taste and fragrance segments	Area of land - 21,500 sq. m Area of building	Owned	Owned	2019

Country	Location	Segment	Size of buildings and land in sq. m	Buildings - rented/owned	Land - rented/owned/leased	Year of commencement of activity[9]
			- 10,000 sq. m			
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.						
USA	The Group's site in New Jersey	The fragrance segment	Area of land -	Rented	Rented	2022
Manufacturing capacity and shifts - 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.						
Vietnam	The Group's site in Ho Chi Minh City	The taste and fragrance segment	Area of land - 4,000 sq. m Area of building - 3,000 sq. m	Owned	Leased	2020
Manufacturing capacity and shifts - 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.						
Belgium	The Group's site near Brussels	The taste segment	Area of land - 3,000 sq. m Area of building -	Owned	Leased	2021

Country	Location	Segment	Size of buildings and land in sq. m	Buildings - rented/owned	Land - rented/owned/leased	Year of commencement of activity[9]
			2,700 sq. m			
Manufacturing capacity and shifts - the plant works 5 days a week, in one shift. The plant can increase its manufacturing capacity by up to further 100% if it starts manufacturing in two shifts.						
Romania	The Group's site in Bucharest	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 up to further 100% if it starts manufacturing in two shifts.						
Latvia	The Group's site in Riga	The fragrance 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 can increase its manufacturing capacity by up to further 100% if it starts manufacturing in two shifts.						
Hungary	The Group's site in Budapest	The taste segment	Area of land - 8,309 sq. m Area of building -	Owned	Owned	2023

Country	Location	Segment	Size of buildings and land in sq. m	Buildings - rented/owned	Land - rented/owned/leased	Year of commencement of activity[9]
			4,535 sq. m			
Manufacturing capacity and shifts - the plant works 5 days a week, mainly in one shift. The plant can increase its manufacturing capacity by up to further 100% if it starts manufacturing in two shifts.						
South Africa	Sunspray's site near Johannesburg	The taste segment	Area of land - 24,309 sq. m Area of building - 5,805 sq. m	Owned	Owned	2024
Manufacturing capacity and shifts - the plant works 5 days a week, in one shift. The plant can increase its manufacturing capacity by up to further 100% if it starts manufacturing in two shifts.						
South Africa	Sunspray's site near Johannesburg	The taste segment	Area of land - 16,703 sq. m Area of building - 9,636 sq. m	Owned	Owned	2024
Manufacturing capacity and shifts - the plant works 5 days a week, in three shifts. The plant can increase its manufacturing capacity by further 40% by investing in the expansion of the production lines.						

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

1.14.2. In December 2020, the approval for a plan for investment in property, plant and equipment by the Authority for Investments and Development of the Industry and

Economy was received; 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, the Group takes steps to expand the plant in accordance with the approved plan.

1.14.3. On November 24 2021, a fire broke out in the Group's plant in Beit Kama. For more information regarding the fire and the insurance proceeds, see Note 27 to the financial statements.

1.15. **Research and development**

1.15.1. 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 productsה and incorporating them into the industries in which it operates.

1.15.2. 62 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 18 research, development and quality control laboratories located in Israel and in countries in which the Group operates. The Group collaborates with local laboratories, that provide the Company research and development services and applications.

1.15.3. Over the years, the Group 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, the Group undertook to pay royalties of 3% to 100% of the amount of the grant received plus Libor interest. As of December 31, 2023, 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 170 thousand. For more information, see Note 17 to the financial statements.

1.15.4. 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	Commenc-ement of execution	End	Grants paid (NIS thousands)				Special conditions/time tables for repayment of the grant
			2021	2022	2023	Total	
SDA							
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, 2023, the Company recorded a liability of approx. USD 170 thousand.

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

1.16. **Intangible assets**

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.

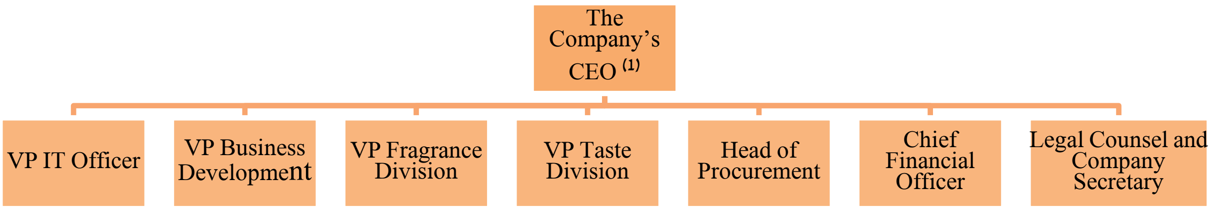
Pollena Aroma has a registered trademark in Poland; the trademark is used for a line of products in the field of aromatherapy; Pollena Aroma also has a patent that protect the composition of fragrances (in effect until June 2024).

The Company's name is registered as a trademark in the Register of Trademarks in Israel, in effect through January 3, 2033. In Europe, the Company's name was registered - on August 31, 2023 - as a trademark in the European Union's Register of Trademarks, with effect through January 4, 2033, and in the USA the Company's name for filed for registration on February 13, 2023, and as of the report date its registration has not yet been approved.

1.17. Human capital

1.17.1. The Company's organizational structure chart

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 or 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.

1.17.2. Workforce

As of the reporting period, the Company employed (consolidated) 466 employees, as described below (on a full-time basis):

	Manufacturing	R&D	Marketing	Management	Total
Taste	138	25	30	46	**239**
Fragrance	57	34	26	23	**140**
Specialty fine ingredients	63	3	2	8	**76**

	Manufacturing	R&D	Marketing	Management	Total
Headquarters				11	**11**
Total	**258**	**62**	**58**	**88**	**466**

As of the report's publication date, the Company employs approx. 730 employees, following the South African company Sunspray, and the recruitment of international experts in the taste and fragrance industry, as set out in Section 1.3.1 above.

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.

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

1.17.3.1. **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.

1.17.3.2. **Collective labor agreement - Chemada**

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:

1.17.3.2.1 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.

1.17.3.2.2 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.

1.17.3.2.3 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).

1.17.3.3. **Collective labor agreement - WFF**

WFF's employees have been employed under a collective labor agreement since October 2023. 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.

1.17.3.4. **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, the Group's site in Nir Yitzhak 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.

1.17.3.5. **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.

1.17.3.6. **Management and senior officers**

As of the Report's date, the Company has 15 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).

1.18. **Working capital**

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

31.12.2023	31.12.2022
38,319	43,239

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

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

	31.12.2023	31.12.2022
Credit amount(*)	28,165	25,164

(*) 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, 2022 and 2023, Company customers' credit days (including trade receivable in arrears) stood at 75 days and 77 days, respectively.

1.18.3. **Suppliers credit**

The Company receives credit from suppliers; as of December 31, 2022 and 2023, the average number of credit days is 103 credit days and 68 credit days, respectively.

1.19. **Investments.**

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

1.20. **Financing**

1.20.1. **General**

As of the Report's date, the Company finances its activity using its shareholders' equity, credit facilities (secured and unsecured) and long-term and on-call loans provided by a number of Israeli banks. The activity of the subsidiaries 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 and 16 to the financial statements as of December 31, 2023.

1.20.2. 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, 2023.

Average and effective interest			
	Short-term loans	**Long-term loans**	**Average rate**
From banks - NIS-denominated credit	6.30%	4.84%	5.15%
From banks - Euro-denominated credit	5.40%	3.65%	5.03%
From banks – Other denominated credit	-	0.5%	0.5%
Weighted average interest rate	**5.52%**	**3.36%**	**4.46%**

As of the reporting date, the Company does not have material loans in accordance with the reportable credit directive. For information about loans taken by the Company, see Notes 13 and 16 to the financial statements. For information regarding the Company's liability to the bank, see Note 16 to the financial statements.

Financial covenant	Description	As of December 31, 2023
Equity to asset ratio	The Company's equity shall not be lower than 25% of total assets at any given time	52.8%
Debt coverage ratio[10]	Shall not exceed 3.5 at any time	0.5

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

1.20.2.1. **Credit facility**

Group companies have in place USD 1.2 million in approved credit facilities from banking corporations at an average annual interest of 8.11%, which were not utilized as of the report date.

[10] 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.

1.21. **Taxation**

For information about the tax laws applicable to the Company and its subsidiaries, see Note 23 to the Company's consolidated financial statements as of December 31, 2023.

The Company has final tax assessments until 2018.

1.22. **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:

1.22.1. **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 22000 FSSC), GMPP, 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 1.22.4.4 below.

1.22.2. **The fragrance segment -** unlike in the taste segment, the activity conducted in the fragrance 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 1.22.4.4 below.

1.22.3. **The specialty ingredients segment** - 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 and obtaining permits from the authorities in the relevant territories, or compliance with the rules set in the relevant regulations 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.

1.22.4. 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:

1.22.4.1. 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.

1.22.4.2. 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 1.22.5 below.

1.22.4.3. 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.

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

1.22.4.5. **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 Group'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 the Group as part of the agreement for the purchase of Chemada Chemicals for removal of waste and conducting a soil survey.

1.22.4.6. **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 the Group's plant in Nir Yitzhak - also provisions regarding the removal of waste, addressing cyber risks, an integrated procedure for hazardous substances events (SEVESO), and preparedness for an earthquake.

1.22.4.7. **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).

1.22.4.8. **Emission Permit** - the Group's plant in Nir Yitzhak has an emission permit in accordance with the Clean Air Regulations (Emission Permits), 2010. The Company's current emission permit is in effect until July 2030. Obtaining a new emission permit requires 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 the 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.

1.22.4.9. **REACH EU** - the Group's plant in Nir Yitzhak 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 the Group's products exported to Europe. The Group has more than 50 substances, which are registered in accordance with the said European regulations, as well as some substances registered in the UK.

1.22.4.10. **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.

1.22.4.11. **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.

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

1.22.5.1. **The taste and fragrance segments**

1.22.5.1.1 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. However, in view of the scope of activity and the type of the Company's customers in the USA and Eastern Europe, the Company has the capability to manufacture larger quantities of up to 5 tons, while using suitable production containers.

1.22.5.1.2 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.

1.22.5.2. **Specialty fine ingredients segment**

1.22.5.2.1 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.

1.22.5.2.2 The substances used by the Group 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.

1.22.5.2.3 The Group's activity in the Nir Yitzhak site 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.

1.22.6. The Group's plant in Nir Yitzhak operates under an emission permit under the provisions of the Clean Air Law; the Company's current emission permit is in effect until July 2030. The emission of odors might cause an odor environmental nuisance.

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

1.22.7.1. 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 ingredients segment, and in view of the manufacturing processes used in this segment, its 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 that is aimed at preventing clashes with regulators and legal requirements.

1.22.7.2. 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.

1.22.8. **<u>Mitigation of environmental risks and environmental impacts on Group activity</u>**

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

1.22.9. The Group's plant in Nir Yitzhak has a fire extinguishing function and emergency teams that are highly qualified in dealing with fires or uncontrolled emission of hazardous substances.

1.22.10. **<u>Group's policy for mitigating environmental risks</u>**

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.

The Group's plant in Nir Yitzhak has an environmental management system in accordance with the regulations and the law.

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

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

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

1.22.13. 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 historical waste, renovation and maintenance of the evaporation ponds, and issuance of a new emissions permit when the current permit expires. As of the report date, following the Iron Swords War and the demands of the Home Front Command and the Ministry of Environmental Protection, the Company accelerated the process of removing the historical waste that was supposed to end in 2027, and completed the removal of the historical waste accumulated in the Group's plant in Nir Yitzhak.

1.22.14. **Material environmental costs**

The Group's site in Nir Yitzhak has scrubbers and a polisher that address emissions, in accordance with the site's current emission permit. Accordingly, the Company is 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, and is making such investments. 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 is expected to be installed in

Chemada's site during the second quarter of 2024. 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.

1.23. **Material agreements**

1.23.1. **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 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.

1.24. **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.

1.25. **Legal proceedings**

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

1.26. **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 fragrance segment, the flavor segment, and the specialty fine 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, Asia, and Africa. Those companies have a loyal customer base and a 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 - in these 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 emerging markets. Furthermore, the Group intends to continue its R&D activities in order to provide customers with flavor extracts of high added value, that meet their current and future needs and tastes; this applies specifically to flavor 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 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 flavors 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 flavor 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 1.29 to this chapter.

1.27. **Projected developments in the forthcoming year**

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.

1.27.1. 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. In addition, the Company takes action to merge the subsidiary SDA with and into the activity of the Company.

1.27.2. 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 flavor extracts.

1.27.3. 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 1.27 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.

1.28. **Financial data regarding geographical segments**

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

1.28.1. Set forth below is the breakdown of the revenues from external parties by sales to end customers based on their geographic location in 2022-2023 (in USD thousands):

	2023	2022	(%) of total sales in 2023
Israel and the Middle East	32,435	29,099	25%
Europe	61,076	48,922	48%
North America	17,197	21,555	14%
Asia and other	16,647	18,980	13%
Total	127,355	118,556	100%

1.28.2. Analysis by geographic location of principal manufacturing sites.

Set forth below is the segmentation of sales by principal manufacturing sites in 2022-2023 (in USD thousands):

2023				
	Fragrance	**Taste**	**Specialty ingredients segment**	**Total**
Israel and the Middle East	17,175	25,970	29,367	72,512
Europe	9,441	36,651	-	46,092
USA	5,921	276	-	6,197
South East Asia	89	2,465	-	2,554
	Revenues increased by approx. 19.2%; the increase stems mainly from organic growth of 3.3%, and from the completion of the acquisition of Klabin in the fourth quarter of 2022, which was partially offset by the effects of exchange rates that reduced sales by 1.7%.	The revenues increased by approx. 10.2% - a change that stems from acquisitions completed in 2022 and 2023, and from an organic decline of approx. 3.9%. The effect of exchange rates of foreign currencies reduced sales by approx. 0.5%.	Revenues declined by approx. 7.5%; the decrease stems mainly from an organic decrease of approx. 6.4%, which stems mainly from the continued decline in customers' inventory levels due to interest rate hikes across the world and the economic unclarity in the markets. The effect of exchange rates of foreign currencies reduced sales by 1.2%.	

2022				
	Fragrance	**Taste**	**Specialty ingredients segment**	**Total**
Israel and the Middle East	14,512	34,432	31,741	80,685
Europe	10,914	22,869	-	33,783
USA	1,973	139	-	2,112
South East Asia	91	1,885	-	1,976

1.28.3. Total current assets (excluding intercompany balances) by geographic location of principal manufacturing sites in 2022-2023 (in USD thousands):

	2023	**2022**
Israel and the Middle East	44,907	70,761
Europe	30,812	15,788
North America	1,735	1,502
Asia and other	2,328	1,862

1.29. **<u>Risk factors - discussion</u>**

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

1.29.1. <u>Macroeconomic risk factors</u>

1.29.1.1. **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.

1.29.1.2. **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.

1.29.1.3. **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. 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.

In addition, the Group has loans and liabilities denominated in different currencies; 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.

1.29.1.4. **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.

1.29.2. <u>Sectoral risk factors</u>

1.29.2.1. **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.

1.29.2.2. **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 expenses; 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 the activity of the plant in Nir Yitzhak), so that it is able to provide the best possible and flexible service to its customers.

1.29.2.3. **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.

1.29.2.4. **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.

1.29.2.5. **Environmental laws and damages -** the activity of the Group's plant in Nir Yitzhak 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 the Group'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.

1.29.2.6. **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.

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

1.29.2.8. **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.

1.29.2.9. **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.

1.29.2.10. **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 plants supplying ingredients to the Group might trigger an increase in the price of the ingredients.

1.29.3. Company-specific risk factors

1.29.3.1. **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 flavor extracts). In the specialty ingredients segment, 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.

1.29.3.2. **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.

1.29.3.3. **Dependence on the Group's principal activity sites** - the Group is dependent to a certain extent on the Nir Yitzhak site operating in the specialty ingredients segment. 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 flavors and fragrance 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 1.23.1 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.

1.29.3.4. **Proximity to the Gaza Strip** - the Group's plant in Nir Yitzhak 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 its activity.

1.29.3.5. **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.

1.29.3.6. **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
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, 2023

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 2023, 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, unique functional solutions for the field of baking, and gluten free flours, which are used mainly in the production of food and beverages, specialty fine ingredients for the pharma industry, the agro and fine chemicals industry, the food supplements industry, and citrus products and aromatic chemicals for the taste and fragrance industries.

The Turpaz Group has an extensive and diversified range of products, which are developed and produced in the Group's plants across the world. As of the report's publication date, the Group develops, produces, markets and sells products to more than 2,650 customers in more than 60 countries across the world, and operates approx. 16 manufacturing facilities, including R&D centers, laboratories and sales, marketing and regulation offices in Israel, the USA, Poland, Belgium, Vietnam, Latvia, Romania, India, Hungary and South Africa which employ 730 employees.

