



Turpaz Industries Ltd.

Annual report for the year ended December 31, 2021

This is an English translation of a Hebrew Periodic report that was published on March 14, 2022 (reference no.: 2022-01-029359) (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, 2021 (hereinafter - the "**Reporting Period**") in accordance with the provisions of the Securities Law, 1968 (hereinafter - the "**Securities Law**"), and the Securities Regulations (Periodic and Immediate Reports), 1970.

The description of the businesses and activity of the Company and the companies under its control (hereinafter - the "**Group**") in this chapter shall be provided for a period of two years only, i.e., 2020 and 2021. The term Group will include the Company and any of the companies under its control, as listed below.

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

1.2. Terms

The "Stock Exchange" - The Tel Aviv Stock Exchange Ltd.

The "Company" - Turpaz Industries Ltd.

The "Group" - Turpaz Industries Ltd. and its consolidated companies.

The "Prospectus" - The Company's supplementary prospectus, which was published on May 20, 2021, and the supplementary notice published by virtue thereof on May 23, 2021, pursuant to which the Company's shares were listed for the first time in Israel.

"Dollar" - US Dollar.

The "Companies Law" - The Companies Law, 1999.

The "Research and Development Law" - The Law for the Encouragement of Industrial Research, Development and Technological Innovation, 1984, as amended from time to time.

The "Securities Law" - The Securities Law, 1968

"Chemada" - Chemada Industries Ltd.

“Chemada Chemicals” -	Chemada Fine Chemicals Company (1996) Ltd. (under suspension of proceedings)
The “Income Tax Ordinance” -	The Income Tax Ordinance [New Version], 1961.
“Israel Innovation Authority” -	The National Technological Innovation Authority (formerly - the Chief Scientist Office).
“Turpaz Extracts” -	Turpaz Perfume and Flavor Extracts Ltd.
“Periodic and Immediate Reports Regulations”	Securities Regulations (Periodic and Immediate Reports), 1970.
“Pollena Aroma” -	Pollena Aroma SO z.o.o
"SDA" -	SDA Spice Agricultural Cooperative Society Ltd.
“WFF”	Western Flavors Fragrances Production Joint Stock Company
“Turpaz USA” -	Turpaz Fragrances and Flavors Aroma Inc.
“Pilpel”	Pilpel - Food Industries Development Ltd.
“Galilee Herbs”	“FC Galilee Herbs Ltd.”
“FIT”	Food Ingredients Technology
“LORI”	LORI RKF

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 has an extensive and diversified range of products, which are developed and produced by the Group. As of the report's publication date, Turpaz develop, producing, markets and sells more than 1,500 customers in more than 30 countries across the world, and operates approx. 12 manufacturing facilities, including R&D centers, laboratories and sales, marketing and regulation offices in Israel, the USA, Poland, Belgium, Vietnam and Latvia.

1.3.2. **Areas of activity**

1.3.2.1. The Company is a global company operating, independently and through its subsidiaries in Israel, the USA, Asia and Europe in the development, production, marketing, and sale of fragrance extracts, used in the production of cosmetics, toiletries, personal care, air care & odor neutralizers products; flavor extracts used in the production of food and beverages, intermediates for the pharma industry, and specialty ingredients for the agrochemical and the fine chemicals industry.

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 field of flavors, fragrances, specialty ingredients for the pharma industry and specialty ingredients, thereby allowing it to develop its business strategy and maintain its long-standing competitive advantage, as elaborated in Section 1.27 below.

Since 2016, the Company has been operating in accordance with a rapid growth strategy, that combines organic growth with synergetic and strategic purchases, as described below:

- **Organic growth** through the enhancement of the research, development and innovation functions, leveraging of the synergies between Group companies while improving the supply chain processes, procurement, cross selling and 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.

- Growth through M&As based on the Group and its managers' proven experience in executing M&As in the flavors, fragrances, and chemistry industry, while utilizing the synergies between the different activities and the cross-selling options offered by Group's different areas of activity, their integration into the Group and their improvement.

The fulfillment of the potential of purchased companies and the optimal integration of those companies into the Group is a gradual process carried out under full collaboration and coordination between Company's management and the management of the purchased company. Since 2016 and through the publication date of this report, the Company executed 11 purchases, 6 of which took place in the last couple of years.

As of the report's date, the Company's activity is composed of four segments:

1.3.2.2. **Fragrance segment**

The Company is engaged, both independently and through investee corporations in Israel, the USA, Poland, Latvia and Vietnam 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, the Company operates to manufacture specialty ingredients of high added value, whose purpose is to conceal bad odors, and give, enhance/intensify desired scents in consumer or industrial products.

The fragrance extracts developed by the perfumers are tailored to customers' requirements while creating long-term relationships between the Company and its customers across the world. When they select a supplier, customers focus on the suppliers' innovation capabilities, uniqueness, reliability, the quality and excellence of their services and their knowledge of the needs of the customers for whom the specialty extracts were developed.

1.3.2.3. **Flavors segment**

The Company is engaged - both independently and through investee corporations in Israel, the USA, Poland, Belgium and Vietnam - 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.

Furthermore, the Company develops extracts and mixtures that allow the production of “clean label”¹ products, reducing quantities of fat, salt and sugar in snacks, food products and beverages, while retaining the desired taste and texture of those products.

The flavors segment is supplementary and synergetic to the fragrances segment in terms of, among other things, the raw materials used and the manufacturing processes; many players in the Group's areas of activity operate at the same time both in the field of flavors and in the field of fragrances.

1.3.2.4. **Specialty intermediates for the pharma industry**

The Company is engaged - through Chemada - a wholly-owned private company - in the production of specialty chemicals used as ingredients and intermediates in the pharmaceuticals industry, and markets its products across the world. Furthermore, the Group has the capability to develop and produce custom-made products to its customers in the pharma industry, through its development, production and engineering department, and improve the manufacturing processes in accordance with the required regulations.

1.3.2.5. **Specialty ingredients**

The Company is engaged - through Chemada - in the development, production, marketing and sale of specialty ingredients used in various manufacturing processes in a range of industries, mainly flavors and fragrances, agrochemicals, polymers and catalysts. The Group's activity in this field focuses on the production of high-quality products of high added value.

¹ Products whose list of ingredients includes raw materials from nature that are familiar to the consumer.

1.3.3.

Chronological description of the development of the Company's businesses

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

January 2020	Florasynt (through the Company)	Transaction for the acquisition of activity	Flavors segment Production of sweet flavor extracts for food and beverages, and specialty extracts for animal and pet food	Approx. NIS 2.5 million and other performance-based considerations. For more information, see Section 1.4.1.4 below	Israel	100%	
July 2020	WFF	A transaction for the purchase of 60% of the share capital of WFF, a shareholders' loan and an option to purchase the remaining shares	Fragrances and flavors segments Development, production, marketing and sale of flavors, mainly sweet flavors, to the Vietnamese and South Asian markets; and activity in the field of fragrance extracts to the detergent industries.	For more information, see Section 1.4.1.5 below.	Vietnam	60%	Turpaz Extracts has an option to purchase the remaining holdings in WFF; the option may be exercised in whole or in part at any time through July 22, 2024, in consideration for an amount to be calculated on exercise date, based on WFF's average monthly EBITDA. For more information, see Section 6.2.5.6 below
November 2020	SDA	Transaction for the acquisition of control in SDA.	Flavors segment Production of spices and unique seasonings This activity is part of the flavors operating segment	Approx. NIS 6.63 million plus performance-based payment of up to NIS 5.6 million; for further details, see Section 1.4.1.6 below.	Israel	100%	Upon completion of the purchase of the holdings in SDA, the rights holder agreement between Turpaz Extracts and Kibbutz Sde Eliyahu in connection with their holdings in SDA was cancelled.

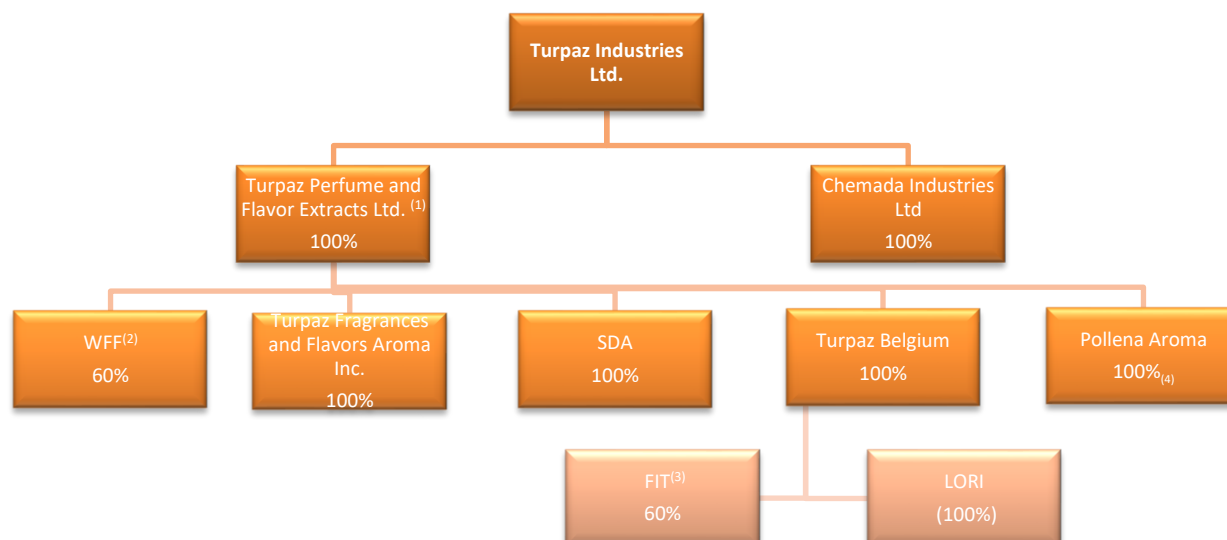
August 2021		Acquisition of the remaining rights (49%) in SDA.		Approx. USD 7.5 (approx. NIS 24.5 million) million and a performance-based payment of approx. USD 0.9 million (approx. NIS 3 million). For more information, see Section 1.4.1.61.4.1.6 below			
October 2021	FIT	Transaction for the acquisition of control (60%) in FIT.	Flavors segment Development, production and marketing of savory flavor extracts for the food industry, including the meat, fish, ready meals, soups and sauces industries. The Company has a modern production facility in Belgium; it supplies its products to many customers in Western Europe.	Approx. EUR 12.8 million (approx. USD 14.5 million), of which EUR 1.99 million (approx. USD 2.25 million) in cash, and the remaining balance by way of allocating Company shares constituting approx. 1.74% of the issued and paid-up share capital (approx. 1.73% on a fully diluted basis).	Belgium	60%	For more information about the call options and the put option in relation to the remaining FIT shares (40% of the issued and paid-up share capital), see Section 1.4.3 below. The parties signed a shareholders agreement, including agreements regarding a preemptive right, first right of refusal and a tag along right, as well as generally accepted minority protection rights. For more information regarding the actual payment, see Note 5A to the financial statements.
October 2021	Pilpel and Galilee Herbs	A transaction for the purchase of business activity and assets from Pilpel and Galilee Herbs.	Flavors segment Production of savory seasonings, gluten-free flours and flavor extracts.	The consideration of NIS 12 million (approx. USD 3.75 million) is subject to adjustments (addition or reduction, as applicable) of NIS 1 million in each of the years 2021 and 2022 based on the	Israel	100%	

				EBITDA arising from the purchased activity, and to a further adjustment at the value of the inventory; this adjustment shall be reviewed a year after the completion date.			
January 2022	LORI	Purchase of all LORI shares	The fragrances segment Production of perfume extracts and the marketing thereof in Eastern Europe.	Approx. EUR 3.14 million (USD 5.3 million) plus net cash balances.	Latvia	100%	

1.3.4. The Group's Holdings Chart

Set forth below is the Group's holdings chart as of the report's date:²

1.4. Structural changes, mergers and material acquisitions



(1) Under the process of merger with and into the Company.

(2) The Group has an option to purchase the remaining holdings in WFF; the option may be exercised at any time through July 2024. For more information, see Section 1.4.1.5 below.

(3) The Group has an option to purchase the remaining holdings in FIT; the option may be exercised as from October 2024 over a 12-month period. For more information, see Section 1.4.3 below.

(4) As of the report date, the shares were transferred from Frutarom Fragrances (UK) Limited (under liquidation) to Turpaz Extracts.

1.4.1.1. Agreement for the purchase of Pollena Aroma shares

On December 19, 2017, the Company purchased - through Frutarom Fragrances (UK) Limited (under liquidation) - 100% of the share capital and voting rights in Pollena Aroma in consideration for approx. EUR 6.96 million plus other considerations totaling EUR 167 thousand paid in 2018-2019, which were calculated based, among other things, on Pollena Aroma's performances.

1.4.1.2. The acquisition of Chemada's activity

On June 1 2019, the Company's shareholders, Ms. Karen Cohen Khazon, Dr. Israel Leshem and Mr. Eyal Azulay completed - through Chemada - the acquisition of Chemada Fine Chemicals Company (1996) Ltd. from the trustees who were appointed

²Furthermore, the Company has an interest in a UK company which is under liquidation.

for that Company in November 2017 for the suspension of proceedings in consideration for approx. USD 4.1 million that were paid in full as of the date of the report, and an undertaking to provide USD 1 million to fund the working capital required for the activity. Furthermore, as part of the agreement for the purchase of the activity, Chemada has undertaken to remove waste accumulated in the plant's premises. In November 2020, Chemada's shares were sold to the Company against the allocation of the Company's shares to Chemada's shareholders as part of a restructuring, as described in Section 1.4.2. In the financial statements as of December 31, 2020, the Company recorded a liability of USD 6.3 million in respect of the removal of waste as described above. As of the date of this report, the Company takes steps to remove the waste in accordance with the dates defined in the agreement.

1.4.1.3. **Agreement for the purchase of Continental's activity**

On August 30, 2019, Turpaz USA signed an agreement for the acquisition of all assets of Flavor Associates operating under the name "Continental", which is engaged in the development, production, marketing and sale of fragrance and flavor extracts for the US and Chinese markets.

On the transaction completion date, Turpaz USA paid for the activity referred to above a total of USD 1.1 million; furthermore, Turpaz USA has undertaken to pay further consideration at the total amount of USD 400,000, of which USD 300,000 were paid through the report date, and the remaining USD 100,000 shall be paid in 2022.

1.4.1.4. **Agreement for the purchase of Florasynth Israeli Enterprise Ltd. (hereinafter - "Florasynth")**

On January 15, 2020, the Company entered into an agreement for the purchase of the activity of Florasynth, which is engaged in the development, production, marketing, distribution and sale of flavor extracts to various sectors of the food industry.

In consideration for the activity as described above, the Company paid NIS 2 million; the Company has also undertaken to pay further consideration in respect of its use of inventory; such consideration will not exceed NIS 500,000.

Furthermore, in respect of each of the years 2020 through 2024, the seller shall be entitled to further consideration at an amount equal to 20% of the increase in the net income stemming from the Company's flavor extracts activity (as purchased from Florasynth) in the relevant calendar year in respect of the previous calendar year. The Company did not pay any additional consideration in respect of 2020 and 2021. The Company recorded in its consolidated financial statements as of December 31, 2021, a liability at an immaterial amount in respect of future years.

1.4.1.5. **Agreement for the purchase of WFF shares**

On July 22, 2020, Turpaz Extracts purchased 60% of the share capital and voting rights of WFF; furthermore, a loan extended by the seller to WFF was assigned to Turpaz Extracts; the balance of the loan as of that date was approx. USD 663 thousand plus interest, in consideration for a total amount of USD 639 thousand.

Furthermore, Turpaz Extracts was awarded an option to purchase the remaining holdings in WFF; the option may be exercised in whole or in part at any time through July 22, 2024, in consideration for an amount to be calculated on exercise date, based on WFF's average monthly EBITDA. The agreement also regulates the limitation of transferability until the date on which the option's exercise period ends, and the right of first offer in connection of any sale or transfer of rights in WFF's capital by any of the holders of rights. Furthermore, a bring along mechanism was put in place, which will put into use if Turpaz Extracts will wish to sell its WFF shares. The agreement does not put in place arrangements conferring upon the minority interest in WFF any special rights in relation to the management of the Company and the decision-making therein.

1.4.1.6. **Investment agreement - SDA**

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

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

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

Under the terms of this agreement, SDA undertook to repay to the Kibbutz - out of own sources - a shareholders' loan totaling NIS 4 million in annual payments payable as from the end of 2020 and on December 31 of each of the years thereafter, plus interest of Prime + 1% per year; the annual repayment amount shall be equal to the higher of: (1) 20% of the amount by which SDA's net income in the relevant year exceeds its 2019

net income (which stood at NIS 1.604 million); and (2) NIS 750,000; the Kibbutz' shareholders' loan constitutes a senior owners' debt, whose repayment will take priority over any other payment to holders of rights in SDA, excluding current payments in respect of services that are actually provided to SDA by owners of rights therein. As of the report date, the parties agreed to postpone the payment in respect of 2021 to 2022.

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

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

As part of the transaction, Turpaz Extracts has undertaken to repay the shareholders' loans the Kibbutz extended to SDA, whose balance as of December 31, 2021, is approx. USD 1.04 million (approx. NIS 3.25 million).

SDA is engaged in the production of spices and unique seasonings and natural ingredients of high added value for the food, cosmetics, and animal and pet food industry. SDA offers organic and natural non-GMO herbs, which are free of chemicals and pesticides. The company also operates in the field of production of savory flavor extracts. The use of seasonings has been on the rise in the past two decades in view of the increasing global demand to ready-to-eat food.

The completion of the purchase of SDA's shares allowed the Company to accelerate its streamlining plan and improve the leveraging of the synergies between Group companies, while focusing on improving SDA's profits. For information about the fire in SDA's spices plant in Beit Kama, see Section 1.15.3 below.