In the first quarter of 2024, Turpaz recruited a number of leading experts with extensive knowledge and tens of years' worth of experience in leading international companies in the taste and fragrance industry. The experts that were recruited included a global master perfumer, a global senior flavorist and a head of global procurement. The recruitment of those experts allow Turpaz to expand and continue to strengthen its global capabilities both in terms of development and in terms of technology and addressing its customers' needs, while strengthening its global position and continuing its geographic expansion in accordance with the Group's growth strategy.

This round of recruitment is also expected to allow Turpaz to strengthen and increase the synergies between the Group companies and its activities in the different geographic regions, and to position it as a leading company in the field of tastes, flavors and specialty ingredients.

Set forth below are the key operating results and business environment of Turpaz for 2023 and the fourth quarter of 2023:

- In 2023 and in the fourth quarter, the Turpaz Group achieved record results in terms of sales, gross profit and adjusted EBITDA.
- **In 2023, Turpaz's sales increased** by 7.4% and amounted to record amounts of USD 127.4 million compared to USD 118.6 million in the corresponding period last year. The increase in sales in 2023 stems from growth due to acquisitions of companies, whose acquisition was completed since 2022 and through the date of this report, and from organic growth[1] of 3.3% **in the fragrances segment**, which was partially offset against an organic decline of 3.9% in the **tastes segment**, and against an organic decline of 6.4% in the **specialty ingredients segment** - a total organic decline of 2.9%.

  The decline in the **tastes segment** arises mainly from the destocking trend among customers of the segment, which ended during the fourth quarter of 2023, and from the improvement of sales to customers/products generating low levels of profitability in the subsidiary SDA in view of the intensification of the competition and the introduction of new market players.

  The decline in the **specialty ingredients segment** also stems from the continued destocking trend among customers in this segment due to interest rates hikes across the world and the economic uncertainty in the markets.

  In the fourth quarter of 2023, Turpaz' sales increased by 9.3% and amounted to record levels of USD 33.3 million, compared with a total of USD 30.5 million in the corresponding quarter last year. The increase stems from growth through the acquisitions of companies that were completed from 2022 and through the date of this report, and from organic growth of 0.5% due to organic growth of 5.3% **in the fragrances segment**, organic growth of 6.0% in the **in the specialty ingredients segment**, that stemmed, among other things, from bringing forward customers' orders from the first quarter of 2024, which was partially offset from an organic decline[2] of 4.1% in the **tastes segment**.
- **In 2023, gross profit** increased by 4.1% and amounted to approx. USD 49.6 million compared to USD 47.7 million in the corresponding period last year. **Gross profit in the fourth quarter of 2023** increased by approx. 1.9% and amounted to USD 13.6 million compared to USD 13.3 million in the corresponding period last year.
- **The operating profit in 2023, net of the non-recurring profit from the fire[3]** declined by approx. 1.9% and amounted to approx. USD 18.2 million compared to approx. USD 18.5 million in the corresponding period last year. The decrease stemmed mainly from the organic decline in sales, and the fixed expenses component and amortization of intangible assets in respect of the acquisitions that were completed in 2023. **The operating profit in the fourth quarter of 2023, net of the non-recurring profit from the fire**, increased by approx. 27.2% and amounted to

[1] **Organic growth/decline** - after deduction the effect of exchange rates, on a pro-forma basis, assuming that the acquisitions that were completed in 2022 were consolidated in the financial statements as from January 1, 2022, and that the acquisitions that were completed in 2023 would have been consolidated in the 2022 financial statements on dates corresponding to their acquisition dates in 2023.

[2] **Organic growth/decline** - see footnote 1 above.

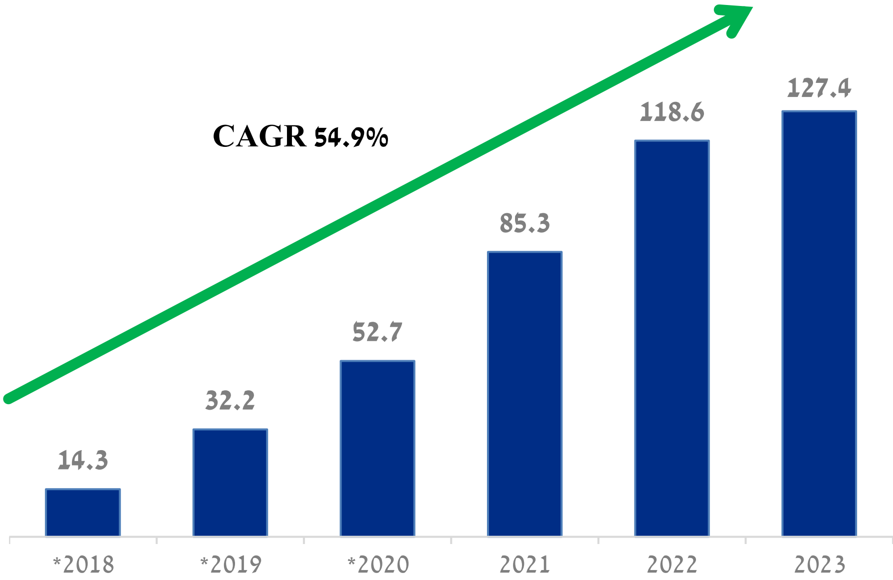
[3] For information regarding the fire, see Note 27 to the financial statements.

approx. USD 5.1 million, compared to approx. USD 4.0 million in the corresponding period last year, mainly due to the increase in sales, streamlining measures and the effects of synergy which were reflected during 2023.

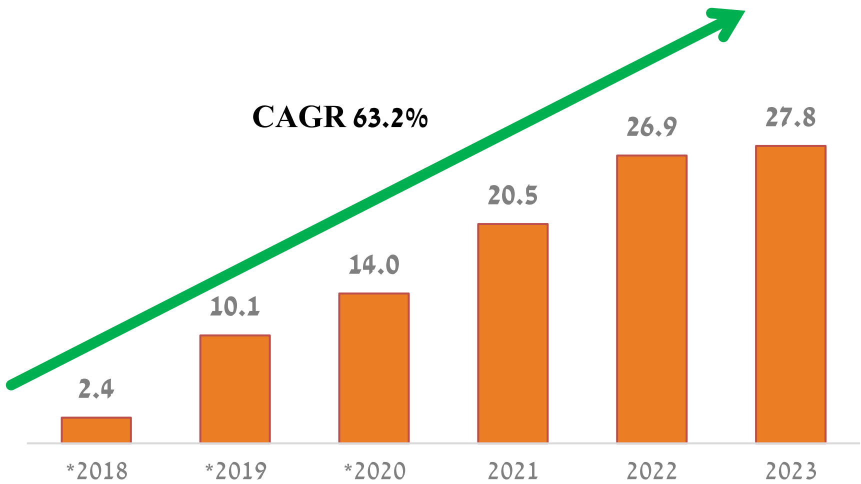
- The rate of **adjusted EBITDA**, which is one of the highest in the sector in which the Company operates, stood at approx. 21.8% and 22.7% in 2023 and in the fourth quarter of 2023, respectively. **in 2023, adjusted EBITDA** increased by approx. 3.3% and amounted to USD 27.8 million compared to USD 26.9 million in the corresponding period[4] last year. **In the fourth quarter of 2023, the adjusted EBITDA** increased by 15.1% and amounted to USD 7.6 million compared to USD 6.6 million in the corresponding period last year.
- **The net income in 2023, net of the non-recurring profit from the fire** declined by approx. 11.4% and amounted to approx. USD 12.9 million compared to approx. USD 14.6 million in the corresponding period last year. **The net income in the fourth quarter of 2023, net of the non-recurring profit from the fire** increased by approx. 21.7% and amounted to approx. USD 3.4 million compared to approx. USD 2.8 million in the corresponding period last year.
- The Group's strong equity structure, low leverage levels, its USD 23.8 million cash balance, debt of USD 14.7 million, and the USD 14.7 million in cash flow from operating activities as of December 31, 2023, the backing from leading financial institutions in Israel and across the world, the enhancement of management and the implementation of managerial infrastructures are expected to enable the continued implementation of the Group's combined growth strategy by Turpaz, which is based on organic growth and mergers and acquisitions, which are synergistic to the Group's activity.
- Turpaz completed the acquisition of **three companies** since the beginning of 2023 **and completed ten acquisitions** since its issuance on the Stock Exchange in May 2021.

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

Turpaz sales 2018-2023 (M USD)



Adjusted EBITDA 2018-2023 (M USD)



(*) The data are based on internal Company data and are not reviewed or audited.

Turpaz Group is engaged in the following three segments:

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 relationship between Turpaz Group and its customers across the world. When they select a supplier, customers focus on the suppliers' innovation, uniqueness, high quality, compliance with international and domestic regulatory requirements, the suppliers' reliability and the excellence of their services and their knowledge of the needs of the customers for whom the specialty extracts were developed.

The taste segment - as part of the flavors segment, Turpaz Group is engaged in the development, production, sale and marketing of natural and synthesized, sweet and savory flavor extracts, 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 to comply with international and domestic regulations. Furthermore, the Group develops extracts and mixtures that allow the production of clean label[5] 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 fine ingredient segment - in this segment, Turpaz Group is engaged in the development, production, marketing and sale of specialty fine ingredients used as intermediates and raw materials in the pharma industry, fine specialties ingredients used in various manufacturing processes to be used in a range of industries, mainly flavors and fragrances, agrochemicals, polymers and catalysts, and 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, and develops and manufactures tailor made products that meet the needs of its customers and comply with international and domestic regulations through its development, manufacturing and engineering departments.

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 M&As and acquisitions of activities that are synergetic to Turpaz's activity and organic growth, while leveraging the synergies between Group companies in the areas of cross sales, procurement, development, marketing and compliance with regulatory requirements, which contribute to the improvement in profits and profitability while increasing operational efficiency. The Company continues assessing on a daily basis options to acquire additional companies, noting the market conditions and the expected contribution from the acquisition, as estimated by the Company.

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

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5 Products whose list of ingredients does not include ingredients which are not natural ingredients.

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, and that it is taking action on current basis to fully utilize the potential of those acquisitions.

For information about the business environment and its effect on the Company's activity, see Chapter A - Description of the Corporation's Business - which is attached to this report.

Company's assessments as to the Group's growth rate, demand trends among customers, the destocking among segments' customers, 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 and the effect of the latest capital raising rounds 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 1.29 to Chapter A to the 2023 Periodic Report.

<u>Acquisitions in 2023-2024:</u>

<u>Acquisition of Sunspray</u>

On February 13, 2024, the Company completed - through a wholly-owned subsidiary - the acquisition of 55% of the issued and paid up share capital and voting rights of Sunspray Solutions Proprietary Limited (hereinafter - "**Sunspray**"), a privately-owned company incorporated in South Africa from its shareholders - leading private equity funds in South Africa (hereinafter in this section - the "**Sellers**"), in consideration for USD 14.1 million (approx. ZAR 267.8 million). The consideration is subject to adjustment in accordance with Sunspray's business performance based on the increase in EBITDA in 2024 and 2025, and the adjustment will not exceed ZAR 52.4 million (approx. USD 2.8 million). In addition, the agreement includes future consideration to the Sellers, which is based on Sunspray's business performance based on the increase in the average EBITDA in 2023-2025 compared to an agreed amount of ZAR 79.4 million (approx. USD 4.2 million), with the increase being multiplied by 1.65. The agreement includes a (call/put) option to purchase Sunspray's remaining shares by Turpaz, which is exercisable as from January 1, 2027. The option's exercise price is based on Sunspray's business performance during the 12 quarters that preceded the option's exercise date. Sunspray is a leading company in its area of activity, which provides exclusive solutions to the food and beverages industry, while using a spray-drying technology that is tailored to the needs of multinational and local companies. Sunspray has two plants and innovative and advanced development laboratories in South Africa. Sunspray has hundreds of natural and artificial products, which are used, among other things, in the meat, baking, snacks, seasonings, beverages, sauces, dairy and animal food industries. For information about bank financing used to execute the acquisition, see Section 2.2 below. Sunspray's results will be consolidated with the Group's results as from February 2024.

Acquisition of Food Base

On August 14, 2023, the Company completed - through a wholly-owned subsidiary - the acquisition of 60% of the issued and paid up share capital and voting rights of FOOD Base Kft., a privately-owned company incorporated in Hungary (hereinafter in this section - "**Food Base**"), from its sole shareholder (hereinafter - the "**Seller**") in consideration for Ft 3,300 million (approx. USD 9.3 million), net of 60% of the net debt of Food Base on the transaction completion date, and a future consideration based on Food Base's business performance during 2023-2024. As part of the agreement, Turpaz was awarded a call option to purchase Food Base's remaining shares from the Seller; the option is exercisable starting from 3 years after the transaction's completion date and until the end of 5 years from that date, at a price based on Food Base's business performance during the period from the transaction's completion date through the option's exercise date. To finance the acquisition, the Company took a short-term mezzanine bank loan that will be replaced with a long-term loan. Food Base, which was incorporated in 2004, is engaged in the development, manufacturing, marketing and sale of flavor extracts and plant-based natural extracts for the food and beverages industry, with an emphasis on the field of convenience food, health drinks and snacks, and specialty raw materials for the food supplements industry.

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 in this section - the "**Seller**") in consideration for RON 17 million (approx. USD 3.6 million). 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.

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 26, 2023, the Company's Board of Directors approved the distribution of a USD 5 million dividend (approx. NIS 18.0 million) to the Company's shareholders in accordance, which was paid to the shareholders on April 18, 2023. For more information, see immediate report of March 27, 2023 (Ref. No.:2023-01-027916).

2.2. On January 25, 2024, a wholly-owned subsidiary of the Company took a loan from a banking corporation (hereinafter in this section - the "**Banking Corporation**"), whereby the Banking Corporation will provide to the subsidiary a loan at the total amount of EUR 33 million (hereinafter - the "**Loan Amount**"), which will be used to finance the acquisition of companies and activities across the world, including the financing of the acquisition of Sunspray Solutions Proprietary Limited in South Africa. The Loan Amount will be provided for a period of five (5) years, and it will bear EURO LIBOR interest plus a margin of 1.9%, which will be paid on a quarterly basis. The principal of the loan shall be repaid in equal quarterly payments (as part of a Spitzer amortization schedule), starting 12 months after the date on which the loan was extended. For more information, see immediate report of January 28, 2024 (Ref. No.:2024-01-010554).

2.3. For information regarding the acquisition of Sunspray in South Africa, see Section 1 above.

2.4. For additional events see Note 28 to the financial statements.

3. Financial position

The strengthening of the dollar, mainly against the shekel as of December 31, 2023, compared with December 31, 2022, caused a decrease in assets and liabilities as of December 31, 2023 compared to December 31, 2022, which was partially offset in respect of the strengthening of the Euro and the Zloty against the dollar.

Companies, the acquisition of which was completed in 2023, led to an increase in assets and liabilities.

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

	31.12.2023	31.12.2022[6]	Company's explanations
Current assets	79,782	89,913	The change stems mainly from a USD 11.9 million decrease in cash due to payment of a dividend to the Company's shareholders in the second quarter of 2023, the acquisition of companies in 2023 and the repayment of loans.
Non-current assets	142,246	123,493	The increase stems mainly from acquisitions completed in 2023.
Total assets	**222,028**	**213,406**	
Current liabilities	41,463	46,674	The change stems mainly from a decrease in the trade payable and other payables balances that was offset in respect of an addition from the completion of acquisitions of companies in 2023.
Non-current liabilities	63,238	63,207	The change stemmed mainly from recognition of the put options for the acquisition of the remaining shares of Food Base and Aromatique, whose acquisition was completed in 2023, which was partially offset in respect of the decrease in the provision for the removal of wastewater in view of the efforts to remove wastewater following the "Iron Swords War" during the fourth quarter of 2023.
Total equity	**117,327**	**103,525**	The increase arises mainly from a USD 12.9 million net income for the period, net of a USD 5 million dividend to the shareholders in respect of 2022, expenses in respect of options, translation differences due to changes in exchange rates of currencies, and recognition of non-controlling interests in respect of the acquisition of Food Base.
Total liabilities and equity	**222,028**	**213,406**	

[6] Restated, for information, see Note 5f to the financial statements.