1.4.2. **Restructuring of the Turpaz Group**

In November 2020, the Group executed a tax-exempted restructuring in accordance with Part 2 of the Income Tax Ordinance; as part of the restructuring, Turpaz Extracts and Chemada became wholly-owned subsidiaries of the Company. As part of the restructuring, shareholders of the said subsidiaries were allocated Company shares in exchange for their holdings in Turpaz Extracts and Chemada. The Company has

undertaken that its holdings in Turpaz Extracts and Chemada shall not fall below 51% of the issued and paid-up share capital of each of those companies, in accordance with the provisions of Section 103 to the Income Tax Ordinance. Immediately prior to the restructuring, Chemada distributed a NIS 17 million dividend to its shareholders as they were prior to the restructuring.

For more information about the Group's structure after the restructuring as described above, see Section 1.3.4 above.

1.4.3.

Agreement for the purchase of FIT shares

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

In 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 accordance with changes in FIT's cash balance, debt, net asset value and working capital through completion date. In February 2022, the Company paid EUR 0.9 million (approx. USD 1 million) in respect of the said adjustments.

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

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

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

1.4.4. **Agreement for the purchase of activity and assets of Pilpel and Galilee Herbs**

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

The acquired activity focuses on the production of savory seasonings for the meat, sausage, and fish industry, gluten-free flours and meat substitutes. The company also has extensive research and development activities.

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

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

The Company takes steps to improve the activity's 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 standards, and control over and improvement of the Company's procurement processes

The Company's assessments regarding the improvement of the profit and profitability of the activity are forward-looking information as defined in the Securities Law, 5728-1969, the realization of which depends, inter alia, on factors beyond the Company's control and which may materialize differently from this report.

1.4.5. **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 - from its shareholders (hereinafter - the “Sellers”) in consideration for approx. EUR 3.14 million (approx. USD 5.3 million), plus net cash balances. As part of the transaction, employment agreements were signed with the Sellers, who continue to manage and lead LORI as part of the Company’s management team.

Incorporated in 1992, LORI is engaged in the manufacturing of fragrance extracts and their marketing in Eastern Europe and employs 50 employees; Lori has R&D capabilities that allow it to offer solutions that are customized to meet its customers’ needs.

The acquisition allows the Company to expand its products range and geographical deployment in the field of fragrances by developing and marketing products and extracts in Central and Eastern Europe, through, among other things, leveraging the synergies and the range of cross-selling options between Group companies in Israel and across the world.

For more information, see Note 28A to the financial statements.

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

1.5.1. For information about investments in the Company’s capital during the period from January 1, 2020, through the prospectus publication date, see Section 3.2 to Chapter 3 of the prospectus, which is incorporated herein by way of reference.

1.5.2. On December 31, 2020, Ms. Rivka Granot, Mr. Alon Shmuel Granot and another shareholder, who is not an interested party, exercised an option to convert a NIS 13.5 million loan that was extended about two years prior to that date to Ms. Karen Khazon and Dr. Israel Leshem, into 14.34% of the Company’s shares, which were transferred to them by the said shareholders.

The conversion of the loan reflected a Company value of approx. NIS 94 million that was set when the loan was extended in December 2018. The said value does not reflect other activities and companies purchased by the Company during the period through the loan’s conversion date.

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

- 1.5.4. As part of the FIT transaction as described in Section 1.4.3 above, on October 6 2021, the Company allocated 1,742,276 ordinary shares, which constitute - on allocation date - 1.74% of the Company's issued and paid-up share capital and voting rights (up to 1.73% on a fully diluted basis); the said shares were allocated to an offeree, who is not an interested party of the Company. For more information, see supplementary immediate report of October 6, 2021, regarding a private offering which is not a material private offering or an extraordinary offering (Ref. No.: 2021-01-084187), which is incorporated herein by way of reference.

1.6. **Dividend distributions**

- 1.6.1. As from January 1, 2020, and until close to the publication date of this report, the Company did not distribute dividends to its shareholders.
- 1.6.2. As of December 31, 2021, the Company had a retained earnings balance of USD 22,430 thousand in its financial statements. On March 13, 2022, the Company decided to distribute a dividend as described in Section 2.2 to the Board of Directors' Report.
- 1.6.3. As of the report's date, no restrictions are imposed on the distribution of dividends by the Company, other than those imposed by law; furthermore, no restrictions are placed due to financial covenants set in credit agreements with banks. For information about financing agreements, to which the Company is a party, see Section 1.21 below, and Notes 16 and 20C to the financial statements.
- 1.6.4. On May 13 2021, the Company's Board of Directors adopted a dividend distribution policy whereby the Company will distribute to its shareholders an annual dividend of no less than 30% of the annual net income in the preceding year, as reflected in the Company's audited consolidated annual financial statements, subject to fulfillment of the distribution criteria as per the Companies Law and subject to the provisions of any law. In accordance with the policy that was adopted, the Company's Board of Directors has the power to decide the distribution dates and amounts, taking into consideration the Company's liabilities, liquidity and business plans, including a potential change to the distribution amounts and a postponement of the distribution.

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

Part B - Other Information

1.7. **Financial information regarding the Company's operating segments**

Set forth below are financial data for 2020 and 2021, by operating segments, based on the Company's consolidated financial statements (in USD thousands):

For the year ended December 31 2021						
		Fragrances segment	Flavors segment	Specialty intermediates for the pharma industry segment	Specialty ingredients segment	Total
Revenues	From external entities	19,436	33,292	20,873	11,733	85,334
	From other segments	-	-	-	-	-
Costs	To external entities	12,632	30,759	14,258	8,416	66,065
	Costs constituting revenues in other segments	-	-	-	-	-
Profit (loss) from operations		6,804	2,533	6,615	3,317	19,269
Total liabilities		6,427	45,546	17,655	9,925	79,553
Total assets		28,644	83,386	38,818	21,821	172,669

Year ended December 31 2020						
		Fragrances segment	Flavors segment	Specialty intermediates for the pharma industry segment	Specialty ingredients segment	Total
Revenues	From external entities	15,144	9,717	14,213	13,656	52,730
	From other segments	-	-	-	-	-
Costs	To external entities	10,090	8,790	10,763	10,571	40,214
	Costs constituting revenues in other segments	-	-	-	-	-
Profit (loss) from operations		5,054	927	3,450	3,085	12,516
Total liabilities		16,546	10,617	15,529	14,920	57,612
Total assets		20,216	12,972	18,973	18,229	70,390

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 flavors and fragrances industry**

The flavors and fragrances markets and the specialty intermediates market are generally viewed as a single market. As of 2021, the global flavors and fragrances market was estimated at approx. USD 29 billion, and as of 2026 it is estimated at approx. USD 37.3 billion with a CAGR of 5.1% between 2021 and 2026³. The manufacturers operating in those markets are divided into two main groups: 1. large and medium global companies; 2. local and small companies.

Each of the large global companies has a sales turnover higher than USD 3 billion. As of the date of this report, four companies comprise the group of large global companies: Givaudan, IFF, Firmenich and Symrise, which market their products principally to large food and beverage multinationals, manufacturers of cosmetics and personal care products, cleaning products and detergents, and air care & odor neutralizers.

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

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

³ <https://www.marketsandmarkets.com/Market-Reports/flavors-fragrance-market-175163912.html> ; [Flavors and Fragrances Market to Reach \\$37.3B by 2026 | Perfumer & Flavorist \(perfumerflavorist.com\)](#)

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. **Specialty chemicals market**

As of 2018, the global specialty chemicals market was estimated at approx. USD 211 million, and is expected grow at an average annual rate of 5.2% to USD 316.5 million in 2026⁴. The specialty chemicals market includes intermediates and specialty ingredients for the pharma, agrochemical, flavor and fragrance industries, and more. Most players in this market are medium and large companies that manufacture basic materials for the chemical industry. Those companies mostly offer the basic materials and their derivatives throughout all value chains. The specialty chemicals market in Israel is a small market with a small number of customers; therefore, most of the Company's sales are executed outside Israel. The Company focuses on the development of specialty chemicals with high added value, which are sold at small quantities and generate high profit levels.

1.8.3. **The spread of Covid-19**

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

⁴https://marketpublishers.com/report/chemicals_petrochemicals/world-specialty-chemicals-market-opportunities-n-forecast-2014-2020.html

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

As part of the Group's dealing with the Covid-19 crisis, on May 26, 2020, Turpaz Extracts and SDA were granted government-guaranteed loans in the framework of the fund set up by the government to support businesses during the coronavirus crisis.

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

The existence of conflicting influences helped the continued growth in the Group's activity as reflected in its financial results. In view of the uncertainty in connection with the impact of the unfolding Covid-19 pandemic on Israeli and global economies, on the volume of private and business consumption, the demand for chemicals, fuel prices, the volume of traffic, travel, aviation etc., as of the report's date, the Company is unable to estimate the full impact of the coronavirus pandemic on its activity and financial results in the long term.

The business and economic activities in countries where the Company operates might be adversely affected should the Covid-19 pandemic be on the increase and infection rates increase. Those events may impact the Company's ability to continuously operate its facilities and conduct its marketing and sale activities, including restrictions on access to markets across the world; furthermore, those events might have an adverse effect on the Company's ability to obtain financing to implement its growth strategy through M&Ss as described in Section 1.27 below.

In the opinion of the Company's management, as of the report date the Group's activity and results were not materially impacted. Nevertheless, the spread of a new variant in the world might cause a significant and ongoing slowdown in business activity across the world and might materially affect the Group's operations and financial results.

1.8.4. **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.

1.8.5. **Deterioration in global 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 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 activities in Asia and Eastern Europe might be adversely affected from the instability of their customers, as well as from trade and financial restrictions.

All assumptions and data listed in Sections 1.8.1 through 1.8.4 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. Fragrances segment

1.9.1. General information about the segment

1.9.1.1. Segment's structure and changes therein

The fragrances segment focuses on the development, production, marketing, sale and distribution of a wide range of natural and synthesized 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.

The demand for Company's products is also impacted by growth in Company customers' target markets and by various trends in those markets, including the "wellbeing" concept of the end customers of Company's products. Thus, for example, an increase in the number of launches of new products by manufacturers when seeking to increase their market share, the development of other applications of scent products,

including sprays, candles, incense sticks, and gels for home use, and an increase in consumption of aromatherapy products all impact the demand for Company products that are used in the development and manufacturing of such products.

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

- Cosmetics and personal care - consumers are much more aware of the issue of personal care, and use a number of product types compared with their use of such products prior to the pandemic. Furthermore, in view of the forced decline in visits to hair and beauty saloons, manufacturers have set up online sale platforms for end customers; this allowed them to maintain sale levels of cosmetics and hair care products that were previously sold to the commercial market; the online platforms allowed manufacturers to sell those products directly to the end customers. These trends lead to an increase in demand for Company's products incorporated into hair, cosmetics and body care products that are targeted both at the domestic and the commercial markets; furthermore, those trends increase the need by Company's customers to develop and update their products thereby increasing their demand for Company's products.
- Cleaning products and detergents - the cleaning products and detergents market is experiencing growth due to increased demand to such products and increased awareness of personal and environmental hygiene. Many products were introduced to the market in this field; those include products to clean one's hands (such as Septol and Alcogel) and products to clean surfaces (bleach-based products and cleaning and disinfectant wipes).
- Air care & odor neutralizers for the domestic market - due to the transition to remote working during the Covid-19 pandemic, consumers opt to invest more in their home environment, by, among other things, buying scent diffusers and scented candles; therefore, demand for air care & odor neutralizers has increased.

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

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

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

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

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

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

- Awareness among consumers and corporations regarding the environmental impact of certain ingredients used in the field of fragrance extracts.
- The influence of celebrities and influencers with respect to the effectiveness of certain ingredients and trends relating to the end products.
- The increasing impact of social media on consumers, internet advertising in the field of personal care, health and various trends in the fashion world, alongside a "back to nature" and wellbeing trend.
- Awareness among consumers of the need for transparency regarding the ingredients of fragrance extracts used in different products.
- The fragrance extracts market expands in two directions; firstly, increased use of fragrance extracts in many products, and secondly, increased demand to natural fragrance extracts.

1.9.1.4. Segment's critical success factors

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

- Setting up a central R&D center alongside local development laboratories in each of the Company's plants worldwide. Synergy between the development centers and local development laboratories, which enable rapid development of products customized to customers and market's needs, while maintaining profitability and creating unique product offerings.
- Close and long-term relationships with customers around the world, and partnering with customers in the development of their products, from the inception of the idea to product launch.

- Development and production of high-quality fragrance extracts, while complying with global and local regulations, in accordance with market demands in the relevant territory, and adapting the scents to the various products and tastes in that territory.
- Highly-skilled and experienced workforce that possesses the required knowledge and exceptional technological, marketing, sale and management capabilities.
- Leveraging of synergies in the supply chain, procurement, development and cross-selling options between companies in different geographic regions.
- Business partnerships with global market leaders
- Efficient management of supply chains allowing production at competitive costs, while ensuring the availability of raw materials, means of production and transportation. The Company has a significant advantage in the area of procurement as a result of its close relationships with suppliers across the world, and its in-depth knowledge of natural and synthesized raw materials available in different territories.
- Creating and nurturing networks for the distribution, marketing and sale of Company's products to global and local customers in various geographic regions.

1.9.1.5. **Entry and exit barriers**

Entry barriers -

- 1.9.1.5.1 **Long-term relationships** - the market is characterized by long-term relationships between manufacturers and customers. In these industries, the reliability of suppliers, the quality of services and the reproducibility of the products are paramount.
- 1.9.1.5.2 **Research and development** - due to the ever-evolving preferences of end customers, and since the markets in which the Group's customers operate are dynamic and competitive, the market is characterized by a large number of new and innovative products. Accordingly, manufacturers need to invest in R&D, possess the ability to respond swiftly to evolving customer needs, and have a wide product offering.
- 1.9.1.5.3 **The importance of fragrance extracts in the end product** - fragrance extracts determine the character and uniqueness of the end product, and therefore play a crucial role in its success. Fragrance extracts play a very important role when it comes to customers and end consumers. Fragrance extracts are composed of many raw materials (between 50 to 300 different raw materials per every fragrance extract), which is why it is very difficult to accurately reproduce them, and therefore customers will normally avoid replacing their supplier of fragrance extracts.

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

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

Exit barriers -

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

1.9.1.5.6 **Alternatives for segment's products**

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

1.9.2. **Products and services**

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

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

The formulations are developed in collaboration between the customer, the Group's sales personnel and perfumers in each country and the R&D center. Once the extract is approved by a panel of testers and by the lab, and the required regulatory paperwork is prepared, the extract is delivered to be tested by customers in their products. The Group, through its employees, provides its customers with full technical support to incorporate the extracts in their products. As of December 31 2021, the Group has marketing and sales activities in more than 30 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 through the subsidiaries Turpaz Extracts, Turpaz USA, Aroma Pollena, LORI and WFF. 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 1.29.1 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 Robertet, Symrise, Firmenich, IFF, Givaudan and Mane; the local manufacturers operate in limited markets, and in the Company's opinion there are hundreds of companies with varying scopes of activity, from companies operating in a single country to companies operating in a small number of countries.

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

In the fragrance segment, the Group deals with competitors by remaining agile and maintaining its ability to rapidly develop and customize its products to the needs of its customers in the different countries in which they operate, without adversely impacting the global nature of the Company's activity. Furthermore, the Company is able to develop and supply the fragrance extracts to customers within a number of days or weeks from the start of the product development. The Group takes steps to purchase companies whose activity is synergetic to that of the segment, thereby creating a sustained competitive advantage and expanding its geographic deployment. The

Company's development centers and its marketing, manufacturing, sales and distribution functions in the different markets in which it operates provide it with customer proximity and better knowledge of the unique characteristics of local culture and tastes.

1.10. **Flavors segment**

1.10.1. **General information about the segment**

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

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

The global food flavors market size was valued at USD 12.7 billion in 2020, and is projected to reach USD 19.2 million by 2030, registering a CAGR of 3.6% between 2020 and 2030; flavor additives include mainly natural flavors and extracts; in 2020, synthesized flavors had the largest market share in the food flavors market, and it is expected that those flavors will remain dominant throughout the forecast period⁵

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

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

⁵<https://www.alliedmarketresearch.com/food-flavors-market>

The increasing demand for flavor extracts in recent years is attributed, among other things, to the increase in consumers' demand for convenience food, that requires very little or 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 for 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. 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, manufacturers 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. **Legislative restrictions, standards and special constraints to which the segment is subject**

The Group's flavors segment and the products it produces as part of this segment are subject to laws, regulations, orders and standards applicable in each of the countries in

which it operates Furthermore, the Company operates under various health and safety rules, including rules relating to the operations of its laboratories and plants. For more information, see Section 1.23 below.

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

The Company holds the kashruth permits required for its activity, if any, in each of the territories in which it operates, including kashruth permits issued by the Chief Rabbinate of Israel, Badatz, Landa and GMP; the Company also has in place 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 synthesized ingredients) - many customers believe that natural ingredients are safer, healthier and more environmentally friendly than synthesized ingredients. A rise in demand for food and beverages, which 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.
- Increased demand for convenience 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.
- 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 **Access to growing areas** - the Company needs access to land on which spices and herbs can be grown for its seasonings and herb mixes activity; those areas should be located in places with a climate that suits the growing of a range of spices and herbs, such that the Company will have access to supply thereof throughout the year. Such accessibility is gained by obtaining rights to agricultural land or engagements with growers.
- 1.10.1.5.7 **A range of strains and crops** - the seasonings and herb mixes activity require access to a wide range of crops and strains that will allow the Company to have an extensive and diverse product offering that will meet the needs of the different customers. For that

purpose, the Company is required to have access to many strains, including new developments in the field of herbs that enable growers to change the characteristics of herbs and lead to a diversification of the Company's product offering.

Exit barriers -

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

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

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

1.10.2. **Products and services**

1.10.2.1. **Flavor extracts**

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

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

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

effect on the branding of the end product, and enhance the long-term relationships and dependency between the Company and its customers.