4. Operating results

4.1. Set forth below is an analysis of the operating results in 2023 in accordance with the financial statements, comparative figures for 2022, and the explanations for the key changes in those data (in USD thousand):

Line item	2023	2022	Company's explanations
Revenues from sales	**127,355**	**118,556**	Revenues from sales increased by approx. 7.4%. The increase stems from acquisitions that were completed during 2022 and 2023, which was partially offset by an organic[7] decline of 2.9% and by the impact of effects of exchange rates, which reduced sales by 1%.
Cost of sales	77,742	70,897	The gross profit increased by approx. 4.1%, mainly in view of the increase of revenues from sales. Gross profitability declined slightly mainly due to the organic decrease in sales, alongside the fixed expenses component, increase in energy prices and in employees' payroll expenses, which were partially offset against a 0.9% decrease in consumption of materials.
Gross profit (% of sales)	49,613 39.0%	47,659 40.2%	
Research and development expenses (% of sales)	4,923 3.9%	3,607 3.0%	The increase stems from continued investment in the development of new products, the improvement of existing products, the acquisitions completed in 2022 and 2023, and the amortization of intangible assets in respect of these acquisitions.
Selling and marketing expenses (% of sales)	10,358 8.1%	10,016 8.4%	The increase stems mainly from acquisitions completed in 2022 and 2023, and the amortization of intangible assets in respect of these acquisitions.
General and administrative expenses (% of sales)	15,695 12.3%	15,055 12.7%	The increase stems from acquisition of companies completed in 2022 and 2023.
Other expenses (income)	457	(8,349)	The change stems mainly from non-recurring income from the fire in 2022 at the total amount of USD 8.8 million.
Income from ordinary operations (% of sales)	18,180 14.3%	27,330 23.1%	The change stems mainly from the organic decrease in sales and the reasons described above in this table.
Income from ordinary operations, net of one-off profit arising from the fire (% of sales)	**18,180** 14.3%	**18,536** 15.6%	
Finance expenses, net	2,790	1,513	The increase stems mainly from non-cash finance expenses in respect of put options, and finance expenses in respect of leases.
Taxes on income	2,496	4,486	The decrease stems from a change in the pre-tax profit mix between the different countries in which the Group operates, and from a provision for tax in respect of non-recurring profit from the fire in 2022.
Net income for the year (% of sales)	12,894 10.1%	21,331 18.0%	The decrease in the net income rate stems mainly from the reasons described above.
Net income for the year net of one-off profit arising from the fire (% of sales)	12,894 10.1%	14,560 12.3%	
EBITDA[8]	27,277	35,039	The adjusted EBITDA increased by3.3% compared with the corresponding period last year. The decrease in the rate of adjusted EBITDA of total sales stems from the reasons listed above in this table.
Adj. EBITDA[9] **(% of sales)**	**27,761** **21.8%**	**26,865** **22.7%**	

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7 See footnote 1 above.

8 EBITDA means - earnings before interest, taxes, depreciation and amortization. This is a data normally used to measure the operational efficiency of companies.

9 In 2022, USD 8.2 million in 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. in 2023, adjustments to EBITDA included non-recurring expenses mainly in respect of legal expenses and other expenses in respect of acquisition of activities and the closing of a site in the USA.

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 2023, and the explanations for the key changes in those data (in USD thousand):

Line item	For the three-month period ended December 31 2023	For the three-month period ended December 31 2022	Company's explanations
Revenues from sales	**33,339**	**30,500**	Revenues from sales increased by approx. 9.3%; the increase stems from acquisitions that were completed during 2022 and 2023, and from an organic[10] growth of 0.5% and by the impact of effect of exchange rates of foreign currencies, which increased sales by 0.6%.
Cost of sales	19,741	17,155	The gross profit increased by approx. 1.9%, mainly in view of the increase in sales. Gross profitability was mainly affected by a different sales mix.
Gross profit (% of sales)	13,598 40.8%	13,345 43.8%	
Research and development expenses (% of sales)	1,395 4.2%	1,278 4.2%	Similar to the corresponding period last year.
Selling and marketing expenses (% of sales)	2,668 8.0%	3,006 9.9%	The change stems mainly from steps taken to increase efficiency and synergies that were reflected in the fourth quarter of 2023, and the effect of exchange rates.
General and administrative expenses (% of sales)	4,309 12.9%	4,559 14.9%	
Other expenses (income)	97	(8,325)	The change stems mainly from non-recurring income from the fire in 2022 at the total amount of USD 8.8 million.
Income from ordinary operations (% of sales)	5,129 15.4%	12,827 42.1%	
Income from ordinary operations, net of one-off profit from the fire (% of sales)	**5,129** 15.4%	**4,033** 13.2%	The increase stems mainly from an increase in sales, steps taken to increase efficiency and synergies that were reflected in the fourth quarter of 2023.
Finance expenses, net	1,112	729	The increase stems mainly from non-cash finance expenses in respect of put options, and finance expenses in respect of leases.
Taxes on income	647	2,557	The decrease stems from changes in the pre-tax profit mix between the different countries in which the Group operates, and from the provision for tax in respect of non-recurring profit from the fire in 2022.
Net income for the period (% of sales)	**3,370** 10.1%	**9,541** 31.3%	
Net income for the period net of one-off profit arising from the fire (% of sales)	**3,370** 10.1%	**2,770** 9.1%	The change stems mainly from the reasons described above.
EBITDA[11]	7,476	15,256	The adjusted EBITDA increased by approx. 15.1%, and profitability improved and increased to 22.7% compared to the corresponding period last year due to the reasons listed above in this table.
Adj. EBITDA[12] (% of sales)	**7,580** 22.7%	**6,586** 21.6%	

[10] See footnote 1 above.

[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 in 2022 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, 2022 and 2023 (USD thousand):

Segment		2023	2022	Company's explanations
Fragrances segment	**Revenues**	**32,768**	**27,490**	Revenues increased by approx. 19.2%; the increase stems mainly from organic growth of 3.3%, and from the completion of the acquisition of Klabin in the fourth quarter of 2022, which was partially offset by the effects of exchange rates that reduced sales by 1.7%. The profitability of the fragrances segment was impacted by an operational streamlining plan in the USA, which included non-recurring expenses in respect of the closure of the Turpaz USA site that was completed in the second quarter of 2023, and the transfer of the manufacturing, development and sales activities of Turpaz's USA site to Klabin's site.
	Operating profit (% of sales)	8,025 24.5%	7,390 26.9%	
Tastes segment	**Revenues**	**65,361**	**59,325**	The revenues increased by approx. 10.2% - a change that stems from acquisitions completed in 2022 and 2023, and from an organic decline of approx. 3.9%. The effect of exchange rates of foreign currencies reduced sales by approx. 0.5%. The decrease in profitability stems mainly from a decline in sales in the subsidiary SDA. In the second quarter of 2023, the Company started improvement processes in respect of improvement of sales to customers/products generating low levels of profitability in view of the intensification of the competition and the introduction of new market players, alongside destocking among customers in this segment.
	Operating profit (% of sales)	9,449 14.5%	17,667 29.8%	
	Operating profit, net of one-off profit from the fire (% of sales)	9,449 14.5%	8,873 15.0%	
Specialty fine ingredients segment	**Revenues**	**29,367**	**31,741**	Revenues declined by approx. 7.5%; the decrease stems mainly from an organic decrease of approx. 6.4%, which stems mainly from the continued decline in customers' inventory levels due to interest rate hikes across the world and the economic unclarity in the markets. The effect of exchange rates of foreign currencies reduced sales by 1.2%. The change in profitability stems mainly from a decline in sales, and an increase in raw materials prices.
	Operating profit (% of sales)	6,702 22.8%	9,086 28.6%	
Unallocated joint expenses	**Revenues**	**(141)**	-	In 2023, the expenses constituted 4.7% of the turnover, compared with 5.7% in the corresponding period last year. The change in expenses arises mainly from streamlining steps and from a decrease in the amortization of options.
	Operating profit	(5,996)	(6,813)	
Total	**Revenues**	**127,355**	118,556	
	Operating profit	**18,180** 14.3%	**27,330** 23.1%	

4.4. Set forth below is an analysis of operating results by segments for the three-month period ended December 31 2022 and 2023, by segments (in USD thousand):

Segment		**For the three-month period ended December 31 2023**	**For the three-month period ended December 31 2022**	**Company's explanations of the increase in the fourth quarter of 2022 compared with the fourth quarter of 2023**
Fragrances segment	**Revenues**	**8,133**	**7,737**	The revenues increased by 5.1%, an increase that arises mainly from an organic growth of 5.3%. The effect of exchange rates of foreign currencies reduced sales by 0.2%. The increase in profitability in the segment arises from the increase in sales.
	Operating profit (% of sales)	1,638 20.1%	1,326 17.1%	
Tastes segment	**Revenues**	**16,758**	**14,791**	Revenues increased by 13.3%, mainly due to acquisitions completed in 2023, which was partially offset against an organic decline of 4.1%. The effect of exchange rates of foreign currencies contributed approx. 1.1% of sales. The organic decline arises from improvement of sales to customers/products generating low levels of profitability of the subsidiary SDA, and from the trend of destocking among customers in this segment.
	Operating profit (% of sales)	2,562 15.3%	11,103 75.1%	
	Operating profit, net of one-off profit from the fire (% of sales)	2,562 15.3%	2,309 15.6%	
Specialty fine ingredients segment	**Revenues**	**8,465**	**7,972**	The revenues increased by 6.2% - an increase that arises mainly from an organic growth of 6%, which stemmed, among other things, from bringing forward customers' orders from the first quarter of 2024. The effect of exchange rates of foreign currencies contributed approx. 0.2% of sales. The change in profitability stems mainly from an increase in raw materials prices, and an increase in the fixed operating costs component.
	Operating profit (% of sales)	2,389 28.2%	2,563 32.2%	
Unallocated joint expenses	**Revenues**	**(17)**	-	In the fourth quarter of 2023, the expenses constituted approx. 4.4% of the turnover, compared with 7.1% in the corresponding period last year. The change in expenses arises mainly from streamlining steps and from a decrease in the amortization of options.
	Operating profit	(1,460)	(2,165)	
Total	**Revenues**	**33,339**	**30,500**	
	Operating profit (% of sales)	**5,129** 15.4%	**12,827** 42.1%	

5. Liquidity

As of December 31 2023, the Company had a cash balance of USD 23,817 thousand; set forth below are the key components of the cash flows and the way they were utilized (in USD thousand):

Line item	31.12.2023	31.12.2023	Company's explanations
Net cash provided by operating activities	**14,709**	**31,938**	The change arises mainly from proceeds received from the insurance company in respect of the fire in 2022.
Net cash used in investing activities	**(13,601)**	**(39,802)**	The change arises from the cost of the companies acquired in the reporting period compared to the cost of the companies acquired in the corresponding period last year.
Net cash used in financing activities	**(12,435)**	**(7,519)**	The change stems from a USD 1 million increase in dividend paid, acquisition of 10% of the issued and paid-up share capital of the subsidiary WFF in Vietnam for a total amount, which is not material to the Company, the payment of dividend to minority interest in subsidiaries and the repayment of loans.
Exchange differences in respect of cash and cash equivalents	**(531)**	**(4,843)**	The exchange rate differences stem from the weakening of the shekel against the dollar.
Total change in cash and cash equivalents	**(11,858)**	**(20,226)**	

Line item	For the three-month period ended December 31 2023	For the three-month period ended December 31 2022	Company's explanations
Net cash provided by operating activities	**8,121**	**31,013**	The change arises mainly from proceeds received from the insurance company in respect of the fire in 2022.
Net cash used in investing activities	**(1,631)**	**(24,477)**	The change stems mainly from the cost of the acquisition of Klabin in the fourth quarter of 2022.
Net cash used in financing activities	**(2,689)**	**(115)**	The change arises mainly from repayment of loans and short-term credit during the fourth quarter of 2023.
Exchange differences in respect of cash and cash equivalents	**699**	**88**	The exchange rate differences stem from the weakening of the shekel against the dollar.
Total change in cash and cash equivalents	**4,500**	**6,509**	

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 1.21 to Chapter A (Description of the Company's Business), and Note 16 to the financial statements.

Item	Data as of 31.12.2023		Data as of 31.12.2022	
	USD thousand	% of total balance sheet	USD thousand	% of total balance sheet
Equity	117,327	52.8%	103,525	48.5%
Other long-term liabilities	59,799	26.9%	59,151	27.7%
Long-term liabilities from banks, net of current maturities	3,439	1.5%	4,056	1.9%
Short-term credit	10,977	4.9%	12,036	5.6%
Suppliers credit	14,679	6.6%	19,306	9.0%
Other long-term payables	15,807	7.1%	15,332	7.2%
Total	**222,028**	**100%**	**213,406**	**100%**

The average amount of the long-term loans in 2023 was USD 3,748 thousand.

The average amount of the short-term credit in 2023 was USD 11,507 thousand.

For more information regarding the average amount of suppliers and customers credit in 2023, see Section 1.19.3 to Chapter A (Description of the Company's Business).

As of December 31, 2023, the Company's working capital is USD 38.3 million, compared with working capital of USD 43.2 million as of December 31 2022.

As of December 31, 2023, the Company's operating working capital[13] is USD 38.1 million (28.6% of the sales), compared with operating working capital of USD 31.9 million (26.1% of sales) as of December 31, 2022. The change in operating working capital stems mainly from supplier payments in 2023, which were paid after the insurance proceeds that were received in respect of the fire at the end of the fourth quarter of 2022, an increase in the trade receivables balance due to the conclusion of a factoring transaction, and the restocking following the fire.

Furthermore, as of December 31, 2023, the Company's net cash balance[14] is USD 9.2 million.

As of the date of the report, the Company has no material loans in accordance with the reportable credit directive. For details regarding loans taken by the company, see notes 13 and 16 to the financial statements.

For more information regarding the "Iron Swords War", see Section 1.8.4 to Chapter A to the 2023 Periodic Report.

[13]Operating working capital means - trade receivable plus the balance of inventory and net of trade payables.
[14]Cash net of debt.

Part B - Corporate Governance Aspects

7. 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).

8. The corporation's donations policy

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

9. 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.

10. Internal Auditor

10.1. 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.

10.2. 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.

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

10.4. Scope of Internal Auditor work

The scope of the Internal Auditor's work varies in accordance with the annual audit plan. In 2023, a 560-hour annual audit plan was executed.

10.5. The Internal Auditor's report: The dates on which the Internal Auditor's report was submitted in 2023, and discussed by the Audit Committee, are March 26, 2023 and December 21, 2023.

10.6. 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.

10.7. 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 amount in respect of 2023 stood at approx. NIS 58,800 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.

11. Independent auditor

The Company's independent auditor is EY Israel (Ernst & Young - Cost, Forer, Gabbay & Kasierer) (hereinafter - the "**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 2022 and 2023 in all of the Group's companies amounted to NIS 1,017 thousand and NIS 971 thousand, respectively.

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

12. Valuations and estimates

Information regarding material valuation not attached to the report

Identifying the valuation's subject matter:	Taste segment
Valuation date:	31.12.2023
Value of the valuation's subject matter as per the valuation:	USD 176,849 thousands
Details abut the appraiser:	The valuation was prepared by BDO Consulting and Management Ltd. The work was prepared by a team led by Mr. Sagiv Mizrahi, CPA, partner and team manager in the Corporate Finance department, who has an undergraduate degree in Practical Mathematics from Bar Ilan University, and an MBA, specialized in financial management from Tel Aviv University and has over 10 years experience in economic and business consulting, valuations of companies and financial instruments and diverse economic-accounting work. The team specializes in the work of valuations, Purchase Price Allocation (PPA), impairment Examination, financial instruments, as well as performing due diligence, financial accounting advice, and more.
Is there an indemnification agreement with the appraiser?	In accordance with the Engagement Agreement, if the Appraiser required to pay any sum to any third party pertaining to the performance of the services, via legal proceeding or some other binding proceeding, The Company undertakes to indemnify the Appraiser for any such sum will be paid by him , beyond a sum equal to three times of the service fee, and all with the exception of cases of negligence or malice on, in which case no indemnification or compensation shall apply.
The valuation model used by the appraiser:	The recoverable amount (value in use) of the cash-generating unit was calculated using the income approach, the discounted cash flow (DCF) method, and in accordance with the provisions of IAS 36.
The assumptions, based on which the appraiser carried out the valuation, in accordance with the valuation model:	**Main assumptions - Valuation of the taste segment:** Discount rate (dollar, nominal, before tax) – 14.7% The average growth rate for years 1-5 is about 4% and the growth rate from the 5th year onwards is about 3%.

Identifying the valuation's subject matter:	Fragrance segment
Valuation date:	31.12.2023
Value of the valuation's subject matter as per the valuation:	USD 95,867 thousands
Details abut the appraiser:	The valuation was prepared by BDO Consulting and Management Ltd. The work was prepared by a team led by Mr. Sagiv Mizrahi, CPA, partner and team manager in the Corporate Finance department, who has an undergraduate degree in Practical Mathematics from Bar Ilan University, and an MBA, specialized in financial management from Tel Aviv University and has over 10 years experience in economic and business consulting, valuations of companies and financial instruments and diverse economic-accounting work. The team specializes in the work of valuations,

Identifying the valuation's subject matter:	Fragrance segment
	Purchase Price Allocation (PPA), impairment Examination, financial instruments, as well as performing due diligence, financial accounting advice, and more.
Is there an indemnification agreement with the appraiser?	In accordance with the Engagement Agreement, if the Appraiser required to pay any sum to any third party pertaining to the performance of the services, via legal proceeding or some other binding proceeding, The Company undertakes to indemnify the Appraiser for any such sum will be paid by him , beyond a sum equal to three times of the service fee, and all with the exception of cases of negligence or malice on, in which case no indemnification or compensation shall apply.
The valuation model used by the appraiser:	The recoverable amount (value in use) of the cash-generating unit was calculated using the income approach, the discounted cash flow (DCF) method, and in accordance with the provisions of IAS 36.
The assumptions, based on which the appraiser carried out the valuation, in accordance with the valuation model:	**Main assumptions - Valuation of the Fragrance segment:** Discount rate (dollar, nominal, before tax) – 15.1% The average growth rate for years 1-5 is about 4.5% and the growth rate from the 5th year onwards is about 3%.