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

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

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

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

1.10.2.2. **Spices and seasonings**

The Company operates independently and through SDA and FIT in the production of spices and unique seasonings. 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.

Seasonings are savory flavor extracts composed of different spices, which are combined at different ratios (changed per each seasoning) in accordance with the required

application. In addition to the spices, the Company adds to the seasonings other ingredients in the form of liquid or powder; the role of those ingredients is to enable the incorporation into the end food product. In the past two decades, the use of seasonings has been on the rise in view of the change in trends in the food and beverages markets worldwide. Food seasonings are added to ready-to-eat and drink products, such as instant soup mixes, microwave meals, real pastries, cured meats, smoked fish and snacks.

Furthermore, SDA has completed a project for the development of agro-technological and industrial processes for growing, processing, and marketing of a Carnosic acid-rich rosemary, which is a very powerful antioxidant. The rosemary grown by SDA serves as a natural antioxidant, which helps the preservation of food products (meat, fish, cured meats, snacks, sauces, soups, and more) and cosmetics.

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 2020 and 2021 (in USD thousands):

Product	2021		2020	
	Revenues	Rate out of consolidated revenues	Revenues	Rate out of consolidated revenues
Spices and seasonings	27,962	33%	5,567	11%

1.10.4. **New products and services**

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

As of the report's date, SDA is developing an innovative technology for natural smoking of spices, which renders a smoked aroma (compared to the synthetic means currently used to render a smoked aroma to spices).

1.10.5. **Trade receivable**

The flavor extracts manufactured by the Company are sold to an extensive customer base comprising multinational and local customers of all sizes. The customers are

manufacturers of food and beverages, and they are deployed in more than 30 countries across the world.

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

In most cases, the Group does not have fixed term contracts with its customers in the flavors 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's date, the Company is not dependent on a single customer in this segment.

1.10.6.

Orders backlog

Customers in the flavors 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.

With respect to the spices and seasonings activity, SDA enters into contracts with customers, whereby the customers undertake to purchase certain quantities of SDA's products. As of December 31, 2020, SDA's orders backlog amounted to USD 7,518 thousand. As of December 31, 2021, SDA's orders backlog extends to the end of 2022, and amounts to USD 14,627 thousand. As of the report's date, in view of the steps taken by the Company after the fire, including the transfer of manufacturing activities to its other plants and the swift purchase of raw materials, the fire did not have a material effect on SDA's orders backlog.

1.10.7. **Competition**

1.10.7.1. **Flavor extracts**

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

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

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

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

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

In the flavors segment, the Group deals with competitors by remaining agile and maintaining its ability to rapidly develop and customize its products to the needs of its customers in the different countries in which it operates, without adversely impacting the global nature of the Company's activity. Furthermore, the Company is able to develop and supply the 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.

1.10.7.2. **Seasonality**

The Company and SDA's spices and seasonings activity is partly affected by seasonality and weather conditions that impact the availability and quality of the ingredients, and the processing and sale processes. This is reflected in the fact that in the second half sales are higher than in the first half. These factors require the accumulation of inventories, and adequate geographical distribution of growing areas so as to secure a continuous supply of ingredients. Furthermore, every seven years a fallow year occurs in Israel which requires the Company to diversify the sources and suppliers of its ingredients in advance, and enter into engagements with farmers in other countries across the world.

1.11. **Specialty intermediates for the pharma industry 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 field is carried out through Chemada, a private company wholly-owned by the Company. Chemada operates in the field of specialty and brominated chemicals.⁶ Chemada is engaged in the production of specialty chemicals used as ingredients and intermediates in the pharmaceuticals industry, and markets its products across the world.

The pharma industry segment is characterized with sales to manufacturers of intermediates and active pharmaceutical ingredients (APIs). The global APIs market size was valued at approx. USD 191.1 billion in 2021, and is projected to reach USD 355.9 billion by 2030, registering a CAGR of 7.1%. The growth of the global APIs market is driven mainly by an increase in R&D activities related to the development of drugs, increasing incidence of chronic diseases, increased life expectancy, increasing importance of generic drugs, and increased consumption of biological therapies. On the other hand, restrictions placed on prices of drugs in different countries, the high manufacturing costs of drugs and the long time it takes to get from development to launch of new drugs restrain the growth of the APIs market⁷.

⁶ Brominated products are products based on bromide compounds.

⁷ <https://www.globenewswire.com/news-release/2022/01/10/2364197/0/en/Active-Pharmaceutical-Ingredients-Market-Size-to-Hit-USD-355-94-Bn-by-2030.html>

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

Chemada's activity and the products it produces as part thereof is subject to laws, regulations, orders and standards. Furthermore, Chemada operates under various health and safety rules, including rules relating to the operations of its laboratories and plants. For more information, see Section 1.23 below.

Chemada applies to its products and manufacturing processes voluntary quality standards required by its customers worldwide. Those standards dictate management and quality requirements from the planning stage (R&D, sales, supply chain, handling orders, planning production) to the implementation stage (production, laboratory, logistics and transportation to the end destination). As a supplier of intermediates that operates as part of the supply chain of the pharma industry, Chemada is ISO 9001:2015 certified (a quality standard), ISO 14001:2015 certified ISO 45000 certified (health and safety standards). Furthermore, Chemada 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 Chemada's customers in this area of activity require preliminary approvals and compliance with the highest quality standards as part of the development and manufacturing of those products; this also applies to the intermediates used in the end product. Therefore, in this field, suppliers of intermediates used in the production of drugs that have development capabilities, and are able to support companies developing drugs in the early stages of the process have a significant advantage over other suppliers. The initial quantities normally manufactured for customers are tens of kilograms; these quantities increase gradually and reach up to tens of tons as the development of the drugs advances, and until the drug is launched and establishes itself in the market. In the early stages and along the way, the manufacturer and the customer coordinate expectations as to quality and optimize costs.

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

1.11.1.5. **Entry and exit barriers**

Entry barriers -

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

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

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

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

Exit barriers -

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

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

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

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

1.11.2. **Products and services**

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

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

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

1.11.4. **New products and services**

As part of its operating activities, Chemada develops from time-to-time new products of high added value for its existing and new customers; such development is carried out

based on existing technologies, in accordance with the specific needs of the relevant customer and at the customer's request. None of the new products developed by the Company is material in terms of expected volume of sales and/or development expenses.

1.11.5. **Customers**

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

For information about the characteristics of the activity with customers in this segment, see Section 1.11.1.3 above.

In 2021, the ten largest customers in this segment accounted for 74% of the Company's sales in this segment. In 2021, the Group did not have a single customer, the rate of the Company's sales to whom exceeds 10% of total Company sales in that year; in the Group's opinion it is not dependent on any of its customers.

For information about the revenues from external parties by sales to end customers based on their geographic location, see Section 1.29.1 below.

1.11.6. **Orders backlog**

In this area of activity, the manufacturing process of the chemicals may take several weeks. Therefore, the Company's orders backlog comprises orders received from its customers several months in advance, as well as orders based on annual supply contracts that the Company signed in advance. As of December 31, 2020, the orders backlog amounted to USD 8.4 million. As of December 31, 2021, the orders backlog amounted to USD 7.5 million.

1.11.7. **Competition**

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

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

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

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

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

1.12. The specialty ingredients segment

1.12.1. General information about the segment

1.12.1.1. Segment's structure and changes therein

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

In this segment, the Group operates through its subsidiary Chemada, that supplies chemicals to a range of customers worldwide from the agrochemicals and specialty and fine chemicals industries.

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

The company manufactures chemicals that are used by companies producing products designed to protect plants; those products are used in agriculture in order to improve

yields and protect crops from insects, weeds, fungi, etc.; the company also started developing infrastructure for production of aroma chemicals. Considering the projected growth in global population, increasing crop yields is critical.

The overall market size of the target markets in which Company customers operate in the field of agrochemicals is projected to reach USD 315.3 billion by the end of 2030, registering a CAGR of 2.9%⁸.

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

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

For more information, see Section 1.23.4 above.

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

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

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

The critical success factors in the specialty ingredients segment are similar to those of the specialty intermediates for the pharma industry segment. For more information, see Section 1.11.1.4 above.

1.12.1.5. **Entry and exit barriers**

Entry barriers -

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

⁸ <https://www.alliedmarketresearch.com/press-release/agrochemical-market.html>

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

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

Exit barriers -

The exit barriers in the specialty ingredients segment are similar to those of the specialty intermediates for the pharma industry segment. For more information, see Section 1.11.1.5 above.

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

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

1.12.2. **Products and services**

As of December 31, 2021, the Company markets and sells more than 100 products in this segment, to more than 100 customers located in more than 30 countries.

The Company manufactures chemicals to companies manufacturing agrochemicals, and 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.

As of the date of this report, the Company works to build an infrastructure that will allow the commencement of development and manufacturing of aroma chemicals in Israel and across the world for scent and flavor extracts.

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

Set forth below is a breakdown of the segment's products, the rate of Company's revenues derived therefrom was 10% or more of total Company revenues in 2020 and 2021 (in USD thousands):

Product	2021		2020	
	Revenues	Rate out of consolidated revenues	Revenues	Rate out of consolidated revenues
Agrochemicals	5,047	6%	7,123	14%
Specialty chemicals	6,686	8%	6,532	12%

It should be noted that there are no material differences in the profitability of the above product groups.

1.12.4. **New products and services**

Chemada is currently in the process of expanding its activities in the field of specialty chemicals that constitute ingredients and intermediates for the flavors and fragrance industries. These chemicals are designed for internal use by other Group companies, and for sale to companies operating in the global fragrance and flavor extracts industry.

Furthermore, Chemada develops several products of high added value for its existing and new customers; such development is carried out based on existing technologies.

1.12.5. **Customers**

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

In 2021, the ten largest customers in this segment accounted for approx. 93% of the segment's sales. As of the report's date, the Group does not have a single customer, the rate of the Company's sales to whom exceeds 10% of total Company revenues; in the Group's opinion it is not dependent on any of its customers.

For information about the revenues from external parties by sales to end customers based on their geographic location, see Section 1.29.1 below.

1.12.6. **Orders backlog**

In this area of activity, the manufacturing process of the chemicals may take several weeks. Therefore, the Company's orders backlog comprises orders received from its customers several months in advance, as well as orders based on annual supply contracts that the Company signed in advance.

As of December 31, 2020, the orders backlog amounted to USD 6.2 million. As of December 31, 2021, the orders backlog amounted to USD 5.7 million.

1.12.7.

Competition

The Group's segments and the markets in which it operates are characterized with a range of manufacturers and suppliers, that produce the products using similar and known technologies. In recent years, new manufacturers started entering into the commodities 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 manufactured by the Company creates an ongoing process whereby products that were previously considered high-tech products and were priced accordingly are subject to competition which leads to erosion in prices.

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

The specialty chemicals market is characterized with intensive competition, mainly in the commodities segment. 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. Company's competitors in this segment include the following companies: AGROCEL (India), TOSOH (Japan), NEOGEN (India), PPC (France), PALCHEM (France). 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 Chemada's market share in the global market.

Other competitive advantages of the Company include the Company's being located 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

1.13. Marketing and Distribution

The sales, distribution and marketing activity involving the Group's products is based on local marketing, sales and development teams in the primary target markets. As of the report's date, the Group's sales and marketing function comprises 48 employees located in its primary target markets, in proximity to its customers.

The Group's sales, distribution and marketing activity involve approx. 1,500 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; the Group's sales and marketing function also works to promote the range of cross-selling options between Group companies in Israel and across the world.

Approx. 99% of the Group's sales in the specialty intermediates for the pharma industry segment and in the specialty ingredients segment are made to customers outside Israel. In the past, the marketing and distribution were carried out by the Bromine Companies; in April 2020, the Group started setting up an independent marketing and distribution function. The marketing function is managed on a territory-by-territory basis; regional sales managers work directly with local customers, and through local agents and distributors in the target countries. Orders placed with agents and distributors are approved by the Company's local sales manager, and the engagement is a direct engagement between the Company and the customer; distributors with which the Group works receive a fixed-rate commission, in accordance with the marketing agreement that was signed with them. Generally, the distributors with which Chemada works are granted exclusive rights to act as the distributor of Chemada's products in certain territories, such that Chemada will not compete with the distributor, and the distributor undertakes not to market competitors' products in the relevant territory.

1.14. Ingredients and suppliers

1.14.1. The fragrance and flavor segments

1.14.1.1. The Company purchases thousands of ingredients that include, among other things, fine and unique chemicals, both synthetic and natural, natural and essential oils, stabilizers and antioxidants, solvents, natural colors and extracts from which the Company

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

- 1.14.1.2. The Group purchases natural and synthetic ingredients from hundreds of local and international suppliers, with whom the Group entered into long-term engagements. Some of the ingredients are purchased by the Group's central procurement function in Israel, and each Group company in Israel and across the world has a local procurement department that is managed and monitored by the procurement department in Israel. The ingredients are purchased for the different manufacturing sites across the world in accordance with the requirements of local regulations, the level of convenience of the work with local suppliers, and consumers' preferences in the different geographic regions. Purchasing the ingredients through the Group's central procurement function allows the Group to maintain the quality of the ingredients and their cost levels, while leveraging the synergies between Group companies.
- 1.14.1.3. Managers of global and local supply chains and the Group's procurement departments regularly monitor trends in ingredients' prices, and where needed the Group works to revise the sale prices of its products, such that they reflect the changes in ingredients' prices.
- 1.14.1.4. The ingredients undergo a series of quality, analytical and organoleptic tests (color, taste and smell tests). The ingredients are stored in the sites' warehouses, and are then transferred to manufacturing.
- 1.14.1.5. In view of the large number of ingredient suppliers used by the Company as of the report's date, the Company is not dependent on any of its suppliers in the fragrance and flavors segments.
- 1.14.1.6. In addition to its agreements for the purchase of goods from different suppliers, SDA also engages in agreements with owners of farmland in Israel; under those agreements, the farmers sow, grow and harvest for the Company the spices used as ingredients in its activity. In addition to the cost of ingredients, SDA also bears the costs of harvesting and transporting the spices to its plants. Following the fire and the damage to inventory in its warehouses, SDA also increased the quantities of raw materials imported for its operating activities.
- 1.14.1.7. The Company's purchases from key suppliers in the fragrance and flavor segments:

Key suppliers	Rate of Company's purchases from its key suppliers (*)	
	2021	2020
Supplier A	2.9%	6.1%
Supplier B	1.4%	5.2%

(*) Rate out of total Company purchases.

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

1.14.2.1. Chemada uses approx. 50 ingredients, including, among other things, solvents, acids and alcohols, purchased from tens of suppliers worldwide.

1.14.2.2. Most of the products of the specialty intermediates for the pharma industry segment and the specialty ingredients segment (approx. 90%) are brominated products. As of the report's date, the Group is dependent on Bromine Compounds Ltd. and Dead Sea Bromine Company Ltd. (hereinafter - the "**Bromine Companies**"), from which Chemada purchases the bromine it uses; the bromine is purchased at a competitive price compared to the cost of importing this raw material. For more information about the agreement with the Bromine Companies, see Section 1.24.1 below. The agreement expires in June 2022, and as of the report's date the Company is working to extend its term; if the term of the agreement will not be extended, the Company can buy bromine from other suppliers. However, in view of the agreement's terms, its termination might have an adverse effect on the Company's profits.

1.14.2.3. The Company's purchases from key suppliers in the specialty intermediates for the pharma industry segment and the specialty ingredients segment:

Key suppliers	Rate of Company's purchases from its key suppliers (*)	
	2021	2020
Supplier A	15.1%	5.3%
Supplier B	12.8%	17.3%

(*) Rate out of total Company purchases.

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

1.15.1. As of the report's date, the Group operates 12 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	Turpaz' site in Holon - fragrance extracts ¹⁰	Fragrances segment	800 sq. m	Rented	Rented	2011
<u>Manufacturing capacity and shifts</u> - the plant works 5 days a week, including overtime. The plant can increase its manufacturing capacity by further 70% if it starts manufacturing 6 days a week in three shifts.						
Israel	Turpaz' site in Holon - flavor extracts	The flavors segment	400 sq. m	Rented	Rented	2020
<u>Manufacturing capacity and shifts</u> - the plant works 5 days a week, including overtime. The plant can increase its manufacturing capacity by further 200% if it starts manufacturing 6 days a week in three shifts.						
Israel	SDA's site in Kibbutz Sde Eliyahu	The flavors segment	Area of land - 12,500 sq. m Area of building - 7,100 sq. m	Rented	Rented	2020
<u>Manufacturing capacity and shifts</u> - during harvest time (January-April), 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 over the entire year.						
Israel	SDA's site in Beit Kama	The flavors 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.

¹⁰ In December 2021, the Company entered into additional lease agreement in respect of a new plant in Holon that will be used in the flavors segment. The initial lease period is 48 months starting on April 3 2022.

			Area of building - 10,900 sq. m			
<p>In November 2021, a fire broke out in this plant; the fire caused heavy damage to the plant. In accordance with an agreement signed with the landlord, it was decided to bring forward the expiry date of the rent agreement to November 24 2022. As of the publication date of this report, processing and packaging works are carried out in a building that was not burnt in the fire that occurred in the plant and in its other sites in Israel. For more information about the fire, see below in this section.</p>						
Israel	Chemada's site in Kibbutz Nir Yitzhak	The specialty intermediates for the pharma industry segment and the specialty ingredients segment	Area of land - 135,000 sq. m Area of building - 38,800 sq. m	Rented	Rented	2019
<p><u>Manufacturing capacity and shifts</u> - 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.</p>						
Israel	Turpaz' site in Afula	The flavors segment	Area of land - 9,240 sq. m Area of building - 3,200 sq. m	Rented	Rented	2021
<p><u>Manufacturing capacity and shifts</u> - the plant works 6 days a week, mostly in one shift. The plant can increase its manufacturing capacity by further 100% if it starts manufacturing in 2 shifts and employs are its workforce in all departments on a full-time basis.</p>						
Poland	Pollena Aroma's site near Warsaw	The flavors and fragrances segments	Area of land - 21,500 sq. m Area of building - 10,000 sq. m	Leased	Leased	2019
<p><u>Manufacturing capacity and shifts</u> - 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.</p>						

USA	Turpaz USA's site in New Jersey	The flavors and fragrances segment	Area of land - 2,800 sq. m Area of building - 2,500 sq. m	Rented	Rented	2019
<u>Manufacturing capacity and shifts</u> - the plant works 5 days a week, including overtime. The plant can increase its manufacturing capacity by further 100% if it starts manufacturing 5 days a week in two shifts.						
Vietnam	WFF's site in Ho Chi Minh City	The flavors and fragrances segment	Area of land - 4,000 sq. m Area of building - 3,000 sq. m	Owned	Leased	2020
<u>Manufacturing capacity and shifts</u> - the plant works 5 days a week, in one shift. The plant can increase its manufacturing capacity by further 200% if it starts manufacturing 5 days a week in three shifts.						
<u>Belgium</u>	FIT's site in Belgium	The flavors segment	3000 Area of land - 3,000 sq. m Area of building - 2,700 sq. m	Owned	Leased	2021
<u>Manufacturing capacity and shifts</u> - the plant works 5 days a week, in one shift. As of the date of this report, the plant does not have any further manufacturing capacity.						
<u>Latvia</u>	LORI's site in Latvia	Fragrances segment	Area of land - 6,264 sq. m Area of building - 1,424 sq. m	Rented	Rented	2022
<u>Manufacturing capacity and shifts</u> - the plant works 5 days a week, in one shift. The plant has additional potential manufacturing capacity of approx. 25% if it starts manufacturing for one or two further days a week in one shift.						

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

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

1.15.3. On November 24, 2021, a fire broke out in SDA's spices plant in Beit Kama. The plant was severely damaged, but there were no casualties. The equipment, inventory and buildings were covered by loss of profit insurance. Company'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 undergone a fire, 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 objective of the transaction was to promote, accelerate and increase the efficiency of the negotiations with the insurer in connection with the payment of the insurance benefits pertaining to the fire. The consideration will be paid at the earlier of 12 months after the engagement date or on the date of receipt of insurance benefits. The consideration amount is final, and it is not conditional on the receipt of insurance benefits for the purchased insurance rights. It should be noted that as of the date of this report, a NIS 35 million advance was received from the insurance company; as mentioned above, the advance was paid directly to the lessor of the property.

As of December 31, 2021, The Company recognized an indemnification asset at the amount of the direct expenses accrued as a result of the fire and due to derecognition of inventory and equipment that were totally damaged in the fire, and the derecognition of right-of-use asset and the liability recognized in respect thereof.

The Company believes that the fire is not expected to have a material effect on the Group's operating results. Furthermore, at this stage, the Group is unable to estimate the timing of receipt of the remaining insurance benefits from the insurer; however, the Group believes that it is not expected to face cash flow issues in respect of the fire or the agreement.

It should be clarified that the Company's assessments as to the effects and consequences of the fire on its operating results 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 in respect of which there is no certainty that they will materialize in the manner estimated by the Company.

For more information about property, plant and equipment, see Note 10 to the 2021 financial statements.

1.16. Research and development

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

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

1.16.3. Over the years, SDA and Chemada received participation grants from the Israel Innovation Authority (formerly: the "Chief Scientist Office") in respect of research of development conducted in connection with various projects. In consideration for such grants, Chemada undertook to pay royalties of 3% to 100% of the amount of the grant received plus Libor interest. As of December 31 2021, the Company recorded in its financial statements liabilities to the Israel Innovation Authority in respect of those

grants at the total amount of approx. USD 330 thousand. For more information, see Note 17 to the financial statements.

As of the report's date, SDA is developing an innovative technology for natural smoking of spices, which renders a smoked aroma (compared to the synthetic means currently used to render a smoked aroma to spices).

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

The product in respect of which the grant was received	Commencement of execution	End	Grants paid (NIS thousands)				Special conditions/time tables for repayment of the grant
			2019	2020	2021	Total	
SDA							
Development of a process for the processing of dried rosemary	1.2.2019	31.2.2020	589	165	(64)	690	-
Improving fertility in paprika plants earmarked for export	1.5.2019	30.4.2020	254	8	-	572.8	-
Development of a process for the processing of dried Carnosic acid-rich rosemary second year	1.5.2020	30.4.2021	-	275.7	433.3	709	An additional amount of NIS 79 thousand was received in 2022.
Chemada							
Bromoaniline *	2006	2007	-	-	-	-	As of December 31 2021, the Company recorded a liability of USD 330 thousand

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

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

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

1.17. 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.

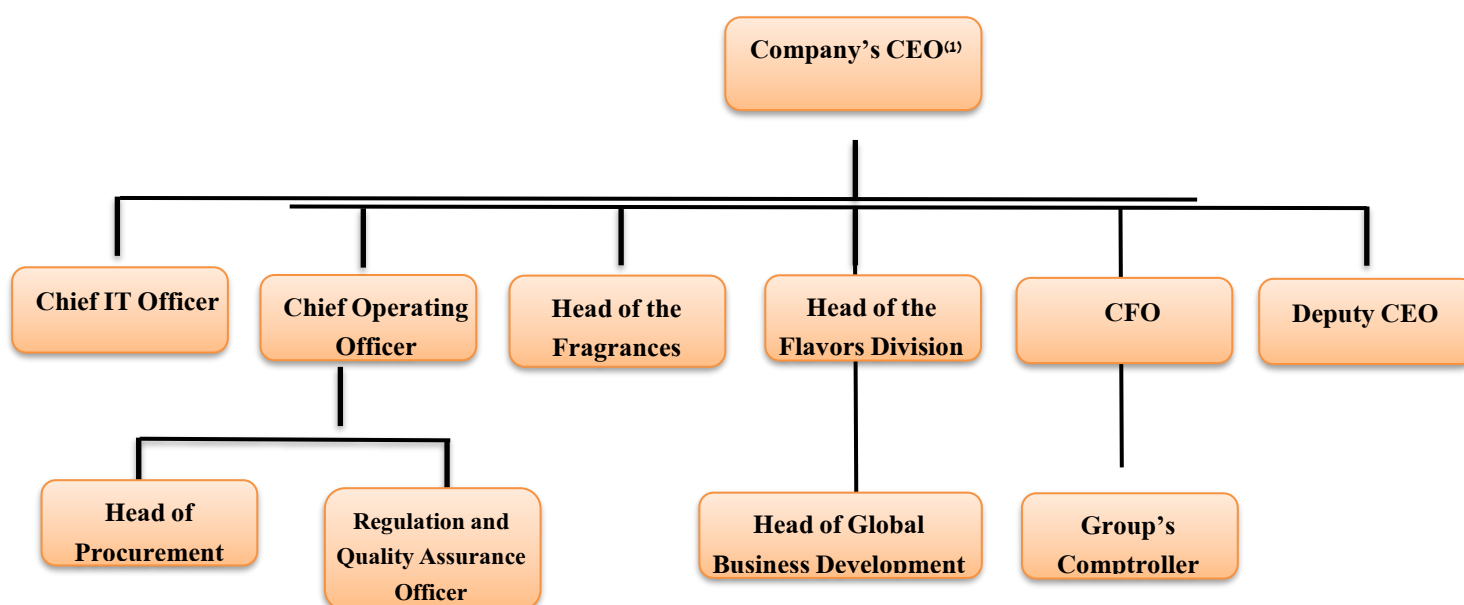
The Group's intellectual property mainly includes the knowhow pertaining to the formulae used to create the flavor and fragrance extracts, and the development and manufacturing processes of ingredients. Those formulae are strictly confidential; they are considered to be a trade secret that is only known 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 three registered patents in Poland, which protect the formulae of scents; the patents are in effect until June 2022.

1.18. Human capital

1.18.1. The Company's organizational structure chart

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



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

1.18.2. Workforce

As of the publication date of this report, the Company employed (consolidated) 372 employees, as described below (on a full-time basis):

	As of the report's publication date	31.12.2021	31.12.2020
The Company			
Headquarters and management	15	15	2
Operations	29	29	5
R&D	7	7	
Sales and marketing	6	6	1
Total	57	57	8
Subsidiaries in Israel			
Headquarters and management	20	20	28
Operations	109	109	110
R&D	9	9	5
Sales	8	8	12
Total	146	146	155

Subsidiaries abroad			
Headquarters and management	33	27	24
Operations	65	47	27
R&D	37	21	21
Sales	34	22	21
Total	169	117	93

	As of the report's publication date	31.12.2021	31.12.2020
The Group			
Headquarters and management	68	62	54
Operations	203	185	142
R&D	53	37	26
Sales and marketing	48	36	34
Total	372	320	256

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. Karen Cohen Khazon, as described below in this Section.

The Company's controlling shareholder, Ms. Karen 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. Karen Cohen Khazon possesses a thorough and long-standing understanding and knowledge of the market and its trends, including all aspects of the Company's commercial activities.

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

1.18.3.1. **Employment agreements**

All Company employees are employed by the Company on the basis of standard personal employment agreements. With regard to the employees in Israel, those agreements include provisions about the employee's salary (monthly, global or hourly, including overtime and shifts), working hours, social benefits, such as managers insurance and/or pension fund, advanced education fund, annual leave, recreation pay, sick leave, travel expenses, entitlement to a company car or reimbursement of vehicle expenses (to some of the employees), mobile phone (to some of the employees), advance notice in respect of resignation or dismissal in accordance with the law (excluding 3 officers who were assigned advance notice of 4-6 months), and a confidentiality and non-competition undertakings.

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

1.18.3.2. Collective labor agreement - Chemada

Chemada's employees are employed in accordance with a special collective labor agreement of May 31, 2016, as amended and extended on September 17 2018. The key points of the collective agreement are as follows:

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

1.18.3.2.2 The agreement covers work in shifts, annual leave, compensation in respect of unscheduled work and overtime, and contributions to an advanced education fund (2.5% by the employee and 4%-5% by Chemada), depending on the employee's position.

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

1.18.3.3. Collective labor agreement - WFF

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

1.18.3.4. Training and courses

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

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

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

1.18.3.5. **Employee compensation plan**

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

For information about the Company's equity-based compensation plan, see Note 28 to the financial statements.

1.18.3.6. **Management and senior officers**

As of the Report's date, the Company has 8 senior officers of whom five serve as directors (who do not serve in other positions in the Company) and a CEO who serves as the Chairperson of the Board of Directors. For information about the Company's senior officers, see Regulation 26A to Chapter D (Additional Details).

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

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

1.19. **Working capital**

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

31.12.2021	31.12.2020
69,050	6,137

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

1.19.2. **Customers credit**

December 31, 2020	December 31, 2021	
15,489	20,861	Credit amount ^(*)

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

As of December 31, 2021, Company customers' credit days (including trade receivables in arrears) stood at 68 days (as of December 31, 2020 - 86 days).

1.19.3. **Suppliers credit**

The Company receives credit from suppliers; as of December 31, 2021 and 2020, the average number of credit days is 104 credit days and 97 credit days, respectively.

1.20. **Investments.**

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

1.21. **Financing**

1.21.1. **General**

As of the Report's date, the Company finances its activity using its shareholders' equity, credit facilities (secured and unsecured) and on-call loans provided by a number of Israeli banks. The activity of subsidiaries operating in Poland, the USA, Vietnam, Belgium and Latvia is financed by taking loans from financial institutions in the countries in which they operate. For more information about the financing of the Company's activities, see Notes 13, 16 and 20C to the financial statements as of December 31, 2021.

- 1.21.2. Set forth below is the average (weighted) interest rate on bank loans in accordance with the Company's consolidated financial statements as of December 31, 2021.

		Average interest rate		Effective interest rate	
		Short-term loans	Long-term loans	Short-term loans	Long-term loans
From banks	NIS denominated credit	2.1%	2.6%	2.2%	2.7%
From banks	Credit in Euros	1.6%	0.9%	1.6%	0.9%
From banks	USD denominated credit	-	-	-	-

1.21.3. **Material financing agreements¹¹**1.21.3.1. **The Company's financing agreements**

Original loan amount (NIS thousand)	Loan balance as of 31.12.2021 (NIS thousand)	Date on which the loan was actually taken out	Amortization schedule (loan principal)	Interest	Collaterals provided in respect of the loan
Credit from an Israeli bank					
15,000	9,671	5.5.2019	Once a quarter starting in November 2019; the first to the 18th payments will amount to approx. NIS 592 thousand, and the remaining loan amount shall be paid in the last payment in May 2024.	Fixed (2.5%-3.5%)	±
10,000	6,447	5.5.2019	Once a quarter starting in November 2019; the first to the 18th payments will amount to approx. NIS 395 thousand, and the remaining loan amount shall be paid in the last payment in May 2024.	Prime + 0.2%-1.2%	±
4,000	3,200	February 2021	20 equal quarterly payments starting in February 2021.	Fixed (1.5%-2.5%)	See Note 20C1 to the Company's consolidated financial statements as of December 31 2021.
3,000	2,400	February 2021	20 equal quarterly payments starting in February 2021.	Prime + 0.5%-1%	

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

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

Financial covenants	Description	As of December 31 2021
Equity to asset ratio	The Company's equity shall not be lower than 25% of total assets at any given time	54%
Debt coverage ratio ¹²	Shall not exceed 3.5 at any time	0.94

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

1.21.3.2. **Credit facility**

Group companies have in place USD 12.4 million in approved bank credit facilities at an annual interest of Prime + 0.2%-0.7%. As of December 31 2021, the utilization rate of the said credit facilities is approx. USD 6.1 million.

1.22. **Taxation**

For information about the tax laws applicable to the Company and its subsidiary, see Note 23 to the Company's consolidated financial statements as of December 31 2021.

The Company has final tax assessments until 2016.

1.23. **Restrictions of and supervision of segment activities**

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

- 1.23.1. **In the flavors 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

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

standards (ISO 22000), the British Retail Consortium (BRC) food standard, IFS and SQS.

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 1.23.4.4 below.

1.23.2. In the fragrances segment - unlike in the flavors segment, the activity conducted in the fragrances segment is not subject to the directives of the Ministry of Health. The Group's activity in this segment is subject to international regulations set by the International Fragrance Association (IFRA), which defines safe application of products in accordance with risk assessments of dermal exposure. The directives of the International Fragrance Association (IFRA) are applied by the Group to all products in this segment. Furthermore, the Group opted to apply the ISO standards, and the requirements as to supervision of manufacturing, control and quality-assurance processes as per those standards. Furthermore, the Group complies with the European quality regulations (EU Cosmetic Regulation) and the Proposition 65 California Law, that sets allowed levels of ingredients in end products. As in the case of the flavors 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 1.23.4.4 below.

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

(REACH) in territories in which the Company operates, including the TSCA in the USA, K REACH in Korea, and TR REACH in Turkey. To the best of the Company's knowledge, the Israeli government published a law memorandum on the Registration of Industrial Chemicals, 2020, whose objective is to register the chemicals manufactured in Israel or imported into the country - Israel REACH.

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

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

1.23.4.2. Furthermore, the Group operates under various health and safety rules, including rules relating to the operations of its laboratories and plants, and rules relating to environmental aspects of its activity, both locally and across the world. The Group's manufacturing facilities are subject to manufacturing rules and to environmental laws, laws pertaining to hazardous substances, waste treatment, and cleaning up of existing pollution. For information about environmental risks pertaining to the Group's activity, see Section 1.23.5 below.

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

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

1.23.4.5. **Business license** - the Group holds business licenses for its manufacturing sites in Israel. The issuance of those licenses is subject to compliance with material conditions, such as conditions regarding environmental issues and requirements by the Ministry of Health, that include requirements regarding sanitation, adequate conditions for food manufacturing, and HACCP principles regarding hazardous substances.

The business license of Chemada's plant in Nir Yitzhak is subject to compliance with other environmental conditions, including requirements on management of hazardous substances, waste, smell, noise, wastewater and emissions. The current business license

also includes an undertaking by Chemada as part of the agreement for the purchase of Chemada Chemicals for removal of waste and conducting a soil survey.

- 1.23.4.6. **Toxins permit** - a toxins permit is required in Israel under the Hazardous Substances Law, 1993, as a condition for operating and maintaining some of the Group's ingredients and raw materials that are considered "hazardous substances" by law. Group's plants abroad have in place corresponding permits in accordance with the local law. Each of the toxins permits includes an appendix comprising of specific conditions for each of the Group's plants; such an appendix includes, among other things, the types of substances and quantities thereof that may be stored, requirements as to safe use of the substances, and the means to achieve such safe use, required measures that need to be in place in both routine and emergency situations, the duty to hold a fire extinguishing permit, required safety information, prohibition on sale to unauthorized parties, and in relation to Chemada's plant - also provisions regarding the removal of waste.
- 1.23.4.7. **Ministry of Health's manufacturer permit** - in the flavors segment, the Group is required to obtain a regulatory permit from the Israeli Ministry of Health and corresponding entities in the countries in which it operates, for the purpose of manufacturing, storing and selling flavors and fragrances. This permit defines the requirements a manufacturing site needs to comply with in connection with appropriate manufacturing and sanitary conditions, a list of approved ingredients and the use of FEMA-registered ingredients, restrictions on the presence of various substances, and the duty to record them (such as allergens, and a declaration that products do not contain parabens and gluten).
- 1.23.4.8. **Emission Permit** - Chemada's plant has an emission permit in accordance with the Clean Air Regulations (Emission Permits), 2010. The Company's current emission permit is in effect until April 2023. Obtaining a new emission permit will require investment in the construction of facilities for treating emissions as is generally accepted in similar chemical facilities. In the opinion of the Company, based on Chemada's scope of activity as of the Report's date, it is required to invest approx. USD 2.9 million in the construction of those facilities.
- 1.23.4.9. **REACH EU** - Chemada has an "Only Representative" approval (OR) as defined in the Regulation (EC) No 1907/2006 of the European Parliament and of the Council of 18 December 2006 concerning the Registration, Evaluation, Authorization and Restriction of Chemicals ("REACH"). The representative represents Chemada with regard to the registration and documentation with REACH of Chemada products exported to Europe.