The Board of Directors wishes to thank the Company's management and its employees for the results achieved in 2023.

Dr. Israel Leshem, Director[15]

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

Date: March 19, 2024

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

Chapter C

Financial Statements
as of December 31, 2023

TURPAZ INDUSTRIES LTD.

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2023

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, 2023 and 2022, 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, 2023. 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 8.3% and about 3.1% of total consolidated assets as of December 31, 2023 and 2022, respectively, and whose revenues included in consolidation constitute about 7.1%, about 6.9% and about 11.9% of total consolidated revenues for the years ended December 31, 2023, 2022 and 2021, 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, 2023 and 2022, 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, 2023, in conformity with International Financial Reporting Standards (IFRS) and with the provisions of the Israeli Securities Regulations (Annual Financial Statements), 2010.

Key Audit Matters

Key audit matters are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the board of directors and that: (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. We addressed these matters in performing our audit and in formulating our opinion on the consolidated financial statements as a whole. The communication of key audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the key audit matters below, providing separate opinions on the key audit matters or on the accounts or disclosures to which they relate.

Business combinations

As described in Notes 3 and 5 to the financial statements, in 2023, the Company completed certain acquisitions of companies as a result of which it achieved control in those companies. We identified the accounting treatment of the acquisitions as a key audit matter due to the following reasons: the material impact of the acquisitions on the Company's financial statements; the judgment exercised by management in allocating the purchase price in the acquisitions to the assets and liabilities based on their fair value; the identification of the intangible assets acquired and calculation of the liability in respect of the symmetrical put/call options on non-controlling interests, the put option on non-controlling interests and the contingent consideration on the date of achieving control and at the end of each reporting period.

How we addressed the matter in our audit

The primary procedures we performed to address this key audit matter included: reading and understanding the acquisition agreements and the major terms and conditions therein; assessing the adequacy of the accounting treatment and allocation of the purchase price; evaluating and identifying the fair value of the assets acquired and liabilities assumed including intangible assets; measuring the fair value of a symmetric put and call option on non-controlling interests and put option on non-controlling interests, including subsequent measurement updates; examining the valuation methodology used by the Company; evaluating the reasonableness of the assumptions underlying the valuation, including the adequacy of acquisition related disclosures in the financial statements.

Tel-Aviv, Israel
March 19, 2024

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	December 31, 2023	December 31, 2022
		U.S. dollars in thousands	
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	6	23,817	35,675
Trade receivables	7	28,165	25,164
Other accounts receivable	8	3,168	3,082
Inventories	9	24,632	25,992
		79,782	89,913
NON-CURRENT ASSETS:			
Deferred taxes	23	352	515
Property, plant and equipment, net	10	30,678	*) 21,359
Right-of-use assets, net	12	16,541	18,563
Intangible assets, net	11	93,792	*) 83,056
Financial derivative		883	-
		142,246	*) 123,493
		222,028	*) 213,406

*) Restated, see Note 5f below.

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	December 31, 2023	December 31, 2022
		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	10,977	12,036
Trade payables	14	14,679	19,306
Other accounts payable	15	11,773	13,048
Short-term liabilities in respect of acquisition of activity	5	1,723	338
Current maturities of lease liabilities	12e	2,311	1,946
		41,463	46,674
NON-CURRENT LIABILITIES:			
Long-term loans from banks, less current maturities	16	3,439	4,056
Long-term loans from others, less current maturities	17	236	476
Provision for waste removal	17	455	3,454
Leases liabilities	12	15,240	16,585
Long-term liabilities in respect of acquisition of activity	17	39,051	*) 34,627
Deferred taxes	23	4,355	3,811
Employee benefit liabilities	19	409	139
Other long-term payables	17	53	59
		63,238	*) 63,207
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		(4,136)	(4,857)
Reserve in respect of translation differences		(5,044)	(6,542)
Retained earnings		47,123	39,633
		112,393	102,684
Non-controlling interests		4,934	841
Total equity		117,327	103,525
		222,028	*) 213,406

*) Restated, see Note 5f below.

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

March 19, 2024			
Date of approval of the financial statements	Karen Cohen Khazon Chair of the Board and CEO	Dr. Israel Leshem Director Authorized by the Board to sign the financial statements on March 19, 2024	Guy Gill CFO

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Note	Year ended December 31, 2023	2022	2021
		U.S. dollars in thousands (except per share data)		
Revenues from sales	25d	127,355	118,556	85,334
Cost of sales	22a	77,742	70,897	50,606
Gross profit		49,613	47,659	34,728
Research and development expenses	22b	4,923	3,607	1,949
Selling and marketing expenses	22c	10,358	10,016	6,274
General and administrative expenses	22d	15,695	15,055	10,257
Other expenses (income)	22e	457	(8,349)	208
Operating income		18,180	27,330	16,040
Finance expenses	22f	2,790	1,513	1,109
Income before taxes on income		15,390	25,817	14,931
Taxes on income	12g	2,496	4,486	2,119
Net income for the year		12,894	21,331	12,812
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		(3,733)	(12,216)	4,300
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		5,259	3,891	(2,717)
Total comprehensive income		14,420	13,006	14,395
Total net income attributable to:				
Equity holders of the Company		12,393	21,174	12,607
Non-controlling interests		501	157	205
		12,894	21,331	12,812
Total comprehensive income attributable to:				
Equity holders of the Company		13,891	12,849	14,190
Non-controlling interests		529	157	205
		14,420	13,006	14,395
Net earnings per share attributable to equity holders of the Company (in U.S. dollars):	24			
Basic and diluted net earnings per share		0.12	0.21	0.14

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, 2023	1	74,449	(4,857)	(6,542)	39,633	102,684	841	103,525
Net income	-	-	-	-	12,393	12,393	501	12,894
Total other comprehensive income	-	-	-	1,498	-	1,498	28	1,526
Total comprehensive income	-	-	-	1,498	12,393	13,891	529	14,420
Share-based payment	-	-	854	-	63	917	-	917
Acquisition of non-controlling interests (*)	-	-	(133)	-	-	(133)	(219)	(352)
Dividends distributed	-	-	-	-	(4,966)	(4,966)	(7)	(4,973)
Non-controlling interests created in newly consolidated companies	-	-	-	-	-	-	3,790	3,790
Balance as of December 31, 2023	1	74,449	(4,136)	(5,044)	47,123	112,393	4,934	117,327

	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)
Non-controlling interests created in newly consolidated companies	-	-	-	-	-	-	11	11
Balance as of December 31, 2022	1	74,449	(4,857)	(6,542)	39,633	102,684	841	103,525

(*) See Note 1a below for information on change in interests in subsidiary.

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, 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 5g below.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2023	2022	2021
	U.S. dollars in thousands		
Cash flows from operating activities:			
Net income for the year	12,894	21,331	12,812
Adjustments to reconcile net income to net cash provided by operating activities (a)	1,815	10,607	(529)
Net cash provided by operating activities	14,709	31,938	12,283
Cash flows from investing activities			
Purchase of property, plant and equipment and other assets	(5,022)	(5,850)	(2,934)
Proceeds from sale of property, plant and equipment	97	55	108
Acquisition of activities (b)	-	-	(3,331)
Acquisition of initially consolidated subsidiaries (c)	(8,551)	(32,995)	(316)
Repayment of liability in respect of acquisition of activity	(125)	(1,012)	-
Net cash used in investing activities	(13,601)	(39,802)	(6,473)
Cash flows from financing activities			
Receipt (repayment) of short-term credit	(2,060)	2,967	(847)
Issue of share capital (net of issue expenses)	-	-	62,055
Acquisition of shares from non-controlling interests in subsidiary	(352)	-	(9,522)
Dividend paid to equity holders of the Company	(4,966)	(3,971)	-
Dividend paid to holders of put options and to holders of non-controlling interests	(604)	(8)	-
Repayment of long-term lease liabilities	(2,128)	(2,358)	(1,847)
Repayment of long-term loans	(2,325)	(4,149)	(2,667)
Repayment of liability in respect of acquisition of activity	-	-	(1,600)
Net cash provided by (used in) financing activities	(12,435)	(7,519)	45,572
Exchange rate differences on balances of cash and cash equivalents	(531)	(4,843)	1,716
Increase (decrease) in cash and cash equivalents	(11,858)	(20,226)	53,098
Cash and cash equivalents at the beginning of the year	35,675	55,901	2,803
Cash and cash equivalents at the end of the year	23,817	35,675	55,901

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2023	2022	2021
	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	8,180	6,338	3,797
Capital gain from sale of property, plant and equipment	(7)	(12)	(61)
Change in employee benefit liabilities, net	85	(326)	51
Cost of share-based payment	917	1,371	184
Finance expenses, net	2,790	1,513	1,109
Taxes on income	2,496	4,486	1,518
	14,461	13,370	6,598
Changes in asset and liability items:			
Increase in trade receivables	(1,309)	(3,372)	(3,580)
Decrease (increase) in other accounts receivable	(83)	9,144	406
Decrease (increase) in inventories	4,246	(8,929)	(5,226)
Increase (decrease) in trade payables	(5,708)	2,801	4,151
Increase (decrease) in other accounts payable	(5,116)	1,499	(16)
	(7,970)	1,143	(4,265)
	6,491	14,513	2,333
Cash paid and received during the year for:			
Taxes paid	(3,302)	(2,869)	(2,404)
Interest paid, net	(1,374)	(1,037)	(458)
	1,815	10,607	(529)

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2023	2022	2021
	U.S. dollars in thousands		
(b) Acquisition of activities:			
Inventories	-	-	984
Property, plant and equipment	-	-	1,444
Intangible assets	-	-	903
Liability for acquisition of activity	-	-	-
Payment for acquisition of activities	-	-	3,331
(c) Acquisition of initially consolidated subsidiaries:			
The subsidiaries' assets and liabilities at date of acquisition:			
Working capital (excluding cash and cash equivalents)	990	2,585	(1,246)
Property, plant and equipment	6,625	*) 964	3,697
Right-of-use assets	307	5,069	145
Intangible assets	11,500	*) 36,014	**) 46,620
Financial derivative for purchase of non-controlling interests	672	-	-
Lease liabilities	(307)	(5,069)	(145)
Other non-current liabilities	(2,731)	(806)	(1,036)
Payables for acquisition of investments in subsidiaries	(3,770)	*) (4,959)	**) (31,769)
Deferred taxes	(945)	(792)	(3,556)
Investment in exchange for issue of shares	-	-	(12,394)
Non-controlling interests	(3,790)	(11)	-
	8,551	32,995	316
(d) Significant non-cash transactions:			
Right-of-use asset recognized with corresponding lease liabilities	1,089	4,518	5,252
Investment in exchange for issue of shares	-	-	12,394

*) Restated, see Note 5f below.
**) Restated, see Note 5g 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 the development, production and marketing in three operating segments: (1) tastes; (2) fragrances; (3) specialty raw material 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 Chair of the Company's Board of Directors.

Merger between the Company and Turpaz Extracts:

On December 16, 2021, a merger agreement was signed between the Company and Turpaz Extracts Ltd. as per the provisions of Section 103C to Israeli Income Tax Ordinance (Revised), 1961 ("the Ordinance") after obtaining the approval of the board of directors of each company. Under the merger agreement, the companies will be merged by way of share swap as per Section 103C to the Ordinance so that following the merger, the entire operations of Turpaz Extracts Ltd. will be merged into the Company. The approval of the Israeli Tax Authority ("the ITA") 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.:

On September 21, 2022, a merger agreement was signed pursuant to the provisions of Section 103C to the Ordinance between the Company and Pentaor Ltd. after obtaining the approval of the board of directors of each company. In accordance with the merger agreement, the companies will be merged through a share swap pursuant to Section 103C to the Ordinance, so that upon completion of the merger transaction, the entire operations of Pentaor Ltd. will be merged into the Company. The final approval for the merger was obtained from the Registrar of Companies on June 22, 2023 and Pentaor Ltd. was merged into the Company's operations.

NOTE 1:- GENERAL (Cont.)

Merger between the Company and S.D.A Spice Industries Ltd.:

On September 7, 2023, a merger agreement was signed between the Company as the transferee and S.D.A Spice Industries Ltd. as the transferor in accordance with the provisions of Section 103C to the Ordinance after obtaining the approval by the board of directors of each company. As per the merger agreement, the companies will be merged by a share swap according to Section 103C to the Ordinance following which the transferor's entire operation will be transferred to the Company. The effective date of the merger is December 31, 2023. On January 28, 2024, a pre-ruling for the merger was obtained from the ITA and the necessary application was filed to the Registrar of Companies for approval of the merger.

Change in interests in subsidiary, WFF:

On August 28, 2023, the Company increased its interests in a subsidiary, WFF, by purchasing another 10% of the latter's share capital from holders of non-controlling interests in return for approximately $ 352 thousand. Following the purchase, the Company holds 70% of WFF's share capital.

b. 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.

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.

NOTE 1:- GENERAL (Cont.)

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.

c. The effects of the Swords of Iron War:

On October 7, 2023, the Swords of Iron war broke out in Israel ("the war"). As of the date of this report, the war is still unfolding, and it is impossible to assess its duration, nature or scope. This is an unusual event, which is characterized with high levels of uncertainty, and its short and long-term effects on the Israeli economy are unknown.

It should be clarified that as of the date of this report all of the Company's sites in Israel and abroad operate as usual and at full capacity. The Company is an international company, and a material part of its production, marketing and sales activities are conducted outside Israel; the situation in Israel has negligible bearing on the activity of the Company's foreign subsidiaries. As of the date of this report, all Company employees, except for a small number of employees who were recruited as reservists, attend work as usual.

The Company is of the opinion that the temporary loss of farming areas due to the war and the cutdown in budgets by the Ministry of Agriculture and in research budgets by the Volcani Center are likely to lead to increased prices of crops in Israel and reduced availability of the needed farming areas. As a result, the Company is studying the profitability of the products of SDA, a wholly owned subsidiary of the Company. As the war drags on, it may be difficult for the suppliers of SDA to supply various crops to SDA, which SDA uses for product manufacturing. This might affect SDA's sales. However, the Company is of the opinion that this will not have a material effect on the Group's financial results.

The Company has liquidity, available financial means and sources of financing (as described in this report), which give it financial resilience and allow it to continue with its planned activity, including executing the acquisition of companies or activities.

The Company assessed the war's impact so far and in the foreseeable future in terms of its manufacturing capacity, sales, purchase of raw materials, cash flow and financing sources, the processes designed to expand the Company's activity, including by way of acquisition of companies, and other activities. In view of the Company's areas of activity, its global deployment, the fact that most of its sales are made to foreign companies, the identity of its customers and the nature of its products, the Company believes that the war does not have, and is not expected to have, a substantial impact on the Company's business and financial results (assuming that no substantial changes will take place in the scope and intensity of its activities, and that no substantial geopolitical changes will take place).

NOTE 1:- GENERAL (Cont.)

d. 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. These actions assisted in halting the markups and in the first quarter of 2024, the Bank of Israel began lowering the benchmark interest rate.

As of the reporting date, the Company has no material indexed or unindexed loans or loans bearing variable interest 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 the Group's finance expenses.

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.

e. 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:- 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.

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.

The Company concluded that is has the power to influence the Group's entities owing to its interests therein and therefore has de facto control in the Group companies.

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.

NOTE 2:- 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. The value of the liability is measured based on the average EBITDA that will be achieved over the agreement period. See Note 3 below regarding estimates and Note 18 below regarding financial instruments.

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. See Note 18 below regarding financial instruments.

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:

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").

f. 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 - using the weighted average cost 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.

NOTE 2:- ACCOUNTING POLICIES (Cont.)

g. Revenue recognition:

Revenue from contracts with customers is recognized when the control over the goods or services is transferred to the customer.

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. 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).

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 volume discounts.

h. 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.

NOTE 2:- ACCOUNTING POLICIES (Cont.)

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.

i. 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.

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. 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.

On the commencement date, the lease liability includes all unpaid lease payments discounted using the Company's incremental borrowing rate. After the commencement date, the Company measures the lease liability using the effective interest rate method.

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.

Lease extension and termination options:

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.

NOTE 2:- ACCOUNTING POLICIES (Cont.)

The Company has leases that include both extension and termination options. The Company exercises significant judgement in deciding whether it is reasonably certain that the extension options will be exercised.

In leases that contain noncancelable lease periods in excess of three years, the Company generally includes in the lease term the exercise of extension options existing in the lease agreements.

j. Property, plant and equipment:

Items of property, plant and equipment are measured at cost, including direct acquisition costs, less accumulated depreciation, less accumulated impairment losses and excluding day-to-day servicing expenses.

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

	%
Buildings	2-5
Machinery and equipment	5-15
Computers and peripheral equipment	25-33
Office equipment and furniture	10
Vehicles	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.

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.

NOTE 2:- ACCOUNTING POLICIES (Cont.)

k. Intangible assets:

Intangible assets acquired in a business combination are measured at fair value at the acquisition date.

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.

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

	Goodwill	Customer relations	Product formulae	Brand name	Order backlog
Useful life	Indefinite	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

Research and development costs:

Research and development costs are recognized in profit or loss when incurred.

Development costs are not capitalized to an intangible asset since the Company cannot measure reliably the expenditures attributable to the intangible asset during its development and cannot assess if and when future cash flow will be received in respect of the asset.

l. 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 or group of cash-generating units which are expected to benefit from the synergy of the business combination 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. See Notes 3a and 11d below for information of impairment of goodwill.

NOTE 2:- ACCOUNTING POLICIES (Cont.)

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.

m. 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.

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 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.

The Group applies a practical approach for measuring the allowance for loss in respect of trade receivables: it prepares a debt aging report and based on the information acquired in the past on debt collection and a future assessment, it creates an allowance for loss.

3. 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:

(a) Financial liabilities measured at fair value through profit or loss such as symmetrical put-call options on non-controlling interests;

(b) Contingent consideration recognized by an acquirer in a business combination to which IFRS 3 applies.

NOTE 2:- ACCOUNTING POLICIES (Cont.)

4. 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.

n. 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.

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. The value of the put options issued by the Group to non-controlling interests is measured at level 3 in the fair value hierarchy.

The principal non-observable data used by the Company to measure the value of the options is the future EBIDTA. To evaluate and adjust the liabilities for the options, the Company relies on current results and updated forecasts of the companies.

o. 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.

The amount recognized as a provision 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.

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

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.

NOTE 2:- ACCOUNTING POLICIES (Cont.)

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.

p. Employee benefit liabilities:

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.

q. 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.

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.

NOTE 2:- ACCOUNTING POLICIES (Cont.)

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

1. 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 applied prospectively for annual reporting periods beginning on 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.

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

2. 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 January 1, 2023. In relation to leases and decommissioning obligations, the Amendment is 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 is recognized as an adjustment to the opening balance of retained earnings (or another component of equity, as appropriate) at that date.

   As a result of the application of the Amendment, the Company provided disclosures of the deferred tax assets and liabilities attributable to lease transactions in gross amounts as part of the disclosures of the components of deferred taxes in the Company's annual consolidated financial statements.

NOTE 2:- ACCOUNTING POLICIES (Cont.)

3. 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 January 1, 2023.

The application of the above Amendment had an effect on the disclosures of the Company's accounting policies, but did not affect the measurement, recognition or presentation of any items in the Company's consolidated 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. The valuation is performed by an external independent valuation expert.

- 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.

NOTE 3:- SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS USED IN THE PREPARATION OF THE FINANCIAL STATEMENTS (Cont.)

- Business combinations:

  In connection with the acquisition of companies in which the Company achieves control, the Company exercises judgment in allocating the purchase price to the assets and liabilities based on their fair value, identifying the intangible assets acquired and calculating the liability in respect of symmetrical put/call options on non-controlling interests and contingent consideration on the date of achieving control.

NOTE 4:- DISCLOSURE OF NEW STANDARDS IN THE PERIOD PRIOR TO THEIR ADOPTION

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 financial covenants with which an entity must comply on or before the reporting date will affect a liability's classification as current or non-current.

- In respect of a liability for which compliance with financial covenants is to be evaluated within twelve months from the reporting date, disclosure is required to enable users of the financial statements to assess the risks related to that liability. The Subsequent Amendment requires disclosure of the carrying amount of the liability, information about the financial covenants, and the facts and circumstances at the end of the reporting period that could result in the conclusion that the entity may have difficulty in complying with the financial covenants.

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 adoption is permitted.

The above Amendments are not expected to have a material impact on the Company's consolidated financial statements.

NOTE 5:- BUSINESS COMBINATIONS

a. Acquisition of Aromatique:

On January 9, 2023, after obtaining the regulatory approvals in 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 $ 3.6 million). 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.

The purchase price was allocated to tangible assets, intangible assets and liabilities acquired at their fair value on the purchase date based on a purchase price allocation ("PPA"). The table below summarizes the purchase price and PPA:

	January 9, 2023
	U.S. dollars in thousands
Working capital, net	325
Right-of-use asset	149
Property, plant and equipment	303
Customer relations	1,117
Product formulas	705
Deferred taxes	(292)
Lease liabilities	(149)
Net identifiable assets	2,158
Goodwill arising on purchase	3,649
Purchase price:	
Amount paid in cash	3,625
Liability for contingent consideration and acquisition date adjustments	2,182
Total purchase price	5,807

From the consolidation date through December 31, 2023, the acquired operation has contributed approximately $ 4,997 thousand to revenues and approximately $ 630 thousand to net income.

The goodwill arising from the acquisition was allocated to the tastes segment and consists of the projected benefits from the synergy of the combined operations of the Company and the acquiree.

NOTE 5:- BUSINESS COMBINATIONS (Cont.)

b. Acquisition of Food Base:

On August 14, 2023, the Company, through a wholly owned subsidiary, completed the purchase of 60% of the issued and outstanding share capital and voting rights of Food Base KFT ("Food Base"), a private company incorporated in Hungary, from its single shareholder ("the seller") in return for approximately HUF 3,300 million (approximately $ 9.3 million), less 60% of Food Base's net debt on the closing date and a future earnout based on Food Base's business performances in 2023-2024. According to the agreement, the Company was granted a call option to purchase the remaining shares of Food Base from the seller which can be exercised at the end of three years from the closing date (until five years have elapsed from the closing date) for a price based on Food Base's business results in the period from the closing date to the option exercise date. To finance the purchase, the Company received a bridge loan from a bank that will be later replaced by a long-term loan.

Food Base was founded in 2004. It develops, manufactures, markets and sells flavors and herbal extracts for the food and beverage industries focusing on convenience foods, health drinks and snacks as well as raw materials for the food supplement industry. Food Base's results have been consolidated since August 2023.

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 provisional PPA:

	August 14, 2023
	U.S. dollars in thousands
Working capital, net	665
Right-of-use asset	158
Property, plant and equipment and other assets	6,328
Customer relations	2,759
Product formulas	1,721
Deferred taxes	(653)
Lease liabilities	(158)
Other non-current liabilities	(2,731)
Net identifiable assets	8,089
Goodwill arising on purchase	1,543
Financial derivatives for purchase of non-controlling interests	672
Non-controlling interests	(3,790)
Purchase price:	
Amount paid in cash less net cash in acquiree on acquisition date	4,926
Liability for contingent consideration and acquisition date adjustments	1,588
Total purchase price	6,514

NOTE 5:- BUSINESS COMBINATIONS (Cont.)

From the consolidation date through December 31, 2023, the acquired operation has contributed approximately $ 3,269 thousand to revenues and approximately $ 981 thousand to net income. If the business combination has been completed at the beginning of the year, the contribution to revenues would have been approximately $ 7,377 thousand.

The goodwill arising from the acquisition was allocated to the tastes segment and consists of the projected benefits from the synergy of the combined operations of the Company and the acquiree.

c. 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

NOTE 5:- BUSINESS COMBINATIONS (Cont.)

d. Acquisition of Balirom:

On March 31, 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
Purchase price:	
Amount paid in cash	4,580
Liability for contingent consideration and acquisition date adjustments	3,889
Total purchase price	8,469

NOTE 5:- BUSINESS COMBINATIONS (Cont.)

e. 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
Purchase price:	
Amount paid in cash	3,149
Acquisition date adjustments	45
Total purchase price	3,194

NOTE 5:- BUSINESS COMBINATIONS (Cont.)

f. 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 set forth the adjustment of 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.)

In the reporting period, following a valuation performed by an independent valuation expert, the Company adjusted the PPA of Klabin following the provisional measurement of the fair value of its identifiable assets and liabilities. The Company retroactively adjusted the provisional amounts recognized on the acquisition date to reflect new information obtained regarding the facts and circumstances prevailing on the acquisition date. Consequently, statement of financial position data as of December 31, 2022 were restated as follows: intangible assets decreased by approximately $ 874 thousand, property, plant and equipment increased by approximately $ 100 thousand and long-term liability for contingent consideration decreased by approximately $ 774 thousand.

Based on the external valuation, 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 paid and the PPA:

	October 3, 2022
	U.S. dollars in thousands
Working capital, net	458
Right-of-use asset	2,167
Lease liability	(2,167)
Property, plant and equipment	104
Net identifiable assets	562
Goodwill arising on purchase	16,878
Customer relations	3,640
Product formulas	2,326
Total purchase price	23,406
Purchase price:	
Amount paid in cash less refund for adjustments	22,381
Liability for contingent consideration	1,025
Total purchase price	23,406

NOTE 5:- BUSINESS COMBINATIONS (Cont.)

g. 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.

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. In the fourth quarter of 2023, the parties agreed that the option will not be exercised in 2024 and therefore it is presented in the long term. 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 2022, 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 valuation expert 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.

NOTE 5:- BUSINESS COMBINATIONS (Cont.)

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

h. Acquisition 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 2023 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.

NOTE 5:- BUSINESS COMBINATIONS (Cont.)

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

i. Acquisition 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.

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 of the report date, the shareholders' loans which the Company undertook to repay as part of the acquisition agreement have been repaid.

NOTE 5:- BUSINESS COMBINATIONS (Cont.)

j. Table of the Company's holdings as of December 31, 2023:

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%
Turpaz Fragrances and Flavors Aroma Inc.	USA	100%	100%
Klabin Fragrances Inc.	USA	100%	100%
Pentanov Ingredients Private Limited	India	93%	93%
Pollena-Aroma	Poland	100%	100%
Western Flavors Fragrances Production JSC	Vietnam	70%	70%
SDA Spice Industries Ltd.	Israel	100%	100%
Food Ingredients Technologies SA	Belgium	60%	60%
Turpaz Belgium SRL	Belgium	100%	100%
LORI RKF SIA	Latvia	100%	100%
Aromatique Food SRL	Romania	65%	65%
Turpaz Romania SRL	Romania	100%	100%
Food Base KFT	Hungary	60%	60%

NOTE 6:- CASH AND CASH EQUIVALENTS

	December 31, 2023	December 31, 2022
	U.S. dollars in thousands	
Cash and deposits for immediate withdrawal in NIS	2,459	22,718
Cash and deposits for immediate withdrawal in USD	6,290	6,092
Cash and deposits for immediate withdrawal in Zloty	3,094	752
Cash and deposits for immediate withdrawal in Euro	10,685	5,800
Cash and deposits for immediate withdrawal - other	1,289	313
	23,817	35,675

NOTE 7:- TRADE RECEIVABLES

	December 31, 2023	December 31, 2022
	U.S. dollars in thousands	
Open debts	27,314	23,824
Checks receivable	1,261	1,470
	28,575	25,294
Less – allowance for doubtful accounts	410	130
Trade receivables, net	28,165	25,164

Movement in allowance for doubtful accounts:

	2023	2022
	U.S. dollars in thousands	
Balance as of January 1	130	107
Provision for the year	280	23
Balance as of December 31	410	130

Following is information about the credit risk exposure of the Company's trade receivables:

December 31, 2023:

	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	18,535	7,072	1,538	341	267	822	28,575
Allowance for doubtful accounts	-	-	-	38	35	337	410

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

NOTE 8:- OTHER ACCOUNTS RECEIVABLE

	December 31, 2023	December 31, 2022
	U.S. dollars in thousands	
Prepaid expenses and advances to suppliers	1,434	1,473
Government institutions	1,329	1,080
Other	405	529
	3,168	3,082

NOTE 9:- INVENTORIES

	December 31, 2023	December 31, 2022
	U.S. dollars in thousands	
Raw materials	14,654	13,365
Work in process	2,447	2,544
Finished goods	7,531	10,083
	24,632	25,992

As of December 31, 2023, the provision for slow-moving inventory approximates $ 1,483 thousand.

NOTE 10:- PROPERTY, PLANT AND EQUIPMENT

a. Composition and movement:

2023

	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, 2023	10,479	3,169	712	2,659	22,326	39,345
Purchases	777	472	-	301	3,190	4,740
Newly consolidated company and purchase of activity	5,573	25	597	263	1,873	8,331
Adjustments from translating financial statements from functional currency to presentation currency	(271)	(694)	(255)	(56)	(149)	(1,425)
Adjustments from translating financial statements of foreign operations	1,243	55	121	98	577	2,094
Disposals in the year	-	-	(195)	(33)	(16)	(244)
Balance at December 31, 2023	17,801	3,027	980	3,232	27,801	52,841
Accumulated depreciation:						
Balance at January 1, 2023	3,017	791	493	1,673	12,012	17,986
Depreciation	440	244	70	355	1,422	2,531
Newly consolidated company and purchase of activity	522	-	333	208	643	1,706
Adjustments from translating financial statements from functional currency to presentation currency	(32)	(371)	(135)	(32)	(14)	(584)
Adjustments from translating financial statements of foreign operations	276	65	43	61	225	670
Disposals in the year	-	-	(108)	(31)	(7)	(146)
Balance at December 31, 2023	4,223	729	696	2,234	14,281	22,163
Depreciated cost at December 31, 2023	13,578	2,298	284	998	13,520	30,678

NOTE 10:- PROPERTY, PLANT AND EQUIPMENT (Cont.)

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	-	*) 568	*) 496	*) 263	*) 1,117	*) 2,444
Adjustments from translating financial statements from functional currency to presentation currency	(1,234)	(593)	(68)	(240)	(2,243)	(4,378)
Adjustments 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	*) 3,169	*) 712	*) 2,659	*) 22,326	*) 39,345
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 from translating financial statements from functional currency to presentation currency	(342)	(319)	(34)	(185)	(1,170)	(2,050)
Adjustments 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	*) 2,378	*) 219	*) 986	*) 10,314	*) 21,359

*) Restated, see Note 5f above.

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:

2023

	Customer relations	Product formulae	Trademark	Order backlog	Non-compete	Goodwill	Software	Total
	U.S. dollars in thousands							
Cost:								
Balance at January 1, 2023	19,354	12,420	224	2,230	10	57,994	221	92,453
Additions	-	-	-	-	-	-	282	282
Additions for purchase of activities	3,876	2,426	-	-	-	5,192	33	11,527
Adjustments from translating financial statements of foreign operations	2,486	603	32	--	-	3,111	11	6,243
Adjustments from translating financial statements from functional currency to presentation currency	(2,147)	(372)	(7)	-	-	(1,742)	(2)	(4,270)
Balance at December 31, 2023	23,569	15,077	249	2,230	10	64,555	545	106,235
Accumulated depreciation and impairment losses:								
Balance at January 1, 2023	5,964	938	224	2,230	10	-	31	9,397
Depreciation in the year	1,932	819	-	-	-	-	92	2,843
Depreciation for purchase of activities	-	-	-	-	-	-	27	27
Adjustments from translating financial statements of foreign operations	224	98	32	-	-	-	2	356
Adjustments from translating financial statements from functional currency to presentation currency	(146)	(18)	(7)	-	-	-	(9)	(180)
Balance at December 31, 2023	7,974	1,837	249	2,230	10	-	143	12,443
Net balance at December 31, 2023	15,595	13,240	-	-	-	64,555	402	93,792

NOTE 11:- GOODWILL AND OTHER INTANGIBLE ASSETS (Cont.)

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	*)5,161	*)6,581	-	-	-	*)24,221	51	*)36,014
Adjustments from translating financial statements of foreign operations	2,064	458	8	-	-	2,172	1	4,703
Adjustments 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	*)19,354	*)12,420	224	2,230	10	*)57,994	221	*)92,453
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 from translating financial statements of foreign operations	222	39	8	-	-	-	1	270
Adjustments 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	*)13,390	*)11,482	-	-	-	*)57,994	190	*)83,056

*) Restated, see Note 5f above.

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 of goodwill:

For the purpose of testing for impairment of goodwill, the goodwill was allocated to the operating segments which consist of the following two cash-generating units ("CGUs"):

- Tastes
- Fragrances

The carrying amount of the goodwill allocated to each CGU (constituting a segment) as of December 31, 2023 is as follows:

	Tastes	**Fragrances**	**Total**
	U.S. dollars in thousands		
Goodwill	43,305	21,250	64,555

A valuation was prepared by an independent external valuation expert for the two CGUs. For the valuation of the tastes segment based on the valuation model, the valuation expert relied on the following assumptions: a pretax WACC rate of 14.7%, an average growth rate of about 4% for years 1-5 and a growth rate of about 3% from the fifth year onwards. For the valuation of the fragrances segment based on the valuation model, the valuation expert relied on the following assumptions: a pretax WACC rate of 15.1%, an average growth rate of about 4.5% for years 1-5 and a growth rate of about 3% from the fifth year onwards. The comparison of the fair value as per the external valuation to the carrying amount as of December 31, 2023 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,		
	2023	**2022**	**2021**
	U.S. dollars in thousands		
Interest expense on lease liabilities	917	625	515
Expenses relating to short-term leases	584	85	65
Repayment of lease liability	2,128	2,358	1,847
Total cash outflow for leases	3,629	3,068	2,427

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.