Chemada has more than 50 substances, which are registered in accordance with the said European regulations, as well as some substances registered in the UK.

1.23.4.10.

The R&D Law

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

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

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

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

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

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

As part of its activities, the Group is required to comply with health and safety rules in accordance with the laws of the State of Israel, including the Work Safety Ordinance [New Version], 1970, and the Labor Inspection (Organization) Law, 1954, including the regulations and order promulgated thereunder, and any corresponding laws and regulations in the different countries in which Group companies operate. The Group has a detailed health and safety policy, and it operates in accordance with the relevant laws and regulations under dedicated and detailed work procedures. Each Group company has 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.

Environmental risks and mitigation thereof

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

1.23.5.1. **The flavors and fragrances segments**

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

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

1.23.5.2. **The health and pharma segment and the specialty ingredients segment**

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

1.23.5.2.2 As of the Report’s date, Chemada’s site stores approx. 2,400 tons of Bromine waste that has accumulated over the years, as a result of the decision by the Ministry of Environmental Protection to stop the operation of the evaporation ponds that were previously operated there. As part of the acquisition of Chemada’s activity from the receiver, as described in Section 1.4.1.2 above, the Company undertook upon itself to treat and remove the waste within a period of no more than eight years. Furthermore, the Company undertook to conduct a soil survey, in order to identify specific polluted areas and address the pollution.

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

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

1.23.5.2.5 Chemada operates under an emission permit under the provisions of the Clean Air Law; the company’s current emission permit is in effect until April 2023. The emission of odors from Chemada’s plants might cause an odor environmental nuisance.

1.23.6. **Environmental laws relevant to the Group’s activities**

1.23.6.1. Group companies are subject to comprehensive environmental regulations. Over the years, environmental requirements and regulations have become continuously stricter, including by way of introducing new environmental legislation, the interpretation of relevant laws and the enforcement of environmental standards. As a result of the fact that regulations have become stricter, the Group might incur expenses and be required

to make investments of large amounts. Failure to identify those requirements or to comply therewith might expose the Group to administrative and/or criminal sanctions and/or lawsuits.

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

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

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

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

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

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

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

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

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

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

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

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

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

Chemada has an Environment Management System (EMS) under Israeli Standard 14001:2015; this system is subject to external audits and assessments by the Standards Institute of Israel, and to environment tests incorporated into the EMS, together with monitoring of KPIs and regular management surveys.

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

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

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

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

1.23.11. **Material environmental costs**

Chemada has scrubbers and a polisher to address emissions, in accordance with its current emission permit. The Company is of the opinion that when its emission permit will come up for renewal, Chemada will be required to invest in the upgrading of the function that addresses emissions in order to comply with standards generally accepted for similar facilities in the chemicals industry. As of the report date, in the opinion of the Company, based on Chemada's scope of activity as of the Report's date, it is required to invest approx. USD 2.9 million in the construction of those facilities.

1.24. **Material agreements**

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

On August 12 1999, Chemada and the Bromine Companies signed an agreement for the purchase of raw materials; the agreement was amended and assigned to Chemada on March 18 2019; under the agreement, Chemada purchases bromine compounds from the Bromine Companies. Under the agreement, Chemada undertook to purchase the bromine compounds to be used in its activity exclusively from the Bromine Companies. The bromine compounds will be delivered to Chemada at the gate of the Bromine Companies' plant and Chemada will bear the costs of transporting them. The agreement is due to expire in June 2022.

1.25. **Insurance**

The material insurance policies that cover Group companies are drawn up in accordance with the characteristics of their activities, and in accordance with the Group's risk management policy as of the Report's date; those policies include, among other things an extended fire insurance, loss of profits insurance, war and terrorism insurance, third party liability insurance, employers liability insurance, product liability insurance, professional liability insurance, 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.

For information about ongoing proceedings with the insurance company in connection with SDA's plant in Beit Kama, see Section 1.15.3 above.

1.26. **Legal proceedings**

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

1.27. **Objectives and business strategy**

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

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

Mergers and acquisitions - the Group intends to accelerate its growth and its global expansion by M&As with companies operating in the Group's areas of activity and in related areas of activity, while utilizing the synergies between the different activities, their integration into the Group and their improvement. The Company's strategy is to focus on small and medium-sized companies operating in North America, Europe and Asia, and which have revenues of up to USD 25 million, a loyal customer base and significant growth potential. The Group has the knowledge and experience required to identify opportunities to purchase companies and to efficiently conduct negotiations; accordingly, from time to time the Group assesses opportunities to expand its activity through collaborations and mergers with companies whose products are synergistic with those of the Group, companies where the Group identifies significant added value, and companies where the Group identifies management failure or willingness by the founders to sell the activity, which it can then purchase at a bargain price, which is reflected in low EBITDA multiples.

In the fragrances and flavors 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 South East Asia and 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 intermediates for the pharma industry segment, and the specialty ingredients segment, the Group works both to expand its product offering within its current core activity, and to penetrate into the market of ingredients for the flavors and fragrances industry.

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.

1.28. Projected developments in the forthcoming year

- 1.28.1. As of the Report's date, the Group is conducting negotiations with a number of companies operating in its area of activity, for the purpose of purchasing those companies. Those acquisitions will expand the Group's activities and allow the expansion of its geographic deployment across the world in the relevant manufacturing, marketing and sales functions of its different operating segments; such acquisitions will complement the Group's product offering and will allow it to expand its marketing activities to other territories.
- 1.28.2. In the flavors segment, the Company started considering the option of transferring its Israel-based plants to a single site in order to improve the plants' operational efficiency and save costs.
- 1.28.3. The Company intends to develop and expand the development and manufacturing of aroma chemicals in Israel and abroad; those aroma chemicals are used in fragrance and

flavor extracts. Furthermore, SDA intends to expand its activity by diversifying the sources of its ingredients and adapt its manufacturing capacity on the basis of its existing manufacturing areas and capacity in the light of the fire. Increasing its manufacturing capacity will allow SDA to expand its activity with existing customers, acquire additional and larger customers of strategic significance to its activity, and improve its profits.

Furthermore, the Group works to upgrade and establish SDA's international sales function, in order to accelerate the growth of its activity.

- 1.28.4. During the forthcoming year, Chemada intends to continue expanding its Nir Yitzhak plant, and its R&D activities in the field of specialty ingredients for the fragrance and flavor extracts market. For more information, see Section 1.15.2 above.

All assumptions and data listed in this Section 1.28 regarding projected developments in the Company in the forthcoming year constitute forward-looking forecasts, assessments and estimates, as defined in the Securities Law, which are based on the Company's assessments of developments and current and future events, whose date of occurrence, if any, is uncertain and outside the Company's control. These assessments may not materialize, in whole or in part, or may materialize in a manner different than that expected by the Company, due to, among other things, technological changes in the Company's area of activity, and changes in market trends and customer preferences.

1.29. **Financial data regarding geographical segments**

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

- 1.29.1. Set forth below is the breakdown of the revenues from external parties by sales to end customers based on their geographic location in 2020-2021 (in USD thousands):

	2021	2020	(%) of total sales in 2021
Israel and the Middle East	20,421	11,049	23.9
Europe	30,870	24,167	36.2
North America	25,804	8,832	30.2
Asia and other	8,239	8,682	9.7
Total	85,334	52,730	100

1.29.2. Analysis by geographic location of principal manufacturing sites

Set forth below is the segmentation of sales by principal manufacturing sites in 2020-2021 (in USD thousands):

	2021					
	Fragrances	Flavors	Specialty intermediates for the pharma industry segment	Specialty ingredients segment	Cancellations	Total
Israel and the Middle East	12,050	24,980	20,873	11,733		69,636
Europe	5,634	6,502	-	-		12,136
USA	1,752	129	-	-		1,881
South East Asia	-	1,681	-	-		1,681
Explanation for changes in sales compared with 2020	Organic growth	The increase in sales in the flavors segment stems mainly from the completion of the acquisition of FIT and the activity of Pilpel and Galilee Herbs in the second half of 2021, and from the consolidation of the results of WFF and SDA, whose acquisition was completed in the second half of 2020, as well as from organic growth in all companies.	Organic growth	The decrease stems from a change in the sales mix achieved by improving products and removing from the products range certain products with low profitability rates during the first half of 2021, which led to improvement in profitability.		The increase stems mainly from acquisition of companies, consolidation of results of companies acquired in the second half of 2020 and organic growth of 18.6%

	2020					
	Fragrances	Flavors	Specialty intermediates for the pharma industry segment	Specialty ingredients segment	Cancellations	Total
Israel and the Mediterranean	8,730	6,098	14,213	13,656	-	42,697
Europe	4,858	2,570	-	-	-	7,428
USA	1,556	148	-	-	-	1,704
South East Asia	-	901	-	-	-	901

- 1.29.3. Total current assets (excluding intercompany balances) by geographic location of principal manufacturing sites in 2020-2021 ((in USD thousands):

	2021	2020
Israel and the Middle East	93,372	29,873
Europe	12,755	3,593
North America	729	524
Asia and other	1,492	1,268

1.30. **Risk factors - discussion**

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

1.30.1. Macroeconomic risk factors

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

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

- 1.30.1.2. **Changes and/or deterioration in the security-political situation in Israel** - Changes and/or deterioration in the security-political situation in Israel and in Israel's position in the world, wars, military clashes, and terror attacks in Israel impact - to some extent and for variable periods - on demand for the Group's products in its areas of activity. Such a deterioration in the security situation might cause partial or full shutdown of the Group's plants due to unavailability of raw materials and/or a physical damage to its plants or to infrastructures it uses or to facilities located in proximity thereto. Furthermore, terror attacks targeting the Group's assets might force the Group to suspend activity or shutdown some or all of its plants. Such events may have a material adverse effect on the Group's businesses, financial results and activity. Furthermore, Chemada's plant is located in proximity to the Gaza Strip. For more information, see Section 1.30.3.5 below.

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

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

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

- 1.30.1.4. **Deterioration in geopolitical conditions 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 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 activities in Asia and Eastern Europe might be adversely affected from the instability of their customers, as well as from trade and financial restrictions.

War risks and global geopolitical conditions: Tensions between Russia and the Ukraine, which escalated to a military conflict, might impact international trade and many economies in the world, including in countries in which the Company operates. Furthermore, the conflict may trigger geopolitical crises in other regions, such as South East Asia and Iran. In addition,

the uncertainty arising from the conflict might affect air and sea freight capabilities and costs, and the prices of raw materials and goods. Group subsidiaries that have business activity in Asia and Eastern Europe might be adversely affected from the instability of our customers' economic system in the said countries and from restrictions on trade and financial restrictions.

1.30.2. Sectoral risk factors

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

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

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

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

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

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

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

The Group mitigates the cyber risks in accordance with generally accepted methodologies and work procedures; it also promotes steps to improve its IT function across the entire

organization. The Company's IT systems are managed and located in a secure environment on internal servers in each of the Group's sites. IT systems in the Group's sites may only be accessed by entering a user name and password; some of the IT systems also have other access restrictions; access to sensitive information is restricted only to the required personnel, and in accordance with specific authentication requirements.

- 1.30.2.7. **Competition** - see Section 1.9.6 above.

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

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

- 1.30.2.10. **Fluctuations in supply and demand and seasonality** - the Group's spices and seasonings activity is exposed to seasonal changes that lead to changes in demand to Group's products and services and/or the availability of its raw materials and/or their prices. In addition to seasonal and cyclical changes, 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 flavors segment, the Group uses many natural ingredients, and it is dependent on the availability of those ingredients and is affected therefrom. It should also be clarified that the closure of a plant supplying ingredients to the Group in countries such as China and India might trigger an increase in the price of ingredients.

- 1.30.3. Company-specific risk factors

- 1.30.3.1. **Employees possessing unique knowhow and dependency on key personnel** - the Company's activity in the fragrance and flavors segments relies on formulators (employees who develop fragrance extracts) and flavorists (employees who develop flavor extracts). In Chemada's areas of activity, employees need to have the qualifications required to work in the area of chemistry. Therefore, in view of the fact that the Company has employees possessing specific expertise, retaining those employees is critical to the success of the Company. Furthermore, as of the report's date, the Company is dependent on its controlling shareholder, as described in Section 1.18.2 above. If the controlling shareholder leaves the Company, its activity might be considerably slowed down.
- 1.30.3.2. **Labor disputes** - Chemada's employees are employed in accordance with a special collective labor agreement, and the Company has no guarantees that this agreement will be renewed, from time to time, without a strike. If industrial action will take place that will involve a shutdown or a damage to the Company's activities, this might have an adverse effect on the Company's business, its financial position and results of operations. Furthermore, the reopening of the collective agreements may lead to pay rises to employees.
- 1.30.3.3. **Dependence on the Group's principal activity sites** - the Group is dependent to a certain extent on Chemada's site in Nir Yitzhak, which operates in the fields of intermediates for the pharma industry and specialty ingredients. Damage to the production facilities as described above or shutdown of these facilities might cause a reduction and even a cessation of the Company's activities in the above areas of activity; however, in the flavors and fragrances segments, the Group has some flexibility and is able to divert manufacturing capacity between Group's plants in different countries, thereby enabling continuous activity in these segments. even if some of its plants have been shutdown.
- 1.30.3.4. **Dependence on the agreement for the purchase of Bromine** - Chemada purchases bromine from the Bromine Companies in accordance with the purchase agreement as described in Section 1.25.11.24.1 above. This agreement is in effect until June 2022. Failure to renew the agreement or changes to its terms might have an adverse effect on the Company's profits.
- 1.30.3.5. **Proximity to the Gaza Strip** - Chemada's plant is located in the Gaza Envelope. Due to the plant's location, it might be exposed to terror attacks. The Company has in place terrorism insurance providing coverage of USD 40 million; furthermore, from time to time the Company assesses the extent of the insurance coverage required in accordance with Chemada's activity.
- 1.30.3.6. **Growth through acquisition of companies and activities** - the Group's strategy is to achieve growth, among other things, through mergers and acquisitions with companies operating in the Group's areas of activity. If the Group is unsuccessful in identifying acquisition opportunities that are in line with the nature of its activity under satisfactory conditions, or if

it fails to obtain the financing required to make the acquisitions, this might have an adverse effect on the implementation of the Group's strategy, its ability to grow and its financial results.

- 1.30.3.7. **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			
Small	Medium	Large	
Macro risks			
		V	Economic slowdown and uncertainty
	V		Changes and/or deterioration in the security-political situation in Israel
V			Financial risks
V			Global health crisis
	V		Deterioration in global geopolitical and security conditions
Sectoral risks			
	V		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

The extent of the risk factor's impact on the Company			
Small	Medium	Large	
V			The occurrence of accidents during the course of the Group's activity
V			Legal proceedings
V			Fluctuations in supply and demand and seasonality
Company-specific risks			
	V		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

Directors' Report on the State of the Corporation's Affairs
For the year ended December 31, 2021

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, 2021, 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 public company, as this term is defined in the Companies Law, 1999.

The Company is a global company operating, independently and through its subsidiaries ("**Turpaz**" or the "**Group**") in the development, production, marketing and sales of fragrance extracts, used in the production of cosmetics, toiletries, personal care, air care & odor neutralizers products; flavor extracts used in the production of food and beverages, intermediates for the pharma industry, and specialty ingredients for the agrochemical and the fine chemicals industry.

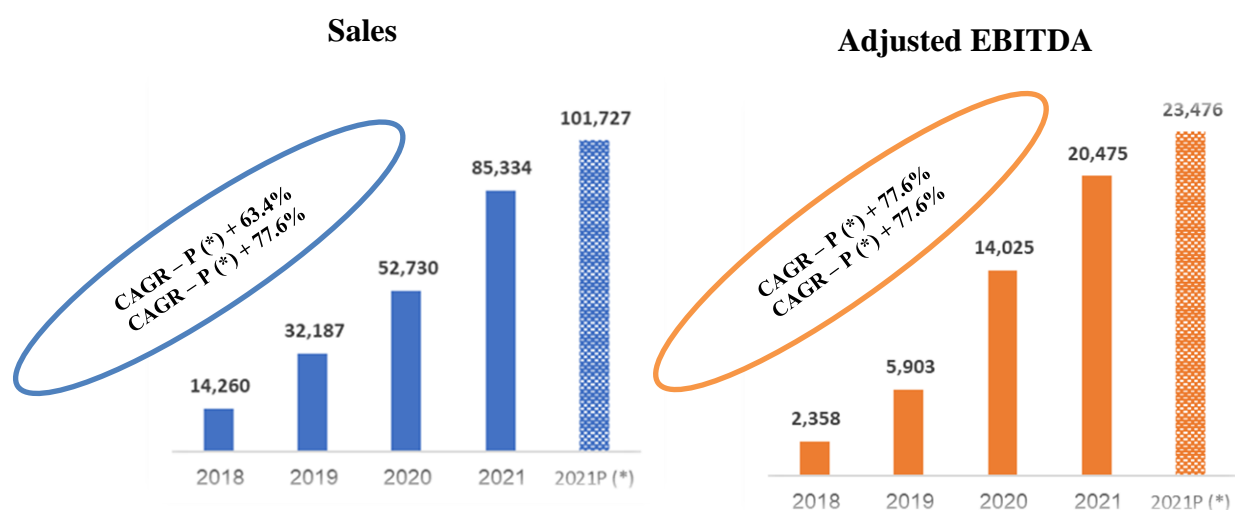
The Turpaz Group has an extensive and diversified range of products, which are developed and produced by the Group. As of the report's publication date, the Group develops, produces, markets and sells products to more than 1,500 customers in more than 30 countries across the world, and operates approx. 12 manufacturing facilities, including R&D centers, laboratories and sales, marketing and regulation offices in Israel, the USA, Poland, Belgium, Vietnam and Latvia.

Key operating results of Turpaz

- In 2021, the Turpaz Group achieved record sales, gross profit, operating profit, adjusted EBITDA and net income.
- Turpaz Group's sales in 2021 increased by 61.8%, reaching USD 85.3 million compared with USD 52.7 million in 2020; the increase stems mainly from **organic growth**¹, net of the effects of exchange rates of **18.6%**, and from growth achieved by acquisitions of companies and activities completed in 2020 and 2021.
- **Operating profit increased by 57.5%** and amounted to USD 16.0 million in 2021, compared with USD 10.2 million in 2020.

¹ In this report, "organic growth": Assuming that the acquisitions that were carried out in 2020 were consolidated in the financial statements as from January 1, 2020.

- ²**Adjusted EBITDA increased by 46.0%** and amounted to USD 20.5 million in 2021, compared with USD 14.0 million in 2020.
- In May 2021, the Company completed an IPO for a total consideration of USD 65 million (approx. NIS 208 million).
- Turpaz Group completed **four acquisitions** of companies and activities since its IPO in May 2021; Turpaz Group intends to continue implementing acquisitions in different countries around the world in the Company's areas of activity.
- Based on data provided by the owners of the companies and activities acquired in accordance with the accounting policy prior to the acquisition, and based on those companies' internal reporting and information systems, had the acquisitions that were carried out in 2021 and in 2020 taken place on January 1 2020, Group's revenues in 2021 and 2020 would have amounted to **USD 101.7 million** and USD 82.7 million, respectively, constituting a 23.1% growth. In addition, the Adjusted EBITDA for the years 2021 and 2020 amounted to **USD 23.5 million** and USD 16.6 million, respectively, constituting a 41% growth.
- Turpaz enhanced its global management and linked the Group's development teams in Israel and across the world in order to leverage synergies in sales, development and regulation.
- Turpaz strengthened and expanded the savory area of activity in the flavors segment.
- The Company linked between operating and procurement functions in order to improve operational efficiency and its capability to deal with the increase in prices of raw materials and logistic services.
- Turpaz works to build an infrastructure that will allow the commencement of development and manufacturing of aroma chemicals in Israel and across the world.



Since 2016 and through the publication date of this report, the Company executed 11 acquisitions, 6 of which took place in the last couple of years; together with organic growth led to CAGR in sales of 56.4% since 2018 and through 2021, and 63.4% in relation to 2021 sales on a proforma

² See footnote 5 below.

basis^(*). In addition, led to CAGR in Adjusted EBITDA of 71.7% since 2018 and through 2021, and 77.6% in relation to 2021 Adjusted EBITDA for 2021 on a proforma basis.

(*) “**Proforma Basis**” - assuming all acquisitions carried out in 2021 were carried out on January 1, 2021 (excluding the acquisition of LORI that was completed in 2022).

Turpaz Group is engaged in the following four segments

- 1.1. **The fragrance segment** - in this segment, Turpaz Group is engaged in the development, production, marketing and sale of natural and synthesized fragrance extracts for customers in the cosmetics, toiletries, detergents, wet wipes, scented candles, hair care, air care & odor neutralizers industries for hotels and households. Furthermore, Turpaz Group operates to manufacture specialty ingredients of high added value, whose purpose is to conceal bad odors, and give, enhance and intensify desired scents in consumer or industrial products.

The fragrance extracts developed by the perfumers are tailored to customers’ requirements while creating long-term relationships between Turpaz Group and its customers across the world. When they select a supplier, customers focus on the suppliers’ innovation capabilities, uniqueness, reliability, the quality and excellence of their services and their knowledge of the needs of the customers for whom the specialty extracts were developed.

In accordance with the Company’s strategy, the revenues of the fragrances segment have grown at an accelerated and profitable rate of 28.3%, reaching USD 19.4 million in 2021, compared with USD 15.1 million in 2020, which stemmed mainly from organic growth net of the effects of exchange rates of 22.7%, and the expansion of the synergies between Group companies in Israel and across the world, which led to a 34.5% increase in operating profit - totaling USD 6.8 million in 2021 (constituting 35.0% of sales) - compared with USD 5.1 million in 2020 (constituting 33.4% of sales).

- 1.2. **The flavors segment** - as part of the flavors segment, Turpaz Group is engaged in the development, production, sale and marketing of natural and synthetic, 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 meals, dairy products, ice creams, pharmaceuticals, food and organic colorings for feed, beverages and food supplements industries, all tailored to meet customers’ needs.

Furthermore, the Group develops extracts and mixtures that allow the production of “clean label”³ products, Fat, Salt, and sugar reduction in snacks, food products and beverages, while retaining the desired taste and texture of those products.

In accordance with the Company’s strategy, the revenues of the flavors segment have grown at a rate of 242.6%, reaching USD 33.3 million in 2021, due to the acquisition of FIT and the activity

³ Products whose list of ingredients includes natural ingredients, which the consumer is familiar with.

of Pilpel and Galilee Herbs in 2021, from acquisition completed in 2020, and organic growth net of the effects of exchange rates of 17.9%, compared with USD 9.7 million in 2020; furthermore, Turpaz Group recorded a 173.2% increase in operating profit, which amounted to USD 2.5 million in 2021 (constituting 7.6% of sales) compared with USD 0.9 million in 2020 (constituting 9.5% of sales).

The Company work to increase its operational efficiency by cross-selling, merging the procurement and development function in the flavors segment in order to improve the profits and profitability of this segment in the following quarters.

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

In accordance with the Company's strategy, the revenues of this segment increased in accelerated growth of 46.9%, amounting to USD 20.9 million in 2021; this growth stemmed purely from organic growth net of the effects of exchange rates, compared with USD 14.2 million in 2020. Furthermore, Turpaz Group recorded a 91.8% increase in operating profit, which amounted to USD 6.6 million in 2021 (constituting 31.7% of sales) compared with USD 3.4 million in 2020 (constituting 24.3% of sales).

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

The revenues of this segment decreased by 14.1%, reaching USD 11.7 million in 2021, compared with USD 13.6 million in 2020, which stemmed from changes to the sales mix through improvement of products and discontinuance of the production of products bearing low profits, which led to the improvement in profits that totaled USD 3.3 million in 2021 (constituting 28.3% of sales), compared with USD 3.1 million in 2020 (constituting 22.6% of sales).

As of the date of this report, Turpaz works to build an infrastructure that will allow the commencement of development and manufacturing of aroma chemicals in Israel and across the world for scent and flavor extracts.

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

Combined growth strategy -

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

Turpaz Group operates in accordance with an orderly plan it developed to achieve the swift integration of the acquired company into the Group and the enhancement of the global management; this includes, among other things, retaining the existing managements of the acquired companies and integrating those managements into Turpaz's management, enhancing the product offering and customer base and integrating Turpaz Group's command and control systems in the cross-selling, R&D, procurement, and finance functions of the acquired companies, in order to achieve swift utilization of synergies. In the opinion of the Company, as of the date of this report, it has not yet utilized the entire potential of the acquisitions made in 2020 and 2021; such full utilization is expected to take place a number of quarters subsequent to the completion of the acquisition.

For information about material M&As, see Section 1.4 to Chapter A (Description of the Company's Business).

Company's assessments as to the periods during which the potential embodied in the acquisitions will be fulfilled, and as to the swift 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 1.31 to Chapter A to this report.

Acquisitions carried out in 2021:

Acquisition of FIT

On October 28 2021, the Company completed a transaction for the purchase of control (60%) in Food Ingredients Technology (hereinafter - "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 for approx. EUR 12.8 million (approx. USD 14.5 million), of which EUR 1.99 million (approx. USD 2.25 million) were paid in cash, and the remaining balance was paid by way of allocating shares, based on the average share price in the 30 days preceding the date on which the agreement was entered into, constituting - on allocation date - approx. 1.74% of the issued and paid-up share capital (approx. 1.73% on a fully diluted basis).

In accordance with the purchase agreement, in February 2022 the Company paid additional consideration of EUR 0.9 million (approx. USD 1 million) in respect of adjustments to the purchase price.

FIT is a company engaged in the development, production and marketing of unique and innovative savory extracts for extensive segments in the food industry, including the meat, fish, ready meals, soups and sauces industries. The Company has a modern production facility in Belgium; it supplies its products to many customers in Western Europe.

The acquisition of FIT's activity allows the continued implementation of the Company's strategy to expand its savory flavors activity, establish its activity in Western Europe, and leverage the synergies between Group companies. For more information regarding, see Note 5A to the financial statements.

Acquisition of the activity and assets of Pilpel and Galilee Herbs

On October 3, 2021, the Company signed an agreement for the purchase of assets and business activity from Pilpel - Food Industries Development Ltd. and FC Galilee Herbs Ltd. (hereinafter jointly - the "Seller") in consideration for NIS 12 million (approx. USD 3.75 million) (hereinafter - the "Consideration"). The Consideration is subject to adjustments of NIS 1 million in respect of each of the years 2021 and 2022; adjustments will be added or deducted from the consideration based on the EBITDA arising from the purchased activity in each of the said years; the consideration is also subject to a further adjustment at the value of the inventory; this adjustment shall be reviewed a year after the completion date.

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

Turpaz takes steps to improve the activity's 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 Turpaz' standards, and control over and improvement of the Company's procurement processes. For more information see Note 5B to the financial statements.

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

Completion of the acquisition of SDA

On September 1, 2021, the purchase of the remaining share capital (49%) of SDA Spice Agricultural Cooperative Society Ltd. (hereinafter - "SDA") from Kibbutz Sde Eliyahu (hereinafter - the "Kibbutz"),

was completed, such that as of the report date Turpaz Extracts holds the entire issued and paid-up share capital of SDA; the transaction was completed for a total of approx. USD 7.5 million plus USD 0.9 million in performance-based payments in 2022-2024. Furthermore, on transaction completion date Turpaz paid the Kibbutz a total of approx. USD 1.72 million (approx. NIS 5.6 million), in respect of performance-based payments in respect of conditional consideration for meeting targets, which the Kibbutz was entitled to under the purchase transaction of October 2020. The completion of the purchase of SDA's shares allows Turpaz to accelerate its streamlining plan and improve the leveraging of the synergies between Group companies, while focusing on improving the Company's profits. For more information, see Note 5B to the financial statements.

SDA is engaged in the production of spices and unique seasonings and natural ingredients of high added value for the food, cosmetics, and animal and pet food industry. SDA offers organic and natural non-GMO herbs, that are free of chemicals and pesticides. The company also operates in the field of production of savory flavor extracts. The use of seasonings has been on the rise in the past two decades in view of the increasing global demand to ready-to-eat food.

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

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

Acquisitions carried out in 2020:

The acquisition of WFF

On July 22, 2020, the Company purchased 60% of the share capital and voting rights of Western Flavors Fragrances Production JSC (hereinafter - "WFF") in consideration for USD 639 thousand and other considerations. WFF is mainly engaged in the production and marketing of flavors to the Vietnamese market, mainly in the field of sweet flavors, with an emphasis on the dairy, beverages, sweets and pastries segments; the Vietnamese market comprises more than 97 million consumers, and is one of the fastest developing marketing in the world.

Simultaneously with the signing of the agreement, a USD 724 thousand loan, that was provided to WFF by the Seller, was assigned to Turpaz. Furthermore, Turpaz Extracts was awarded an option to purchase the remaining holdings in WFF; the option may be exercised in whole or in part at any time through July 22, 2024, in consideration for an amount to be calculated on exercise date, based on WFF's average EBITDA. For more information, see Note 5B to the financial statements.

Acquisition of Florasynth

On January 15, 2020, the Company entered into an agreement for the purchase of the activity of Florasynth Israeli Enterprise Ltd. (hereinafter - “**Florasynth**”), which is engaged in the development, production, marketing, distribution and sale of flavor extracts to various sectors of the food industry. In consideration for the activity, the Company paid USD 0.62 (NIS 2 million); the Company has also undertaken to pay further consideration in respect of its use of inventory; such consideration will not exceed USD 0.15 million (NIS 500 thousand). For more information, see Note 5B to the financial statements.

2. Fire

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 undergone a fire, 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 consideration will be paid at the earlier of 12 months after the engagement date or on the date of receipt of insurance benefits. The consideration amount is final, and it is not conditional on the receipt of insurance benefits for the purchased insurance rights. It should be noted that as of the date of this report, a NIS 35 million advance was received from the insurance company; as mentioned above, the advance was paid directly to the lessor of the property.

As of December 31, 2021, The Company recognized an indemnification asset at the amount of the direct expenses accrued as a result of the fire and due to derecognition of inventory and equipment that were totally damaged in the fire, and the derecognition of right-of-use asset and the liability recognized in respect thereof.

The Company believes that the fire is not expected to have a material effect on the Group’s operating results. Furthermore, at this stage, the Company is unable to estimate the timing of receipt of the remaining insurance benefits from the insurer; however, the Company believes that it is not expected to face cash flow issues in respect of the fire or the agreement.

It should be clarified that the Company’s assessments as to the effects and consequences of the fire on its operating results 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 in respect of which there is no certainty that they will materialize in the manner estimated by the Company.

3. Material events subsequent to balance sheet date

3.1. On January 17, 2022, the Company completed, through a wholly-owned company, a transaction for the purchase of the entire share capital of LORI RKF (hereinafter - “**LORI**”) - a private company incorporated in Latvia - which operates in the field of fragrance extracts - from its shareholders. The Company purchased LORI’s shares in consideration for approx. EUR 3.14 million (approx. USD 5.3 million), plus net cash balances.

LORI’s sales turnover, based on unaudited data provided by LORI, amounted to EUR 4.8 million and EUR 4.7 million in 2021 and 2020, respectively. For more information, see Section 1.4.5 to Chapter A (Description of the Corporation’s Business).

3.2. In a meeting held on March 13, 2022, the Company’s Board of Directors decided to approve the distribution of a USD 3.86 million dividend to the Company’s shareholders in accordance with the Company’s dividend distribution policy. As of the date of this report, the amount of dividend per share is USD 0.0386, which will be paid on March 31, 2022. For more information, see the Company’s immediate report that will be published by the Company shortly before the publication date of this report.

3.3. In a meeting held on March 13, 2022, the Company’s Board of Directors decided to convene an extraordinary annual General Meeting of the Company’s shareholders, whose agenda will include the following resolutions: (a) Approval of allocation of options to Ms. Keren Cohen Khazon, the Company’s controlling shareholder; (b) approval of directives regarding the payment of annual bonuses and allocation of options to Mr. Shay Khazon; (c) approval of an annual bonus to Mr. Shay Khazon in respect of 2021; (d) approval of allocation of options to Ms. Shir Kesselman; (e) approval of an annual bonus to Ms. Shir Kesselman in respect of 2021. The Company intends to take steps to convene a general meeting of the Company’s shareholders to approve the said subjects.

3.4. In its meeting of March 13, 2022, the Company’s Board of Directors approved the allocation of 3,752 thousand (non-listed) options that are exercisable into an identical number of ordinary shares, in accordance with the Company’s equity-based compensation plan. The options shall vest in equal tranches over 4 years from Allotment Date; the first tranche (25% of the options) shall vest a year after Allotment Date, and all remaining options shall vest in 6 semi-annual tranches (12.5% of the option in each such tranche) starting 18 months after the Allotment Date. Each tranche will be exercisable over two years from its vesting date on a cashless basis. The options shall be subject to various adjustments as described in Section 3.5 to Chapter 3 of the Company’s prospectus.

4. Financial position

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

	December 31 2021	December 31 2020	Company's explanations
Current assets	106,082	35,258	The increase stems mainly from an increase in cash and cash equivalents due to IPO proceeds, from an increase in trade and other receivables and inventory due to increase in the Company's sales, and from the addition of the current assets of acquisitions completed in 2021, which were fully consolidated into Turpaz's balance sheets.
Non-current assets	66,587	35,132	The increase stems mainly from an increase in property, plant and equipment, intangible assets and goodwill in respect of acquisitions completed in 2021.
Total assets	172,669	70,390	
Current liabilities	37,032	29,121	The increase stems mainly from an increase in trade payables due to the increase in Turpaz's activity, and from acquisitions completed in 2021, which were fully consolidated into Turpaz's balance sheets.
Non-current liabilities	42,521	28,491	The increase stems mainly from a recognition of a liability in respect of the put option for the purchase of the remaining shares of FIT.
Total equity	93,116	12,778	The increase is mainly due to an increase in equity due to the completion of a USD 62 million IPO (net), allocation of shares at the total amount of USD 12.5 million as part of the consideration paid in the transaction for the purchase of FIT, out of the comprehensive income for the period amounting to USD 14.4 million, which were offset against the consideration paid to non-controlling interest in the transaction for the purchase of the remaining rights in SDA.
Total liabilities and equity	172,669	70,390	

5. Operating results

5.1. Set forth below is an analysis of the operating results in accordance with the financial statements, comparative figures for 2020, and the explanations for the key changes in those data (in USD thousand):

Item	2021	2020	Company's explanations
Revenues from sales	85,334	52,730	Revenues from Turpaz' sales increased by 61.8% , as a result of organic growth net of the effects of exchange rates of 18.6% and as a result of acquisitions completed in 2020 and 2021.
Cost of sales	50,606	30,906	Despite challenging conditions in the market and the increase in raw material prices, the Company maintained gross profit rate of more than 40% . The decrease in gross profitability rate stemmed from the sharp increase in sales of the flavors segment and its percentage out of total Company's sales; during the reporting period, the profitability of this segment was lower than that of the other operating segments of the Company, and was impacted from the consolidation of SDA's results as from the fourth quarter of 2020 and for the entire year in 2021. SDA started implementing a plan for the improvement of its product lines, steps to improve operational efficiency and leveraging of synergies between Group companies; the aforesaid steps are expected to improve the operational profitability in the next few quarters. On the other hand, the operational profitability of all other operating segments of the Company improved as a result of double-digit growth in each of those segments, and due to the improvement of their production processes.
Gross profit	34,728	21,824	
Gross profit rate	40.7%	41.4%	
Research and development expenses	1,949	862	Increase in development expenses due to continued investment in the development of new products and the improvement of existing products, and due to the acquisitions completed in 2020 and 2021.
Selling and marketing expenses	6,274	3,848	The increase in selling and marketing expenses is mainly attributed to the global increase in the cost of logistic services due to the Covid-19 pandemic, and to the acquisitions completed in 2020 and 2021.
General and administrative expenses	10,257	6,625	In 2021, general and administrative expenses constituted 12.0% of the turnover, compared with 12.6% in the corresponding period last year. Total increase in general and administrative expenses arises from acquisitions completed in 2020 and 2021, and from continued recruitment of management teams and strengthening of the Company's headquarters and its experienced management, in order to support Turpaz Group's global growth strategy.
Other expenses	208	304	
Income from ordinary operations	16,040	10,185	
Operating profit rate	18.8%	19.3%	The change in the percentage of sales of the flavors segment (which has lower profitability rate) as described above, caused a certain decrease in operating profits. The steps taken to improve the profitability of the flavors segment, as described above, will improve profits in the following quarters.