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:

2023

	Land and buildings	Vehicle	Total
	U.S. dollars in thousands		
Cost:			
Balance as of January 1, 2023	19,839	3,198	23,037
Additions during the year:			
New leases	3,040	1,232	4,272
Newly consolidated company	93	214	307
Adjustments for indexation	511	54	565
Adjustments from translating financial statements of foreign operations	252	79	331
Adjustments from translating financial statements from functional currency to presentation currency	(912)	(89)	(1,001)
Disposals during the year	(4,395)	(236)	(4,631)
Balance as of December 31, 2023	18,428	4,452	22,880
Accumulated depreciation:			
Balance as of January 1, 2022	2,534	1,940	4,474
Additions during the year:			
Depreciation and amortization	1,701	1,105	2,806
Adjustments from translating financial statements of foreign operations	61	41	102
Adjustments from translating financial statements from functional currency to presentation currency	(110)	(50)	(160)
Disposals during the year	(773)	(110)	(883)
Balance as of December 31, 2023	3,413	2,926	6,339
Depreciated cost at December 31, 2023	15,015	1,526	16,541

NOTE 12:- LEASES (Cont.)

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 from translating financial statements of foreign operations	682	348	1,030
Adjustments 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 from translating financial statements of foreign operations	105	275	380
Adjustments 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.)

d. Lease liabilities:

	2023	2022
	U.S. dollars in thousands	
Balance as of January 1,	18,531	12,255
Additions	4,272	4,975
Initial consolidation	307	5,069
Disposals	(3,748)	(457)
Interest expenses	917	625
Lease payments	(3,045)	(2,358)
Other changes	317	(1,578)
Balance as of December 31,	17,551	18,531

e. maturity analysis of lease liabilities:

	2023	2022
	U.S. dollars in thousands	
First year – current maturities	2,311	1,946
Second year	1,837	1,659
Third year	1,364	1,476
Fourth year	1,119	1,360
Fifth year	1,136	1,286
Sixth year and thereafter	9,784	10,804
Balance as of December 31,	17,551	18,531

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, 2023

	Linkage terms	Effective interest rate 31.12.2023 %	Balance U.S. dollars in thousands
Current maturities of long-term loans from banks and others		See Note 16a	3,669
Loans from banks	Euro-linked	Euribor+1.55	6,395
Loans from banks	Unlinked	P+0.05	913
			10,977

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

b. As of December 31, 2023, the Company has no factoring transactions (December 31, 2022 – factoring transactions of approximately $ 1,875 thousand).

c. See Note 16 for the Company's credit terms, financial covenants and other liabilities.

d. At the end of 2023, the Company has unutilized credit facilities totaling approximately $ 1.2 million (December 31, 2022 – approximately $ 2.9 million).

e. For collaterals, see Note 20.

f. For charges, see Note 20.

NOTE 14:- TRADE PAYABLES

	December 31,	
	2023	2022
	U.S. dollars in thousands	
Open debts	14,674	19,044
Notes payable	5	262
	14,679	19,306

Trade payables do not bear interest. The average supplier credit days are 68 days.

NOTE 15:- OTHER ACCOUNTS PAYABLE

	December 31,	
	2023	2022
	U.S. dollars in thousands	
Employees and payroll accruals	3,471	2,816
Government institutions	2,970	3,134
Provision for waste removal	800	800
Accrued expenses (a)	4,255	3,214
Provision for crop removal	-	2,717
Other	277	367
	11,773	13,048

(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,	
	31.12.2023	2023	2022
	%	U.S. dollars in thousands	
Long-term loans	0.5-3.1 P+0.6-P+1.5 Euribor+1.5	7,057	7,038
Less - current maturities (see also Note 13 above)		(3,618)	(2,982)
		3,439	4,056

b. For collaterals, see Note 20.

NOTE 16:- LONG-TERM LOANS FROM BANKS (Cont.)

c. Financial covenants:

The Company has undertaken to meet the following financial covenants in connection with liabilities to lenders:

1. The ratio of the Company's equity to total balance sheet will not be lower than 25% at all times.

2. 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, 2023, the Company is meeting the above financial covenants: the ratio of equity to total balance sheet is 52.8% and the debt coverage ratio is 0.5.

NOTE 17:- OTHER LIABILITIES

	December 31,	
	2023	2022
	U.S. dollars in thousands	
Liabilities for waste removal (a)	455	3,454
Other long-term payables	53	59
Loans from others less current maturities	236	476
Liabilities for purchase of activities	39,051	*) 34,627
	39,795	38,616

(a) As of December 31, 2023, the Company completed the disposal of old bromine waste accumulated at the Nir Yitzhak plant.

*) Restated, see Note 5f above.

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 denominated in NIS and 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 and USD.

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.

	NIS representative exchange rate	**Euro representative exchange rate**
	U.S. dollar	
As of		
December 31, 2023	0.276	1.106
December 31, 2022	0.284	1.066
December 31, 2021	0.322	1.132
	%	
Rate of change in the year ended		
December 31, 2023	(2.98)	3.71
December 31, 2022	(11.8)	(5.83)
December 31, 2021	3.38	(7.74)

NOTE 18:- FINANCIAL INSTRUMENTS (Cont.)

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.

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.

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, 2023:

	Less than 1 year	1-5 years	5 years and onwards	Total
	U.S. dollars in thousands			
Trade payables	14,679	-	-	14,679
Other payables	8,003	-	-	8,003
Lease liability	2,311	5,456	9,784	17,551
Liability in respect of purchase of activity	1,723	39,051	-	40,774
Provision for waste removal	800	455	-	1,255
Credit from banks and others	10,977	2,910	765	14,652
Other	-	462	-	462
	38,493	48,334	10,549	97,376

NOTE 18:- FINANCIAL INSTRUMENTS (Cont.)

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	9,114	-	-	9,114
Lease liability	1,946	5,781	10,804	18,531
Liability in respect of purchase of activity	338	34,627	-	34,965
Provision for waste removal	800	3,200	254	4,254
Credit from banks and others	12,036	4,532	-	16,568
Other	-	198	-	198
	43,540	48,338	11,058	102,936

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 and contingent consideration:

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) while other business combinations include a contingent consideration mechanism that is based on future performance of the acquiree.

As of December 31, 2023, the total liabilities for put options and contingent consideration amounted to $ 39,051 thousand. The value of the put options and contingent consideration was estimated in accordance with the average EBITDA achieved over the term of the agreement. The weighted annual discount rate is 9.2%. The fair value is measured at level 3 of the fair value hierarchy. The key non-observable input used by the Company to assess the value of the liabilities is the future EBITDA that will be achieved; in order to assess the liabilities and update their value, the Company used the companies' ongoing results and updated forecasts.

NOTE 18:- FINANCIAL INSTRUMENTS (Cont.)

Sensitivity test of changes in EBITDA:

	Sensitivity test to changes in EBITDA	
	Gain (loss) from change	
	5% increase in EBITDA	5% decrease in EBITDA
	U.S. dollars in thousands	
2023	(1,138)	1,138

Adjustment for fair value measurements classified at Level 3 of the fair value hierarchy:

	2023	2022
	U.S. dollars in thousands	
Balance as of January 1,	(34,627)	(31,998)
Total gain (loss) recognized:		
Repayment	648	-
In profit or loss	(1,681)	(307)
In other comprehensive income (loss)	(952)	2,262
In business combinations	(2,439)	*) (4,584)
Balance at end of period	(39,051)	*) (34,627)

*) Restated, see Note 5f above.

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	
2023	10,400	(10,400)
2022	8,820	(8,820)

	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	
2023	(49)	49
2022	(59)	59

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 but 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 $ 48 thousand (2022 - $ 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 provided guarantees in a total amount of approximately $ 443 thousand, mainly in respect of customs duty on alcohol and refund of import taxes.

NOTE 21:- EQUITY

a. Composition of share capital:

	December 31, 2023		December 31, 2022	
	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 5g above.

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 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) vest a year after the allocation date, and all remaining options 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 is exercisable over two years from vesting date, and each further tranche is exercisable over a year from vesting date on a cashless basis. Any options not exercised by the end of the said period expire, and no rights are conferred upon their holders. On November 24, 2023, 94,695 options granted to a director expired.

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, 2023 approximated $ 96 thousand (in the year ended December 31, 2022 – approximately $ 221 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. As of the report date, 237,500 options expired. The Board also approved the grant of 262,000 unregistered options, which are exercisable into an identical number of shares, to Mr. Shay Khazon, Director, Israeli Fragrance Operations, and to Ms. Shir Kesselman, VP Fragrance Division, 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, 2023 in respect of the above plan approximated \$ 748 thousand (in the period from the allocation date through December 31, 2022 – approximately \$ 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, 2023 in respect of the above grant approximated \$ 74 thousand (in the period from the allocation date through December 31, 2022 – approximately \$ 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:

On March 26, 2023, the Company declared the distribution of a dividend of approximately \$ 5 million, representing about \$ 0.0496 per share. The dividend was distributed to the Company's entire shareholders on April 18, 2023.

NOTE 22:- ADDITIONAL INFORMATION TO PROFIT OR LOSS ITEMS

a. Cost of sales and services:

	Year ended December 31,		
	2023	2022	2021
	U.S. dollars in thousands		
Materials consumed	55,427	52,639	33,983
Wages and related expenses	10,657	9,668	6,912
Depreciation and amortization	4,238	3,361	2,354
Other	7,420	5,229	7,357
	77,742	70,897	50,606

b. Research and development expenses:

	Year ended December 31,		
	2023	2022	2021
	U.S. dollars in thousands		
Wages and related expenses	3,375	2,437	1,510
Depreciation and amortization	976	595	68
Other	572	575	371
	4,923	3,607	1,949

c. Selling and marketing expenses:

	Year ended December 31,		
	2023	2022	2021
	U.S. dollars in thousands		
Wages and related expenses	2,870	2,677	1,954
Marketing commissions	1,922	1,645	742
Transport	2,048	2,933	2,605
Depreciation and amortization	2,166	1,556	120
Other	1,352	1,205	853
	10,358	10,016	6,274

NOTE 22:- ADDITIONAL INFORMATION TO PROFIT OR LOSS ITEMS (Cont.)

d. General and administrative expenses:

	Year ended December 31,		
	2023	2022	2021
	U.S. dollars in thousands		
Wages and related expenses	9,609	8,527	6,473
IT, office and media expenses	1,175	833	485
Professional consulting	1,136	1,347	1,164
Depreciation and amortization	1,717	2,195	1,236
Other	2,058	2,153	899
	15,695	15,055	10,257

e. Other expenses (income):

	Year ended December 31,		
	2023	2022	2021
	U.S. dollars in thousands		
Income from insurance compensation for fire incident (see Note 27)	-	(8,794)	-
Other	457	445	208
	457	(8,349)	208

e. Finance income (expenses):

	Year ended December 31,		
	2023	2022	2021
	U.S. dollars in thousands		
Finance income:			
Exchange rate differences	395	306	710
Interest income	165	114	52
	560	420	762
Finance expenses:			
Finance expenses in respect of banks	585	573	583
Exchange rate differences	183	205	312
Finance expenses on lease liability	917	625	515
Finance expenses on financial assets and liabilities designated to fair value through profit or loss	1,486	307	400
Other	179	223	61
	3,350	1,933	1,871

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 2023, 2022 and 2021.

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%
India	30%
Vietnam	20%
Belgium	25%
Romania	16%
Hungary	9%

c. Final tax assessments:

The Company has prepared its own tax assessments that are deemed final through the 2018 tax year.

d. Carryforward losses for tax purposes:

Carryforward business losses and capital losses of the Group total approximately $ 3,017 thousand as of December 31, 2023. A deferred tax asset of approximately $ 342 thousand relating to carryforward losses of approximately $ 1,539 thousand was recognized in the financial statements.

NOTE 23:- TAXES ON INCOME (Cont.)

e. Deferred taxes:

	December 31, 2023	December 31, 2022
	U.S. dollars in thousands	
Deferred tax liabilities:		
Property, plant and equipment	374	22
Right-of-use assets	2,761	2,025
Business combinations	3,896	3,452
Other assets	811	466
	7,842	5,965
Deferred tax assets:		
Carryforward losses	342	313
Allowance for ECLs	58	13
Lease liability	2,943	2,069
R&D expenses	262	127
Employee accruals	199	123
Other	35	24
	3,839	2,669
Deferred tax liabilities, net	4,003	3,296

Deferred taxes are presented in the statement of financial position as follows:

	December 31, 2023	December 31, 2022
	U.S. dollars in thousands	
Non-current assets	352	515
Non-current liabilities	(4,355)	(3,811)
	(4,003)	(3,296)

Movement in deferred taxes:

	2023	2022
	U.S. dollars in thousands	
Balance at beginning of year	(3,296)	(3,208)
Acquisition of initially consolidated subsidiary and activity	(945)	(792)
Changes carried to profit or loss	333	428
Changes carried to other comprehensive income	(95)	276
Balance at end of year	(4,003)	(3,296)

NOTE 23:- TAXES ON INCOME (Cont.)

f. Taxes on income included in the statement of comprehensive income:

	Year ended December 31,		
	2023	2022	2021
	U.S. dollars in thousands		
Current taxes	2,980	4,914	2,351
Deferred taxes	(333)	(428)	(232)
Taxes in respect of previous years	(151)	-	-
	2,496	4,486	2,119

g. 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,		
	2023	2022	2021
	U.S. dollars in thousands		
Income before taxes on income	15,390	25,817	14,931
Statutory tax rate	23%	23%	23%
Tax computed at the statutory tax rate	3,540	5,938	3,434
Tax benefit from beneficiary tax rates as per the Encouragement Law	(1,036)	(1,754)	(1,320)
Different tax rate in foreign subsidiary	(129)	2	(20)
Nondeductible expenses	109	121	34
Losses and benefits for tax purposes for which no deferred taxes were created	210	247	542
Update of deferred taxes in respect of previous years	-	-	(593)
Taxes in respect of previous years	(151)	-	-
Other differences, net	(47)	(68)	42
Taxes on income	2,496	4,486	2,119

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,					
	2023		2022		2021	
	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	12,393	100,085	21,174	89,374	12,607
Effect of potentially dilutive Ordinary shares	203	-	422	-	230	-
For computation of diluted net earnings per share	100,288	12,393	100,507	21,174	89,604	12,607

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 three operating segments based on the products and services of its business units, as described below: tastes, fragrances and specialty raw material 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.

NOTE 25:- OPERATING SEGMENTS (Cont.)

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 and finance costs, are managed on a Group basis.

The accounting policy of the operating segments is identical to the accounting policy presented in Note 2.

As discussed in the annual consolidated financial statements for 2022, given the Company's economies of scale, the major acquisitions made by it and the consequent growth in its size and revenue sources, the CODM ceased analyzing the operating segments of specialty intermediates for the pharma industry and specialty raw material ingredients separately and began analyzing them aggregately as a single reportable operating segment (specialty raw material ingredients). As a result, comparative figures have been restated.

b. Operating segment reporting:

	Year ended December 31, 2023				
	Tastes	Fragrances	Specialty raw material ingredients	Adjustments	Total
	U.S. dollars in thousands				
Revenues from external customers	65,361	32,768	29,226	-	127,355
Intersegment revenues	-	-	141	(141)	-
Total revenues	65,361	32,768	29,367	(141)	127,355
Segment operating income net of unallocated joint expenses	9,449	8,025	6,702	-	24,176
Unallocated joint expenses					5,996
Finance expenses, net					2,790
Income before taxes on income					15,390

NOTE 25:- OPERATING SEGMENTS (Cont.)

	Year ended December 31, 2022			
	Tastes	Fragrances	Specialty raw material ingredients	Total
	U.S. dollars in thousands			
Segment revenues	59,325	27,490	*) 31,741	118,556
Segment operating income net of unallocated joint expenses	17,667	7,390	*) 9,086	34,143
Unallocated joint expenses				6,813
Finance expenses, net				1,513
Income before taxes on income				25,817

	Year ended December 31, 2021			
	Tastes	Fragrances	Specialty raw material ingredients	Total
	U.S. dollars in thousands			
Segment revenues	33,292	19,436	*) 32,606	85,334
Segment operating income net of unallocated joint expenses	2,533	6,804	*) 9,932	19,269
Unallocated joint expenses				3,229
Finance expenses, net				1,109
Income before taxes on income				14,931

*) Restated.

c. Additional information on revenues:

	Year ended December 31,		
	2023	2022	2021
	U.S. dollars in thousands		
Revenues from a customer accounting for more than 10% of total revenues:			
Customer A – tastes segment	15,896	12,270	*) 1,848

*) Sales from the acquisition date only, see Note 5g above.

NOTE 25:- OPERATING SEGMENTS (Cont.)

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,		
	2023	2022	2021
	U.S. dollars in thousands		
Israel and the Middle East	32,435	29,099	20,421
North America	17,197	21,555	25,804
Europe	61,076	48,922	30,870
Asia and other	16,647	18,980	8,239
	127,355	118,556	85,334

NOTE 26:- RELATED AND INTERESTED PARTY BALANCES AND TRANSACTIONS

a. Related and interested party balances:

1. Composition:

December 31, 2023

	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)	842	100	842

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

NOTE 26:- RELATED AND INTERESTED PARTY BALANCES AND TRANSACTIONS (Cont.)

2. Management and employment agreement, rental agreements and other:

a) Ms. Karen Cohen Khazon, Chair 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 Chair 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").

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.

NOTE 26:- RELATED AND INTERESTED PARTY BALANCES AND TRANSACTIONS (Cont.)

b) Engagement with Ms. Shir Kesselman, VP Fragrance Division:

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 June 29, 2023, Ms. Kesselman serves as VP Fragrance Division. 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.

c) Engagement with Mr. Shay Khazon, Director, Israeli Fragrance 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.

NOTE 26:- RELATED AND INTERESTED PARTY BALANCES AND TRANSACTIONS (Cont.)

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.

d) 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.)

b. Related and interested party transactions:

Year ended December 31, 2023

	Controlling shareholder	Other interested and related parties
	U.S. dollars in thousands	
Cost of sales	-	138
Selling and marketing expenses	-	77
General and administrative expenses	1,590	936
	1,590	1,151

Year ended December 31, 2022

	Controlling shareholder	Other interested and related parties
	U.S. dollars in thousands	
Cost of sales	-	153
Selling and marketing expenses	-	168
General and administrative expenses	1,748	1,108
	1,748	1,429

Year ended December 31, 2021

	Controlling shareholder	Other interested and related parties
	U.S. dollars in thousands	
Cost of sales	-	145
Selling and marketing expenses	-	108
General and administrative expenses	1,732	1,533
	1,732	1,786

General and administrative expenses in 2021, 2022 and 2023 include share-based payment of approximately $ 184 thousand, $ 428 thousand and $ 456 thousand, respectively.

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 25, 2024, a wholly owned subsidiary of the Company received a bank loan in a total of € 33 million (approximately $ 36 million) for financing the acquisition of companies and operations around the world, including the acquisition of Sunspray Solutions Proprietary Limited from South Africa. The loan is for a period of five years and bears interest of Euribor + about 1.9% payable on a quarterly basis. The loan principal is repayable in equal quarterly instalments (under the Spitzer amortization schedule) beginning 12 months from the grant date.

b. On February 13, 2024, the Company, through a wholly owned subsidiary, completed the acquisition of 55% of the issued and outstanding share capital and voting rights of Sunspray Solutions Proprietary Limited, a private company incorporated in South Africa ("Sunspray"), from its shareholders, leading private equity funds in South Africa ("the sellers") in return for approximately $ 14.1 million (approximately ZAR 267.8 million), subject to adjustment for Sunspray's business performance based on the growth in its EBITDA in 2024 and 2025. The adjustment will not exceed ZAR 52.4 million (approximately $ 2.8 million). The agreement consists of a contingent consideration payable to the sellers based on Sunspray's business performance based on the growth in its average EBITDA in 2023- 2025 compared to an agreed amount of ZAR 79.4 million (approximately $ 4.2 million) with the growth rate multiplied by 1.65.

NOTE 28:- MATERIAL EVENTS AFTER THE REPORTING PERIOD (Cont.)

The agreement includes a put/call option for purchasing the remaining shares of Sunspray by the Company which is exercisable from January 1, 2027. The option's exercise price is based on Sunspray's business performance in the 12 quarters before the option exercise date.

c. On March 13, 2024, the Company increased its interests in the subsidiary Balirom by purchasing another 10% of its share capital from holders of non-controlling interests in return for approximately NIS 3,045 thousand (approximately $ 834 thousand). Following the purchase, the Company holds 70% of Balirom's share capital.

d. On March 19, 2024, the Company declared the distribution of a dividend of approximately $ 4 million, representing $ 0.040 per share. The dividend amount was not recognized in the period as a distribution to owners.

e. In its meeting on March 19, 2024, the Company's Board approved an outline for the allocation of 2,026 thousand (unlisted) options to employees, officers and consultants, of which 530 thousand unlisted options will be offered from time to time to employees and officers of the Company that are not the controlling shareholders therein. The options can be exercised into the same number of Ordinary shares in keeping with the Company's share-based payment plan. The options vest over a period of four years from the allocation date with the first tranche (67% of the options) vesting at the end of three years from the allocation date and the second tranche of the remaining 33% of the options vesting at the end of four years from the allocation date. The first tranche is exercisable for a period of two years from the vesting date and the second tranche is exercisable for one year from the vesting date on a cashless exercise basis. The options are subject to certain adjustments.

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TURPAZ INDUSTRIES LTD.

FINANCIAL INFORMATION FROM

THE CONSOLIDATED FINANCIAL STATEMENTS

ATTRIBUTABLE TO THE COMPANY

AS OF DECEMBER 31, 2023

U.S. DOLLARS IN THOUSANDS

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To:
The Shareholders of
Turpaz Industries Ltd.

Special Auditors' Report on the Separate Financial Information pursuant to Regulation 9C to the Israeli Securities Regulations (Periodic and Immediate Reports), 1970

We have audited the accompanying separate financial information presented pursuant to Regulation 9C to the Israeli Securities Regulations (Periodic and Immediate Reports), 1970 of Turpaz Industries Ltd. ("the Company") as of December 31, 2023 and 2022, and for each of the three years the last of which ended on December 31, 2023. 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 $ 6,754 thousand and $ 2,615 thousand as of December 31, 2023 and 2022, respectively, and the Company's share of their earnings (losses) amounted to approximately $ 2,082 thousand, $ 677 thousand and $ 1,410 thousand for the years ended December 31, 2023, 2022 and 2021, 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 those prescribed by the Auditors' Regulations (Auditor's Mode of Performance), 1973. 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 the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the separate financial information referred to above has been prepared, in all material respects, pursuant to Regulation 9C to the Israeli Securities Regulations (Periodic and Immediate Reports), 1970.

Tel-Aviv, Israel
March 19, 2024

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, 2023, 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 1e to the consolidated financial statements.

Financial Data from the Consolidated Statements of Financial Position Attributable to the Company

	See item	December 31, 2023	December 31, *) 2022
		U.S. dollars in thousands	
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	1	1,727	1,604
Trade receivables		6,314	5,682
Other accounts receivable		382	430
Inventories		4,548	4,796
		12,971	12,512
NON-CURRENT ASSETS:			
Property, plant and equipment, net		3,217	2,827
Right-of-use assets, net		6,658	6,932
Intangible assets, net		4,393	4,547
Assets less liabilities attributable to investees, net, including goodwill		107,168	98,939
		121,436	113,245
		134,407	125,757
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Short-term credit		10,284	6,498
Liability in respect of acquisition of activity		-	41
Trade payables		2,065	4,077
Other accounts payable	2	1,950	1,498
Current maturities of lease liabilities		567	484
		14,866	12,598
NON-CURRENT LIABILITIES:			
Long-term loans from banks, less current maturities		416	3,503
Leases liabilities		6,378	6,586
Employee benefit liabilities		-	56
Deferred taxes	3e	354	330
		7,148	10,475
EQUITY:			
Share capital		1	1
Share premium		74,449	74,449
Other capital reserves		(4,136)	(4,857)
Reserve in respect of translation differences		(5,044)	(6,542)
Retained earnings		47,123	39,633
		112,393	102,684
		134,407	125,757

*) Restated, see Note 5b below.

The accompanying additional information forms an integral part of the financial data and financial information.

March 19, 2024			
Date of approval of the financial statements	Karen Cohen Khazon Chair of the Board and CEO	Dr. Israel Leshem Director Authorized by the Board to sign the financial statements on March 19, 2024	Guy Gill CFO

Financial Data from the Consolidated Statements of Profit or Loss and Other Comprehensive Income Attributable to the Company

	See item	Year ended December 31, 2023	*) 2022	2021
		U.S. dollars in thousands		
Revenues from sales		25,519	21,535	2,441
Cost of sales		16,415	12,564	1,949
Gross profit		9,104	8,971	492
Research and development expenses		729	710	231
Selling and marketing expenses		983	1,125	328
General and administrative expenses		7,101	7,472	1,740
Other expenses		274	485	240
Operating income (loss)		17	(821)	(2,047)
Finance expenses, net		994	122	188
Loss before taxes on income		(977)	(943)	(2,235)
Taxes on income	3g	46	73	-
Equity in earnings of investees, net		13,416	22,190	14,842
Net income attributable to the Company		12,393	21,174	12,607
Other comprehensive income (loss) (net of taxes):				
Amounts that will not be reclassified subsequently to profit or loss:				
Adjustments from translating financial statements from functional currency to presentation currency		(3,761)	(12,216)	4,300
Amounts that will be or that have been reclassified to profit or loss when specific conditions are met:				
Adjustments from translating financial statements of foreign operations		5,259	3,891	(2,717)
Total comprehensive income attributable to the Company		13,891	12,849	14,190

*) Restated, see Note 5b below.

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,		
	2023	*) 2022	2021
	U.S. dollars in thousands		
Cash flows from operating activities			
Net income for the year	12,393	21,174	12,607
Adjustments to reconcile net income to net cash provided by (used in) operating activities (a)	(13,163)	(20,349)	(15,770)
Net cash provided by (used in) operating activities	(770)	825	(3,163)
Cash flows from investing activities			
Purchase of property, plant and equipment and other assets	(1,097)	(1,699)	(49)
Change in assets less liabilities attributable to investees	1,480	(39,273)	(16,176)
Dividend received from subsidiary	4,966	3,843	-
Acquisition of activities (b)	-	-	(3,331)
Repayment of liability in respect of acquisition of activity	(39)	(100)	-
Net cash provided by (used in) investing activities	5,310	(37,229)	(19,556)
Cash flows from financing activities			
Receipt of short-term credit	3,361	5,994	-
Repayment of long-term loans	(2,207)	(3,668)	(1,242)
Dividend paid	(4,966)	(3,971)	-
Issue of share capital (net of issue expenses)	-	-	62,055
Repayment of long-term lease liabilities	(550)	(647)	(175)
Net cash provided by (used in) financing activities	(4,362)	(2,292)	60,638
Exchange rate differences on balances of cash and cash equivalents	(55)	(3,283)	3,922
Increase (decrease) in cash and cash equivalents	123	(41,979)	41,841
Cash and cash equivalents of merged subsidiaries (d)	-	1,683	-
Cash and cash equivalents at the beginning of the year	1,604	41,900	59
Cash and cash equivalents at the end of the year	1,727	1,604	41,900

*) Restated, see Note 5b below.

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,		
		2023	*) 2022	2021
		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	1,383	1,077	288
	Change in employee benefit liabilities, net	(56)	(6)	184
	Earnings of companies accounted for at equity, net	(13,416)	(22,190)	(14,842)
	Finance expenses, net	994	126	188
	Cost of share-based payment	917	1,371	-
	Taxes on income	46	103	-
		(10,132)	(19,519)	(14,182)
	Changes in asset and liability items:			
	Increase in trade receivables	(793)	(914)	(1,601)
	Decrease (increase) in other accounts receivable	34	(266)	(44)
	Decrease (increase) in inventories	101	(1,801)	36
	Increase (decrease) in trade payables	(1,859)	2,064	992
	Increase (decrease) in other accounts payable	202	814	(806)
		(2,315)	(103)	(1,423)
		(12,447)	(19,622)	(15,605)
	Cash paid and received during the year for:			
	Taxes paid	-	(322)	-
	Interest paid, net	(716)	(405)	(165)
		(13,163)	(20,349)	(15,770)
(b)	Acquisition of activities:			
	Inventories	-	-	984
	Property, plant and equipment	-	-	1,444
	Intangible assets	-	-	903
	liability in respect of acquisition of activity	-	-	-
	Payment for acquisition of activities	-	-	3,331
(c)	Significant non-cash transactions:			
	Right-of-use asset recognized with corresponding lease liabilities	636	2,631	4,812
	Acquisition of investees in exchange for issue of shares	-	-	12,394
	Loan transfer	-	-	7,892

*) Restated, see Note 5b below.

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,		
	2023	*) 2022	2021
	U.S. dollars in thousands		
(d) Merged subsidiaries:			
Assets and liabilities of the subsidiaries as of the date of the merger:			
Working capital (excluding cash and cash equivalents)	-	2,949	-
Property, plant and equipment	-	222	-
Right-of-use assets	-	456	-
Intangible assets	-	1,340	-
Assets less liabilities in respect of investees	-	(4,823)	-
Deferred taxes	-	(146)	-
Lease liabilities	-	(352)	-
Other non-current liabilities	-	(1,329)	-
	-	1,683	-

*) Restated, see Note 5b below.

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, 2023	December 31, 2022
	U.S. dollars in thousands	
Cash and deposits for immediate withdrawal	1,727	1,604

2. Disclosure of financial liabilities attributable to the Company (excluding amounts in respect of investees)

a. Accounts payable attributable to the Company:

	December 31, 2023	December 31, 2022
	U.S. dollars in thousands	
Employees and payroll accruals	791	803
Related parties	958	506
Accrued expenses	141	183
Other payables	60	6
	1,950	1,498

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, 2023

	Less than one year	1 to 5 years	5 years and onwards	Total
	U.S. dollars in thousands			
Trade payables	2,065	-	-	2,065
Other accounts payable	1,896	-	-	1,896
Long-term loans from banks	10,284	416	-	10,700
Lease liabilities	567	1,709	4,669	6,945
	14,812	2,125	4,669	21,606

Additional Information

2. Disclosure of financial liabilities attributable to the Company (excluding amounts in respect of investees) (Cont.)

December 31, 2022

	Less than one year	1 to 5 years	5 years and onwards	Total
	U.S. dollars in thousands			
Trade payables	4,077	-	-	4,077
Other accounts payable	1,490	-	-	1,490
Long-term loans from banks	6,498	3,503	-	10,001
Lease liabilities	484	1,629	4,957	7,070
Other	41	56	-	97
	12,590	5,188	4,957	22,735

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.

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.)

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, the amendment states that dividends distributed to an individual or to "foreign companies", deriving from income from the preferred enterprise 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.

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 2018 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 for tax purposes totaling approximately $ 1,968 thousand as of December 31, 2023.
The Company created a deferred tax asset totaling approximately $ 179 thousand in respect of carryforward losses totaling approximately $ 996 thousand which it believes will be utilized in the following year.

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.)

e. Deferred taxes - composition:

	December 31, 2023	December 31, 2022
	U.S. dollars in thousands	
Non-current assets	-	-
Non-current liabilities	354	330
	(354)	(330)

f. Deferred taxes - movement:

	2023	2022
	U.S. dollars in thousands	
Balance at the beginning of the year	(330)	2
Merger with subsidiaries	-	(339)
Changes to profit or loss	(24)	7
Balance at the end of the year	(354)	(330)

g. Taxes on income included in profit or loss:

	Year ended December 31, 2023	2022	2021
	U.S. dollars in thousands		
Current tax expenses	81	80	-
Deferred tax expenses (income)	24	(7)	-
Taxes in respect of previous years	(59)	-	-
Taxes on income	46	73	-

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.)

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,		
	2023	2022	2021
	U.S. dollars in thousands		
Loss before taxes on income	(977)	(943)	(2,235)
Statutory tax rate	23%	23%	23%
Tax computed at the statutory tax rate	(225)	(217)	(514)
Nondeductible expenses	208	403	-
Difference in tax rates	(68)	(66)	-
Losses and benefits for tax purposes for which no deferred taxes were created (utilized)	175	(112)	514
Other differences, net	(44)	65	-
Taxes on income	46	73	-

4. Material balances, transactions and commitments with investees

a. Balances with investees:

	December 31,	
	2023	2022
	U.S. dollars in thousands	
Assets less liabilities attributable to investees	33,890	35,526

b. Transactions with investees:

	Year ended December 31,		
	2023	2022	2021
	U.S. dollars in thousands		
Intercompany sales	143	20	-
Cost of sales	4,988	1,827	881

c. On March 26, 2023, a subsidiary, Chemada Industries Ltd., declared the distribution of a dividend of approximately NIS 18,015 thousand (approximately $ 4,966 thousand) which was paid to the Company in April 2023.