Item	2021	2020	Company's explanations
Finance expenses, net	1,109	783	The increase is mainly attributed to the completion of the acquisition of SDA and the consolidation of its results as from the fourth quarter of 2020.
Taxes on income	2,119	1,271	
Net income for the year	12,812	8,131	
Rate of net income for the year	15.0%	15.4%	

EBITDA ⁴	20,021	13,523	The change in the rate of sales of the flavors segment, which has lower profitability compared with the other segments, as described above, caused a certain decrease in EBITDA. The steps taken to improve the profitability of the flavors segment, as described above, will improve the EBITDA in the following quarters.
Adj. EBITDA ⁵	20,475	14,025	
Rate of Adj. EBITDA of sales	24.0%	26.6%	

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

Item	For the 6-month period ended December 31 2021	For the 6-month period ended June 30 2021	Company's explanations
Revenues from sales	45,890	39,444	Revenues from sales increased by 16.1% in the second half of 2021 compared with the first half of 2021. The increase stems from acquisitions completed in the second half of 2021.
Cost of sales	26,942	23,664	The increase in gross profit is mainly attributed to a change in the Group's sales mix during the reporting period and to the improvement in gross profitability of the flavors segment in the second half of the year as a result of the steps taken by the Company to improve the SDA's profits and profitability.
Gross profit	18,948	15,780	
Gross profit rate	41.3%	40.0%	
Research and development expenses	1,060	889	The increase in research and development expenses is mainly attributed to acquisitions completed in the second half of 2021.
Selling and marketing expenses	3,586	2,688	The increase in selling and marketing expenses is mainly attributed to the global increase in the cost of logistic services due to the Covid-19 pandemic, and to the acquisitions completed in the second half of 2021.
General and administrative expenses	6,225	4,032	During the first half of 2021, the expenses constituted 10.2% of the turnover, compared with 13.9% in the second half of 2021. The increase in general and administrative expenses arises from acquisitions completed in the second half of 2021, and from recruitment of management teams and the strengthening of the Company's headquarters, in order to support Turpaz Group's combined growth strategy; the increase is also attributed to professional fees in connection with the

⁴ EBITDA means - earnings before interest, taxes, depreciation and amortization. This is a data normally used to measure the operational efficiency of companies.

⁵ In 2020, non-recurring expenses included mainly legal and other expenses in connection with acquisitions of activities and mergers of companies carried out during that year, and the amortization of dead inventory in Pollena Aroma, totaling USD 502 thousand; in 2021, these expenses included legal and other expenses in connection with acquisitions of activities and mergers of companies carried out during the reporting period, and IPO-related expenses totaling USD 454 thousand.

Item	For the 6-month period ended December 31 2021	For the 6-month period ended June 30 2021	Company's explanations
			acquisitions completed by the Company in the second half of 2021.
Other expenses	41	167	
Income from ordinary operations	8,036	8,004	
Operating profit rate	17.5%	20.3%	
Finance expenses, net	517	592	
Taxes on income	1,024	1,095	
Net income for the year	6,495	6,317	
Rate of net income for the period	14.2%	16.0%	The decrease in the rate of net income for the period stems from the increase in general and administrative expenses as aforesaid. Upon full consolidation of the acquisitions carried out in the second half of 2021 and the beginning of 2022, the rate of general and administrative expenses decreased, which will result in an improvement in operational profitability and EBITDA. ⁶

EBITDA	10,360	9,634	
Adj. EBITDA	10,619	9,854	
Rate of Adj. EBITDA of sales	23.2%	25.0%	See above in the rate of net income for the period.

⁶Company's assessments as to the improvement in profits and profitability constitutes forward-looking information as defined in the Securities Law, 1969, whose materialization depends, among other things, on factors outside the Company's control, and which may materialize in a manner different than that described in this report.

5.3. Set forth below is a breakdown of operating results by segments (USD thousand):

Segment		2021	2020	2019	Company's explanations for the increase in 2021 compared with 2020
Fragrances segment	Revenues	19,436	15,144	13,653	The USD 4.3 million increase in revenues (28.3%) stems mainly from organic growth net of the effects of exchange rates of 22.7%; this increase will lead to improvement in profits and profitability of the fragrances segment.
	Operating profit	6,804	5,054	3,208	
	(%)	35.0%	33.4%	23.5%	
Flavors segment	Revenues	33,292	9,717	2,277	The USD 23.5 million (242.6%) increase in revenues stemmed from organic growth net of the effects of exchange rates of 17.9% and from acquisitions completed in 2020 and 2021. The profitability rate in the period was impacted from the consolidation of SDA's results as from the fourth quarter of 2020, since SDA's operational profitability is low compared to the profitability of the Company as a whole. the Company started implementing a plan for the improvement of its product lines and steps to improve operational efficiency; the aforesaid steps are expected to improve the operational profitability in the next few quarters.
	Operating profit	2,533	927	117	
	(%)	7.6%	9.5%	5.1%	
Specialty intermediates for the pharma industry	Revenues	20,873	14,213	6,770	The USD 6.5 million increase in revenues (46.9%) stems mainly from organic growth (net of the effects of exchange rates). The Company also improved the production processes, which led to cost savings and improvement in profits and profitability.
	Operating profit	6,615	3,450	1,479	
	(%)	31.7%	24.3%	21.8%	
Specialty ingredients segment	Revenues	11,733	13,656	9,487	The USD 1.9 million (14.1%) decrease in revenues stems from a change in the sales mix achieved by improving products and removing from the products range certain products with low profitability rates during the first half of 2021, which led to improvement in profitability. The Company also improved the production processes, which led to cost savings and improvement in profits and profitability.
	Operating profit	3,317	3,085	1,978	
	(%)	28.3%	22.6%	20.8%	
Unallocated joint expenses	Revenues	-	-	-	In 2021, the expenses constituted 3.7% of the turnover, compared with 4.4% in the corresponding period last year. The Company recruited a management team in order to enhance the Company's headquarters and support the Company's growth strategy; the Company also started to set up procurement and development functions that support global management. Furthermore, the expenses include non-recurring expenses of USD 200 thousand, in respect of the IPO.
	Operating profit	(3,229)	(2,331)	(1,253)	
Total	Revenues	85,334	52,730	32,187	
	Operating profit	16,040	10,185	5,529	
	(%)	18.8%	19.3%	17.2%	

6. Liquidity

As of December 31, 2021, the Company had a cash balance of USD 55,901 thousand; set forth below are the key components of the cash flows and the way they were utilized (in USD thousand):

	December 31, 2021	December 31, 2020	Company's explanations
Net cash provided by operating activities	12,283	11,151	The net cash flow from operating activities generated mainly from the Company's net income of USD 12.8 million.
Net cash used in investing activities	(6,473)	(3,452)	The net cash flow in investing activities was used in the reporting period to purchase companies and activities at the total amount of USD 3.6 million; (furthermore, a total of USD 12.3 million was paid by way of allocation of Turpaz shares as part of the FIT transaction, and the consideration paid in the SDA transaction to non-controlling interests, as included the cash flow from financing activities below), and the purchase of property, plant and equipment at the total amount of USD 2.9 million. During the corresponding period last year, a total of USD 2.9 million were invested in connection with the acquisition of companies and activities, and USD 0.5 million were invested in the acquisition of property, plant and equipment.
Net cash provided by (used in) financing activities	45,572	(9,215)	The increase in cash flow provided by financing activities is mainly attributed to the IPO proceeds of USD 62 million (net) that were partially offset by the consideration of USD 9.5 million paid in connection with the acquisition of the remaining SDA shares.
Exchange differences in respect of cash and cash equivalents	1,716	163	
Total change in cash and cash equivalents	53,098	(1,516)	

7. Financing sources

The Company funds its activity mainly from its equity, IPO proceeds, cash flows from operating activities and long-term loans. 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 December 31 2021		Data as of December 31 2020	
	USD thousand	% of total balance sheet	USD thousand	% of total balance sheet
Capital	93,116	53.9%	12,778	18.2%
Other long-term liabilities	35,420	20.6%	19,721	27.9%
Long-term liabilities from banks, net of current maturities	7,101	4.1%	8,770	12.6%
Short-term credit	11,113	6.4%	10,020	14.2%
Suppliers credit	15,860	9.2%	10,234	14.5%
Other long-term payables	10,059	5.8%	8,867	12.6%
Total	172,669	100%	70,390	100%

The average amount of the long-term loans in 2021 was USD 12,146 thousand.

The average amount of the short-term credit in 2021 was USD 7,539 thousand.

For more information regarding the average amount of suppliers and customers credit in 2021, see Section 1.19.2 to Chapter A (Description of the Company's Business).

As of December 31, 2021, the Company's working capital is USD 69.1 million, compared with working capital of USD 6.1 million as of December 31, 2020.

Furthermore, as of December 31, 2021, the Company's operating working capital⁷ is USD 20.6 million (24% of the sales), compared with working capital of USD 20.3 million (38.5% of sales) as of December 31, 2020.

8. Deterioration in global 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 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 activities in Asia and Eastern Europe might be adversely affected from the instability of their customers' economic system in the said countries and from restrictions on trade and financial restrictions.

⁷Operating working capital means - trade receivable plus the balance of inventory and net of trade payables.

The reference in this section to the Company's assessments as to future developments in the global and local economic environment, and in connection with the potential effects of these developments on Group's activity constitute forward-looking information as defined in the Securities Law. These developments and effects are not under the Company's control; they are uncertain and based on information available to the Company as of the publication date of this report.

9. For information about the effects of the Covid-19 pandemic on the Company's activity, see Section 1.8.3 to Chapter A to this report.

Part B - Corporate Governance Aspects

10. 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).

11. The corporation's donations policy

As of the report date the Company did not adopt a donations policy. There are no obligations to make donations in future periods.

12. 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's date, one independent director serves in the Company (as this term is defined in the Companies Law, 1999).

13. Internal Auditor

1.1. 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.

1.2. 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.

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

1.4. Scope of Internal Auditor work

The scope of the Internal Auditor's work varies in accordance with the annual audit plan. In 2021, the Internal Auditor started to conduct a 200-hour risk survey.

1.5. Work plan:

In 2021, the Internal Auditor started to conduct a risk survey in the Company. Commensurate with the risk survey, the Company's Board of Directors approved an annual work plan for 2022.

1.6. 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.

1.7. 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. No compensation was paid to the Internal Auditor in respect of 2021.

1.8. 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.

14. Independent auditor

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

The fees paid to the Company's independent auditor in respect of audit and related services, including tax services and other services related to the audit of the financial statements for 2020 and 2021 amounted to NIS 633.8 thousand and NIS 1,220 thousand, respectively.

The tax services include mainly the tax services in connection with the restructuring as described in Section 1.4.2 to Chapter A (Description of the Company's Business).

The independent auditor's fee is calculated as a function of the audited hours it invested. The Board of Directors is the organ approving the independent auditor's fees; the Board of Directors authorizes the Company's management to set the independent auditor's fee.

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

15. Valuations and estimates

Information regarding material valuation not attached to the report

Identifying the valuation's subject matter:	PPA in connection with the purchase of control in FIT
Valuation date:	October 28 2021
Value of the valuation's subject matter as per the valuation:	EUR 25,727 thousand
Details about the appraiser:	The valuation was carried out by Ziv Haft Consulting and Management Ltd., BDO. The work was conducted by a team headed by Sagiv Mizrahi (CPA), a partner and team leader in the Corporate Finance Department; Mr. Mizrahi has a BA in Applied Mathematics and an MBA (specializing in finance management); he has more than ten years of experience in advising businesses. The team specializes in valuations, PPAs, impairment testing, financial instruments, due diligence works, accounting and economic consultation and more.
Is there an indemnification agreement with the appraiser?	The Company undertook to indemnify the appraiser for any amount in excess of three times his fee, unless he acted negligently or maliciously.
The valuation model used by the appraiser:	Customer relations - MPPEM Knowhow - Relief from Royalties
The assumptions, based on which the appraiser carried out the valuation, in accordance with the valuation model:	WACC - 14.5% Long term growth rate - 2.5%

The Board of Directors wishes to thank the Company's management and its employees for the results achieved in 2021.

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

Dr. Israel Leshem, Director⁸

Date: March 13, 2022

⁸ Director authorized by the Board of Directors to sign.



Chapter C

Financial Statements as of December 31, 2021



TURPAZ INDUSTRIES LTD.
CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2021

IN USD THOUSAND

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AUDITOR'S 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, 2021 and 2020, 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, 2021. 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 audit.

We did not audit the financial statements of certain subsidiaries, whose assets included in consolidation constitute approximately 7.6% and 18% of total consolidated assets as of December 31, 2021 and 2020, and whose revenues included in consolidation constitute approximately 11.9%, 16.2% and 20.4% of total consolidated revenues for the years ended December 31, 2021, 2020 and 2019, 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, 2021 and 2020, 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, 2021, in conformity with International Financial Reporting Standards (IFRS) and with the provisions of the Israeli Securities Regulations (Annual Financial Statements), 2010.

Tel-Aviv, Israel
March 13, 2022

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		As of December 31	
		2021	2020
	Note	USD in thousands	
<u>Current assets</u>			
Cash and cash equivalents	6	55,901	2,803
Trade receivable	7	20,861	15,489
Other receivables	8	13,660	1,902
Inventory	9	15,660	15,064
		106,082	35,258
<u>Non-current assets</u>			
Deferred taxes	23	542	128
Property and equipment, net	10	17,918	15,860
Right-of-use assets, net	12	12,395	11,769
Intangible assets, net	11	16,943	3,057
Goodwill	11	18,789	4,318
		66,587	35,132
		172,669	70,390

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		As of December 31	
		2021	2020
	Note	USD in thousands	
<u>Current liabilities</u>			
Credit from banks and current maturities of long-term loans from banks and others	13	11,113	10,020
Liabilities to suppliers and service providers	14	15,860	10,234
Other payables	15	7,050	6,126
Short-term liabilities in respect of acquisitions	5	1,198	1,591
Current maturities of lease liabilities	12E	1,811	1,150
		37,032	29,121
<u>Non-current liabilities</u>			
Long-term loans from banks, net of current maturities	16	7,101	8,770
Long-term loans from others, net of current maturities	17	1,056	1,278
Provision for waste removal	17	5,174	5,445
Long-term leases liabilities	12	10,444	10,481
Long-term liabilities in respect of acquisitions	17	14,522	1,608
Deferred taxes	23	3,750	275
Liabilities in respect of employee benefits	19	362	305
Government grants	17	112	329
		42,521	28,491
<u>Commitments, charges and contingent liabilities</u>			
	20		
<u>Equity</u>			
	21		
Equity attributed to Company's shareholders			
Share capital		1	1
Share premium		74,449	--
Other capital reserves		(6,228)	--
Reserve in respect of translation differences		1,783	200
Retained earnings		22,430	9,823
		92,435	10,024
<u>Non-controlling interest</u>			
		681	2,754
<u>Total equity</u>			
		93,116	12,778
		172,669	70,390

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

March 13 2022			
Date of approval of financial statements:	Karenn Cohen Khazon Chairman of the Board of Directors and CEO	Israel Leshem Director authorized by the Board of Directors to sign the financial statements on March 13, 2022	Ohad Blustein CFO

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Note	For the year ended December 31		
		2021	2020	2019
		USD in thousands		
Revenues	25C	85,334	52,730	32,187
Cost of sales	22a	50,606	30,906	20,450
Gross profit		34,728	21,824	11,737
Research and development expenses	22b	1,949	862	550
Selling and marketing expenses	22c	6,274	3,848	2,968
General and administrative expenses	22d	10,257	6,625	6,820
Other expenses (income)	22e	208	304	(4,130)
Income from ordinary operations		16,040	10,185	5,529
Finance income	22f	762	407	26
Finance expenses	22f	(1,871)	(1,190)	(726)
Income before taxes on income		14,931	9,402	4,829
Taxes on income	23g	2,119	1,271	860
Net income for the year		12,812	8,131	3,969
Other comprehensive income (after tax effect):				
<u>Amounts that will not be subsequently reclassified to profit or loss</u>				
Adjustments arising from translation of financial statements from the functional currency to the presentation currency		4,300	(223)	972
<u>Amounts that will be subsequently reclassified or are reclassified to profit or loss under certain conditions:</u>				
Adjustments arising from translation of financial statements of foreign operations		(2,717)	596	(460)
Total comprehensive income		14,395	8,504	4,481
<u>Total net income attributed to:</u>				
Company's shareholders		12,607	7,860	3,969
Non-controlling interest		205	271	-
		12,812	8,131	3,969
<u>Total comprehensive income attributed to:</u>				
Company's shareholders		14,190	8,233	4,481
Non-controlling interest		205	271	-
		14,395	8,504	4,481
<u>Earning per share attributed to Company's shareholders (in USD)</u>				
	24			
Basic earnings per share		0.14	(*) (10,430)	(*)0.12
Diluted earnings per share		0.14	(*) (10,430)	(*)0.12

(*) Amended retroactively due to issuance of bonus shares, see Note 21A1.