5. Material events during the reporting period

a. Merger between the Company and Turpaz Extracts:

On December 16, 2021, a merger agreement was signed between the Company and Turpaz Extracts Ltd. as per the provisions of Section 103C to Israeli Income Tax Ordinance (Revised), 1961 ("the Ordinance") after obtaining the approval of the board of directors of each company. Under the merger agreement, the companies will be merged by way of share swap as per Section 103C to the Ordinance so that following the merger, the entire operations of Turpaz Extracts Ltd. will be merged into the Company. The approval of the Israeli Tax Authority ("the ITA") in the form of a pre-ruling 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. As per the pre-ruling obtained from the ITA, the merger applies retroactively from January 1, 2022.

b. Merger between the Company and Pentaor Ltd.:

On September 21, 2022, a merger agreement was signed pursuant to the provisions of Section 103C to the Ordinance between the Company and Pentaor Ltd. after obtaining the approval of the board of directors of each company. In accordance with the merger agreement, the companies will be merged through a share swap pursuant to Section 103C to the Ordinance, so that upon completion of the merger transaction, the entire operations of Pentaor Ltd. will be merged into the Company. The final approval for the merger was obtained from the Registrar of Companies on June 22, 2023 and Pentaor Ltd. was merged into the Company's operations. As per the approval, the merger applies retroactively from October 1, 2022. Since a final approval for the merger was obtained in June 2023, the comparative figures for 2022 were restated.

c. Merger between the Company and S.D.A Spice Industries Ltd.:

On September 7, 2023, a merger agreement was signed between the Company as the transferee and S.D.A Spice Industries Ltd. as the transferor in accordance with the provisions of Section 103C to the Ordinance after obtaining the approval by the board of directors of each company. As per the merger agreement, the companies will be merged by a share swap according to Section 103C to the Ordinance following which the transferor's entire operation will be transferred to the Company. The effective date of the merger is December 31, 2023. On January 28, 2024, a pre-ruling for the merger was obtained from the ITA and the necessary application was filed to the Registrar of Companies for approval of the merger.

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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, 2023

Report date: March 19, 2024

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, 2023 (USD thousand):

	For the year ended December 31, 2023	For the three months			
		10-12/23	7-9/23	4-6/23	1-3/23
Revenues from sales	127,355	33,339	32,476	30,626	30,914
Cost of sales	77,742	19,741	19,495	19,411	19,095
Gross profit	**49,613**	**13,598**	**12,981**	**11,215**	**11,819**
Research and development expenses	4,923	1,395	1,231	1,203	1,094
Selling and marketing expenses	10,358	2,668	2,591	2,573	2,526
General and administrative expenses	15,695	4,309	3,892	3,631	3,863
Other expenses	457	97	56	128	176
Income from ordinary operations	**18,180**	**5,129**	**5,211**	**3,680**	**4,160**
Finance expenses, net	2,790	1,112	409	694	575
Taxes on income	2,496	647	797	474	578
Net income for the year	**12,894**	**3,370**	**4,005**	**2,512**	**3,007**

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 entire proceeds received from the IPO in order to purchase companies in Israel and across the world, and invested in property, plant and equipment in order to carry out improvements and expansions in the Group's plants in Israel.

Regulation 11: List of Investments in Subsidiaries and Key Associates

Set forth below is a list of the Company's material investments as of December 31, 2023 in each of its subsidiaries and associates:

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%	16,336	-
SDA Spice Industries Ltd.[1]	Ordinary	NIS 1	10,000	100%	16,529	-
Western Flavors Fragrances Production Joint Stock Company	Ordinary	10,000 Vietnamese dong	1,200,000	70%	2,251	USD 287 thousand, 6% interest
Turpaz Fragrances and Flavors Aroma Inc.	Ordinary	of no par value	10,000	100%	22,411	-
Pollena Aroma SP. z.o.o	Ordinary	50 Zloty	13,928	100%	12,219	-

[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						
Balirom Ltd.	Ordinary	NIS 1 par value	900	60%	4,704	Approx. USD 3 thousand, 6.85% interest
Turpaz Belgium	Ordinary	of no par value	1,000	100%	24,784	Approx. USD 3,661 thousand, at average interest of approx. 2%.

<u>Regulation 12</u>: <u>List of Investments in Subsidiaries and Associates</u>

As of December 31, 2023 there were no changes in the investments in subsidiaries and related companies, other than the increase in the Company's holdings in Western Flavors Fragrances Production Joint Stock Company by way of purchase of further 10% from the minority shareholders.

<u>Regulation 13</u>: <u>Income of Subsidiaries and Key Associates and Income Therefrom</u>

Company's name	Comprehensive income		Company's revenues in 2023		
	Income (loss)	Other comprehensive income	Dividend	Management fees	Interest
	USD thousand				
Companies held directly by the Company					
Chemada Industries Ltd	6,304	6,304	4,966	-	-
SDA Spice Industries Ltd.	253	240	-	-	-
Western Flavors Fragrances Production Joint Stock Company	254	239	-	-	-
Turpaz Fragrances and Flavors Aroma Inc.	138	138	-	-	-
Pollena Aroma SP. z.o.o	1,722	1,861	-	-	-
Balirom Ltd.	590	567	-	-	-
Turpaz Belgium	6,565	6,881	-	-	-

Regulation 20: Trading on the Stock Exchange

No securities were listed in the reporting period.

Regulation 21: Compensation of Interested Parties and Senior Officers

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 2023 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%	830	760	-	-	-	-	-	-	-	-	1,590
Michael Reiss	CEO of Pollena Aroma	100%	-	208	48	44	-	-	-	-	-	6	-	306
Zvi Manor	CEO of Chemada Industries	100%	-	388	163	-								551
Guy Gill	Chief Financial Officer	100%	-	287	76	39								402
Ari Rosenthal	Head of the Taste &	100%	-	263	60	94	-	-	-	-	-	-	-	417

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**	
	Food Division													
Directors(5)				102	-	-	-	-	-	-	-	-	-	102
Erez Meltzer[2]	Advisor, a Company director	25%	-	-	-	128	16	-	-	-	-	-	-	144
Interested parties														
Shay Khazon (2)	Chief Operating Officer at the fragrance segment in Israel	80%	-	167	40	66	-	-	-	-	-	-	-	273
Shir Kesselman (3)	Head of Global Sales in the fragrance segment	100%	-	134	19	44	-	-	-	-	-	-	-	197
Alon Granot (4)	Advisor	50%	[3]7.16%	-	-	218	217	-	-	-	-	-	-	435

* The compensation amounts are in terms of cost to the Company.

[2] As from December 1, 2022, 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. On March 19, 2024 the compensation committee and the board of directors approved the terms of Mr. Meltzer tenure as mentioned above, and close to the publication of this report, the company will act to summon a meeting of shareholders to approve the aforementioned compensation.

[3] Holds together with his wife, Rivka Granot.

(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, Balirom, Pollena Aroma, FIT, Food-Base, SDA, Aromatique Food, Turpaz Belgium and Turpaz Romania.

(5) Ms. Limor Avidor, external director in the Company, holds 0.01% of the Company's issued and paid-up share capital

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 2023 was approx. USD 760 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.

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. Zvi Manor, CEO of Chemada

Mr. Zvi Manor (hereinafter - "**Mr. Manor**") has been serving as CEO of Chemada since January 1, 2023, in consideration for a monthly salary of NIS 100,000, of which 70% were taken into account for the purpose of calculating his social benefits. In addition, Mr. Manor is entitled to an annual bonus of up to six salaries, in accordance with the recommendation of the Company's CEO and the decision of the Board of Directors. The amount of the annual bonus in 2023 amounted to approx. 6 salaries.

[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.

Furthermore, Mr. Manor is entitled to annual leave, recreation pay, comprehensive pension fund and/or managers insurance, advanced 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.

In addition, Chemada provides Mr. Manor with a car, as is generally accepted in Chemada, 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 a 90-day advance notice in writing. The employment agreement includes a confidentiality clause whereby Mr. Manor undertook to maintain confidentiality with regard to Chemada, and a 12-month non-competition period that will start on termination date.

1.3. Mr. Guy Gill, Chief Financial Officer

Mr. Guy Gill has been employed by the Company since April 4, 2022, and has been serving as the Company's Chief Financial Officer since September 18, 2022. As from March 26, 2023, Mr. Gill's monthly salary is NIS 70,000. In addition, Mr. Gill is entitled to an annual bonus of up to 4 salaries, in accordance with achievement of targets and subject to the resolution of the Company's Board of Directors. The amount of the annual bonus in 2022 was approx. USD 55 thousand. On March 19, 2024, the Company's Board of Directors approved an annual bonus of 4 salaries to Mr. Gill in respect of 2023.

Furthermore, Mr. Gill is entitled to annual leave, recreation pay, comprehensive pension fund and/or managers insurance, advanced 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. In addition, the Company bears all the expenses pertaining to Mr. Gill's car

The term of the employment agreement is not limited in time, and each of the parties may terminate it by giving a 60-day advance notice in writing. The employment agreement includes a confidentiality clause whereby Mr. Gill undertook to maintain confidentiality with regard to the Company, and a 6-month non-competition period that will start on termination date.

On September 21, 2022, The Company's Compensation Committee and Board of Directors approved the allocation of 105,000 non-marketable options to Mr. Gill, which are exercisable into 105,000 ordinary Company shares, at an exercise price of NIS 20.37 per share, in accordance with and subject to the Company's option plan.

1.4. 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 of 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.

On March 19, 2024, the Company's Board of Directors approved an annual bonus of 3 salaries to Mr. Reiss in respect of 2023.

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.

1.5. Mr. Ari Rosenthal, VP Taste Division

Mr. Ari Rosenthal (hereinafter - "**Mr. Rosenthal**"), has been employed by the Company since May 1, 2020. As from March 13, 2022, Mr. Rosenthal's monthly salary is NIS 55,000.

Furthermore, Mr. Rosenthal is entitled to annual leave, recreation pay, comprehensive pension fund and/or managers insurance, advanced 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.

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[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, 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 225,000 non-marketable options, which are exercisable into 225,000 ordinary Company shares, at an exercise price of NIS 23.51 per share, in accordance with and subject to the Company's option plan. The amount of the annual bonus in respect of 2022 was approx. USD 65 thousand. On March 19, 2024, the Company's Board of Directors approved an annual bonus of 4 salaries to Mr. Rosenthal in respect of 2023.

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 2023, 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.

Regulation 22: Transactions with the controlling shareholder or in which the controlling shareholder has a vested interest

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, VP Fragrance Division</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 Fragrance Segment and as of June 2023 as VP Fragrance division. 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. On March 26, 2023, the Company's Compensation Committee and Board of Directors approved an annual bonus of approx. USD 20 thousand, which is based on measurable targets approved for Ms. Kesselman. On March 19, 2024, the Company's Board of Directors approved an annual bonus of 2.86 salaries in respect of 2023, based on measurable targets approved for Ms. Kesselman.

2. <u>Engagement with Mr. Shay Khazon, Chief Operating Officer of the Fragrance</u>

[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.

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 approx. USD 52 thousand, based on measurable targets. On March 19, 2024, the Company's Board of Directors approved an annual bonus of 2.91 salaries in respect of 2023, based on measurable targets set for Mr. Khazon.

Regulation 24: Holdings of Interested Parties and Senior Officers

[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.

For information about the holdings of interested parties and officers in the Company, see the Company's immediate report of January 3, 2024 (Ref. No.: 2024-01-001662) and March 14, 2024 (Ref. No.: 2024-01-022186 and 2024-01-022189) 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 March 3, 2024 (Ref. No.: 2024-01-021507). 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 March 3, 2024 (Ref. No.: 2024-01-021507). 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.

Regulation 26: The Corporation's Directors

Set forth below are details regarding the Company's directors:

	Karen Khazon Cohen	Dr. Israel Leshem	Erez Meltzer	Shay Shlomo Khazon	Ohad Finkelstein	Limor Avidor	Mordechai Peled
I.D. Number	024429227	051210177	065861338	058641549	057180127	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	255A Dizengoff St. Flat 17, Tel Aviv	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, related company or of	Chairperson of the Company's Board of Directors, CEO of the Company, and director in subsidiaries of the Company.	Director in Chemada, WFF and Klabin.	Director in SDA, Chemada, and Pollena Aroma.	Chief Operating Officer at the fragrance segment in Israel	No	No	No

	Karen Khazon Cohen	Dr. Israel Leshem	Erez Meltzer	Shay Shlomo Khazon	Ohad Finkelstein	Limor Avidor	Mordechai Peled
an interested party							
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 various companies: The Hadassah Medical Center (PBC), Hadasit Ltd. Hadasit Bio-Holdings, Hadassah Medical, SupPlant Technologies, SupPlant Agro-	Chief Operating Officer at the fragrance segment in Israel	Partner - Market LLC (2011 to date); managing partner - Danli Capital Ltd. (2007 to date)	Deputy CEO and Company Secretary, Mivtach Shamir Holdings Ltd. (31 years).	CEO, Pelgo Ltd. since 1999.

	Karen Khazon Cohen	Dr. Israel Leshem	Erez Meltzer	Shay Shlomo Khazon	Ohad Finkelstein	Limor Avidor	Mordechai Peled
			Projects, Plantis Agro, Ericom Software, Eltek, Resdevco, Jem Pharma, Capital Nature, Xenia, ATLASense Biomed, Tevel Aerobotics, Smart Agro, Nano-X Imaging, Mentfield, Rivulis, Diesenhaus Group, Ud Nof, Atid-M, lecturer at the Tel Aviv University, and at the Peres Academic Center				
Other corporations in which he/she serves as a director	Chairperson of the Board of Directors of the Company, Chemada, Balirom, WFF, Pollena Aroma, Turpaz USA, FIT, Lori, Klabin, Turpaz Belgium, Pentanov and K-Vision Holdings, BKF Medical, and director in SDA.	Dr. Israel Leshem, Law Firm, Chemada, WFF, Corinthus, Meitar Trust Services Ltd.	Nano-X Imaging, Hadasit Bio-Holdings, ATLASense Biomed, Resdevco, Jem Pharma, SDA, Chemada, Eltek, SupPlant, Rivulis, Tevel Aerobotics, Capital Nature, Xenia, Chemada, Mentfield, Diesenhaus Group, Ud Nof, Atid-M, Friends of Loewenstein		Qwilt, Idomoo, Overwolf, Dropitshopping, KWSC, BankM, Team8, Cosmose 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 Ltd., M.B.S.T Real Estate Ltd., Mivtach Shamir Energy 2022 Ltd., M.S.N.M Real Estate Ltd., Galum Investments	Pelgo Ltd., Razor Labs Ltd.

	Karen Khazon Cohen	Dr. Israel Leshem	Erez Meltzer	Shay Shlomo Khazon	Ohad Finkelstein	Limor Avidor	Mordechai Peled
			Rehabilitation Medical Center, the Reut NGO, the Or Movement NGO			Ltd., Ili Investments Ltd., Sanlakol Ltd. and Shamir group Energy (2023) 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:

	Ari Rosenthal, VP Taste Division	Guy Gill, Chief Financial Officer	Shir Kesselman, VP Fragrance Segment	Shauli Eger, VP IT	Tamar Wolf, VP Business Development	Yoni Adini, General Counsel	Idan Shabtay, Group's Comptroller
I.D. Number	057197550	24223380	204330757	027384460	514574524	204270623	308408194
Date of Birth	15.5.1961	2.2.1969	21.6.1993	9.12.1974	5.5.1976	20.6.1992	18.2.1993
Date of start of service as an officer	1.5.2020	18.9.2022	16.11.2022	26.3.2023	26.3.2023	26.3.2023	11.12.2022
Position in the Company, subsidiary, related company of the Company or an interested party thereof:	VP Taste Division	Chief Financial Officer	VP Fragrance Division	VP IT Officer	VP Business Development	Legal Counsel and Company Secretary	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	No	No	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	Certified Systems Engineer	BA, Economics and Business Administration, University of Haifa MBA, The Technion	LL.B, expertise in Governance, Reichman University MBA, Bar-Ilan University.	BA, Economics and Accounting, University of Haifa CPA - Israel CPA Council

	Ari Rosenthal, VP Taste Division	**Guy Gill, Chief Financial Officer**	**Shir Kesselman, VP Fragrance Segment**	**Shauli Eger, VP IT**	**Tamar Wolf, VP Business Development**	**Yoni Adini, General Counsel**	**Idan Shabtay, Group's Comptroller**
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 Frutarom Industries Ltd.	Head of Global Sales in Turpaz Group	IT business partner at Philips Medical, Head of IT at Wavelength	CFO of the Savory Division in IFF	Attorney at Naschitz, Brandes, Amir Co.	KPMG - CPA.

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, 144A Menachem Begin Road, Tel Aviv Yaffo.

Regulation 28: Change in the Memorandum or Articles of Association of the Corporation

During the reporting period, no changes were approved in 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 26, 2023, the Company's Board of Directors approved the distribution of an approx. USD 5 million dividend to the Company's shareholders, which was paid on April 18, 2023.

Regulation 29A: Company's Resolutions

1. Directors and officers' liability insurance:

   On May 11, 2023, 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 November 16, 2024. 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 7.5 thousand, except for claims in the USA and Canada, in respect of which the deductible amount will be USD 35 thousand, and claims concerning the breach of the Israeli securities law, in respect of which the deductible amount will be USD 75 thousand; the annual premium in respect of the policy amounts to USD 46,667 thousand.

2. Indemnification and exemption:

   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.

Turpaz Industries Ltd.

Date: March 19, 2024

:

Names of signatories:	Titles:	
Karen Cohen Khazon	**Chairperson of the Board of Directors and CEO**	____________
Dr. Israel Leshem	**Director**[8]	____________

[8] 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 2023:

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
4. Yoni Adini, General counsel
5. 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, 2023, 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 2023 (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 19, 2024

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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 2023 (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 19, 2024

Guy Gill, Chief Financial Officer