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributed to Company's shareholders						Non-controlling interest	Total equity
	Capital	Share premium	Other capital reserves	Reserve in respect of translation differences	Retained earnings	Total		
	USD in thousands							
<u>Balance as of January 1 2021</u>	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
Issuance of share capital (*), (**)	--	74,449	--	--	--	74,449	--	74,449
Purchase of non-controlling interest	--	--	(6,412)	--	--	(6,412)	(2,278)	(8,690)
<u>Balance as of December 31 2021</u>	1	74,449	(6,228)	1,783	22,430	92,435	681	93,116

(*) The listing of the Company's securities on the Tel Aviv Stock Exchange was completed on May 23 2021, and the Company became a publicly-traded company (see Note 21A1.)

(**) As to the issuance of shares as part of the transaction for the purchase of control in FIT, see Note 5A.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributed to Company’s shareholders						
	Share capital	Share premium	Reserve in respect of translation differences	Retained earnings	Total	Non-controlling interest	Total equity
	USD in thousands						
<u>Balance at January 1 2020</u>	1	--	(173)	7,249	7,077	--	7,077
Net income	--	--	--	7,860	7,860	271	8,131
Total other comprehensive income	--	--	373	--	373	--	373
Total comprehensive income	--	--	373	7,860	8,233	271	8,504
Issuance of share capital (*)	--	--	--	--	--	--	--
Inclusion in consolidation	--	--	--	--	--	2,483	2,483
Distributions to owners (**)	--	--	--	(5,286)	(5,286)	--	(5,286)
<u>Balance as of December 31 2020</u>	1	--	200	9,823	10,024	2,754	12,778

(*) In November 2020, the Group executed a restructuring, as part of which subsidiaries' shareholders were allocated Company shares. (See Note 1b).

(**) See Note 21E.

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

	Attributed to Company's shareholders				
	Share capital	Share premium	Reserve in respect of translation differences	Retained earnings	Total
	USD in thousands				
Balance as of January 1 2019	1	7,796	(685)	3,280	10,392
Net income	-	-	-	3,969	3,969
Total other comprehensive income	-	-	512	-	512
Total comprehensive income	-	-	512	3,969	4,481
Capital reduction (see Note 21D)	-	(7,796)	-	-	(7,796)
Balance as of December 31 2019	1	-	(173)	7,249	7,077

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the year ended December 31		
	2021	2020	2019
	USD in thousands		
<u>Cash flows from operating activities</u>			
Net income for the year	12,812	8,131	3,969
Adjustments required to reflect the cash flows from operating activities (a)	(529)	3,020	(904)
Net cash provided by operating activities	12,283	11,151	3,065
<u>Cash flows from investing activities</u>			
Purchase of property, plant and equipment	(2,934)	(529)	(63)
Proceeds from sale of property, plant and equipment	108	--	--
Acquisition of activities (A)	(3,331)	(579)	(2,327)
Acquisition of consolidated companies consolidated for the first time (B)	(316)	(2,344)	--
Net cash used in investing activities	(6,473)	(3,452)	(2,390)
<u>Cash flows from financing activities</u>			
Receipt (repayment) of short-term credit	(847)	(322)	994
Issuance of share capital (net of issuance expenses)	62,055	--	--
Acquisition of shares from non-controlling interest in subsidiary	(9,522)	--	--
Capital reduction	--	--	(7,796)
Distributions to owners	--	(5,286)	--
Repayment of long-term leases liabilities	(1,847)	(1,896)	(573)
Receipt (repayment) of long-term loans	(2,667)	(207)	10,080
Repayment of liability in respect of purchase of activity	(1,600)	(1,504)	136
Net cash provided by (used in) financing activities	45,572	(9,215)	2,841
<u>Exchange differences in respect of cash and cash equivalents</u>	1,716	163	(87)
<u>Increase (decrease) in cash and cash equivalents</u>	53,098	(1,516)	3,516
<u>Balance of cash and cash equivalents at beginning of the year</u>	2,803	4,156	640
Balance of cash and cash equivalents at end of the year	55,901	2,803	4,156

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the year ended December 31		
	2021	2020	2019
	USD in thousands		
<u>Adjustments required to reflect the cash flows from operating activities</u>			
Adjustments to profit and loss items:			
Depreciation and amortization	3,797	3,338	4,522
Capital gain on sale of property, plant and equipment	(61)	--	--
Profit from the acquisition of activity	--	--	(4,148)
Change in liabilities for employee benefits, net	51	72	98
Cost of share-based payment	184	--	--
Finance expenses, net	1,109	783	700
Taxes on income	1,518	1,246	892
	<u>6,598</u>	<u>5,439</u>	<u>2,064</u>
Changes in operating asset and liability items:			
Increase in trade receivable	(3,580)	(3,408)	(4,527)
Increase (decrease) in other receivables	406	278	(413)
Increase in inventory	(5,226)	(3,686)	(308)
Increase in trade payables	4,151	3,112	1,514
Increase (decrease) in accounts payable	(16)	2,773	1,805
	<u>(4,265)</u>	<u>(931)</u>	<u>(1,929)</u>
	<u>2,333</u>	<u>4,508</u>	<u>135</u>
Cash paid and received during the year in respect of:			
Taxes paid	(2,404)	(1,194)	(755)
Interest paid, net	(458)	(294)	(284)
	<u>(529)</u>	<u>3,020</u>	<u>(904)</u>

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the year ended December 31		
	2021	2020	2019
	USD in thousands		
(A) Acquisition of activities (Appendix A)			
Inventory	984	167	4,483
Trade receivable	--	--	47
Property, plant and equipment	1,444	3	6,861
Intangible assets	903	547	4,911
Provision for waste removal	--	--	(6,667)
Liability in respect of purchase of activity	--	(138)	(3,160)
Profit from the acquisition of activity	--	--	(4,148)
Payment in respect of purchase of transactions	3,331	579	2,327
Acquisition of consolidated companies consolidated for the first time			
(B) (Appendix B):			
Assets and liabilities of the consolidated company as of purchase date:			
Working capital (excluding cash and cash equivalents)	(1,246)	1,108	--
Property, plant and equipment	3,697	5,563	--
Right-of-use assets	145	4,690	--
Intangible assets	14,222	1,284	--
Goodwill	14,533	412	--
Lease liabilities	(145)	(4,793)	--
Other non-current liabilities	(1,036)	(922)	--
Payables in respect of purchase of investments in consolidated companies	(13,904)	(2,516)	--
Deferred taxes	(3,556)	--	--
Investment in consideration for share issuance	(12,394)	--	--
Non-controlling interest	--	(2,483)	--
	(316)	2,344	--
(C) Material non-cash operations			
Recognition of right-of-use asset against lease liabilities	5,252	1,934	6,505
Investment in consideration for share issuance	12,394	--	--
Purchase of property, plant and equipment using suppliers credit	--	187	59

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - GENERALA. General description of the Group and its activity

Turpaz Industries Ltd. (hereinafter - 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 is engaged, independently and through subsidiaries in Israel, the USA, South East Asia and Europe in development, production and marketing in 4 operating segments: (1) flavor extracts; (2) fragrance extracts; (3) specialty intermediates for the pharma industry; (4) specialty ingredients.

The listing of the Company’s securities on the Tel Aviv Stock Exchange 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. Karenn Cohen Khazon is the Company’s controlling shareholder, and serves as the Company’s CEO and Chairperson of the Company’s Board of Directors.

B. Restructuring

On November 5 2020, the Company (hereinafter - the “Transferee Company”) and Chemada (hereinafter - the “Transferor Company”) and its shareholders signed a merger agreement (hereinafter - the “Merger Agreement”) that involved exchange of shares in accordance with the provisions of Section 103T to the Income Tax Ordinance; the said agreement was signed after it was approved by the Boards of Directors of each of the companies. In accordance with the Merger Agreement, the companies will be merged by way of exchange of shares in accordance with the provisions of Section 103T to the Income Tax Ordinance, such that upon completion of the merger transaction, the Company will hold the entire share capital of Chemada.

On November 5 2020, the Company (hereinafter - the “Transferee Company”) and Turpaz Perfume and Flavor Extracts Ltd. (hereinafter - the “Transferor Company”) and its shareholders signed a merger agreement (hereinafter - the “Merger Agreement”) in accordance with the provisions of Section 103T to the Income Tax Ordinance; the said agreement was signed after it was approved by the Boards of Directors of each of the companies. In accordance with the Merger Agreement, the companies will be merged by way of exchange of shares in accordance with the provisions of Section 103T to the Income Tax Ordinance, such that upon completion of the merger transaction, the Company will hold the entire share capital of Turpaz.

In view of the Merger Agreements as described above, and since the companies are controlled by the same controlling shareholders before and after the merger, the allocation of shares does not constitute a business combination that falls within the scope of IFRS 3. The Company accounts for the merger in a manner similar to the pooling of interests method. The Company has drawn up consolidated financial statements for the purpose of an IPO of the Company’s shares on the Stock Exchange in order to account for the merger as if it took place at the beginning of the earliest period presented in the financial statements (January 1 2019). Furthermore, the consolidated financial statements include the consolidated financial position and the consolidated results of operations and cash flows of the Company and the merged companies.

C. The consequences of the Covid-19 crisis

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - GENERAL (cont.):

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

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

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

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

The business and economic activities in countries where the Company operates might be adversely affected should the Covid-19 pandemic be on the increase and infection rates increase. Those events may impact the Company's ability to continuously operate its facilities and conduct its marketing and sale activities, including restrictions on access to markets across the world; furthermore, those events might have an adverse effect on the Company's ability to obtain financing to implement its growth strategy through M&Ss.

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

D. Geopolitical conditions

Tensions between Russia and the Ukraine, which escalated to a military conflict, might impact international trade and many economies in the world, including in countries in which the Company operates, and cause geopolitical crises in other regions such as South East Asia. In addition, the uncertainty might affect 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - GENERAL (cont.):

E. Definitions

In these financial statements -

The Company	-	Turpaz Industries Ltd.
The Group	-	Turpaz Industries Ltd. and its consolidated companies, as described in Note 5M below.
Consolidated companies	-	Companies that the Company controls (as per IFRS 10), and whose financial statements are consolidated with those of the Company.
Related parties	-	As defined in IAS 24.
Interested parties and controlling shareholders	-	As defined in the Securities Regulations (Preparation of Annual Financial Statements), 2010.
Dollar	-	US dollar
Index	-	The Consumer Price Index, as published by the Israel Central Bureau of Statistics.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

Unless otherwise stated, the accounting policies set out below have been applied consistently for all periods presented in these financial statements.

A. Financial statements presentation basis

The financial statements are drawn up in accordance with IFRS.

Furthermore, the financial statements are drawn up in accordance with the provisions of the Securities Regulations (Preparation of Annual Financial Statements), 2010.

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

The Company opted to present income or loss items in accordance with 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 Company's consolidated financial statements include the financial statements of companies in which the Company has control (subsidiaries). Control is achieved when the Company has power over the investee, exposure, or rights, to variable returns from its involvement with the investee, and the ability to use its power over the investee to affect the amount of the returns stemming from the investee. When assessing control, an investor considers potential voting rights only if they are substantive. Consolidation of the financial statements of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control over the subsidiary.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (cont.):

The financial statements of the Company and its subsidiaries are prepared as of the same dates and periods. The accounting policies in the financial statements of the subsidiaries were applied uniformly and consistently with those applied in the Company's financial statements. Inter-company balances and any unrealized income and expenses arising from transactions between the Company and its subsidiaries, were fully eliminated in the preparation of the consolidated financial statements.

Non-controlling interest in respect of subsidiaries represents equity in the subsidiaries not attributable, directly or indirectly, to the parent company. Non-controlling interests are presented separately within the Company's equity. Income or loss and any other comprehensive income components are attributed to the Company and to non-controlling interests. Losses are attributed to non-controlling interests even if they result in a negative balance of non-controlling interests in the consolidated statement of financial position.

Changes in ownership interests in subsidiaries that do not result in a loss of control are recognized as equity transactions by adjusting the outstanding balance of non-controlling interests against the equity attributed to Company's shareholders, net of/plus consideration paid or received.

D. Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of acquisition is measured at the fair value of the proceeds transferred at acquisition date, plus any non-controlling interests in the acquiree. In any business combination, the Company elects whether to measure the non-controlling interests in the acquiree at fair value at acquisition date or in accordance with the proportionate share in the fair value of the net identified assets of the acquiree.

Direct acquisition costs are carried to the income statement as incurred.

In a business combination carried out in stages, the acquirer's equity interest held in the acquiree prior to obtaining control is measured at fair value as of acquisition date, and any revaluation of the previous investment is recognized in the income statement at the date control was obtained.

Contingent consideration is recognized at its fair value at acquisition date. Contingent consideration is classified as a financial asset or liability according to IFRS 9. Subsequent changes in the fair value of the contingent consideration are recognized in the income statement. If the contingent consideration is classified as an equity instrument, it is measured at fair value on the acquisition date without subsequent measurement.

Goodwill is initially measured at cost, which represents the difference between the acquisition consideration and the amount of non-controlling interests and net identified assets acquired and liabilities assumed. If the resulting amount of goodwill is negative, the acquirer will recognize the resulting gain on acquisition date.

E. The functional currency, presentation currency and foreign currency1. The functional currency and the presentation currency

The Company's presentation currency is the Dollar.

The financial statements are presented in Dollars since in the Company's opinion financial statements in Dollars provide relevant information to Israel-based investors and users of the financial statements.

The Group determines the functional currency of each Group company.

The functional currency of the Company is NIS.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (cont.):

The assets and liabilities of an investee that is a foreign operation, including excess of cost generated, are translated at the closing exchange rate at each reporting date. Profit or loss items are translated at average exchange rates for the presented periods. Translation differences generated are charged to other comprehensive income (loss).

2. Transactions, assets and liabilities denominated in currencies other than the functional currency

Transactions denominated in foreign currency (a currency other than the functional currency) are recorded upon initial recognition at the exchange rate on the date of the transaction. Subsequent to initial recognition, monetary assets and liabilities denominated in foreign currency are translated at each balance sheet date into the functional currency at the exchange rate as of that date. Exchange rate differences are carried to the income statement. Non-monetary assets and liabilities denominated in foreign currency and presented at fair value are translated into the functional currency at the exchange rate prevailing on the date on which the fair value was determined. Non-monetary assets and liabilities presented at cost are translated at the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currency and presented at fair value are translated into the functional currency at the exchange rate prevailing on the date on which the fair value was determined.

3. Monetary items linked to the Consumer Price Index

Monetary assets and liabilities linked to changes in the Israeli Consumer Price Index (hereinafter - the "CPI") are adjusted in accordance with the relevant CPI on each reporting date according to the terms and conditions of the agreement. Exchange rate differences stemming from such adjustment are carried to the income statement.

F. Cash equivalents

Cash equivalents are considered by the Company to be highly liquid investments which include short-term bank deposits (with an original maturity not exceeding three months from investment date)

which are not restricted with a lien, but may be withdrawn immediately without penalty, and constitute part of the Group's cash management.

G. Short-term deposits

Short-term deposits with banks with an original maturity not exceeding three months from investment date, and which are not considered cash equivalents. The deposits are presented in accordance with their deposit terms.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (cont.):H. Inventory

Inventory is valued at the lower of cost or net realization value. The cost of inventory includes all costs of purchase, and other costs incurred in bringing the inventory to its present location and condition. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable completion and selling costs.

The cost of inventory is determined as follows:

Raw materials	- Based on cost of purchase on the first-in, first-out basis.
Products in process and finished products	- Based on average cost that includes materials, labor and direct costs and other overheads.
Purchased goods and products	- on the weighted average basis.

I. Revenue recognition

Revenues from contracts with customers are recognized in the statement of profit or loss when control in the asset or service is transferred to the customer. The transaction price is the consideration receivable according to the terms of the contract, net of amounts collected in favor of third parties (such as taxes).

When determining the amount of revenue from contracts with customers, the Company assesses whether it is acting as a principal or as an agent in a contract. When the Company controls the specified good or service before it is transferred to the customer, the Company is acting as a principal. In such cases, the Company recognizes revenue on a gross basis. Where the Company operates as an agent, it recognizes revenues on a net basis, after deducting the amounts payable to the principal.

Revenues from the sale of goods

Revenues from the sale of goods is recognized in profit or loss in a point in time, upon transfer of control of the sold goods to the customer. Control is usually transferred on the date on which the goods are delivered to the customer.

Variable consideration

The Company determines the transaction price separately for each contract with customers. When exercising this judgement, the Company takes into consideration the impact of each variable consideration in the contract, such as rebates, penalties, variations, claims and non-cash consideration. In determining the effect of the variable consideration, the Company normally uses the "most likely amount" method described in the standard whereby the transaction price is determined based on the single most likely amount in a range of possible consideration amounts in the contract.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (cont.):

Taking into account the single most reasonable amount within the range of potential consideration amounts within the contract. The Company includes in the transaction price amounts of variable consideration only to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

Liabilities in respect of returns from customers

In some of its transactions the Company gives the customer a right to return the product after it was purchased. In transactions that include a right to return products, the Company recognizes the revenue for the transferred products in the amount of consideration to which it expects to be entitled for products in respect of which there is not expectation that they will be returned, and a corresponding refund liability. The Company updates the measurement of the refund liability at the end of each reporting period for changes in expectations about the amount of refunds, and recognizes corresponding adjustments as revenue (or reductions of revenue). Furthermore, in the statement of financial position the Company presents an asset in respect products sold to customers, and for which the Company has a right to recover them from the customers; this asset is presented separately from the refund liability. At the end of each reporting period, the Company updates the balance of the asset in accordance with changes in expectations about products to be returned against a corresponding increase or decrease in cost of sales.

J. Government grants

Government grants are recognized when there is reasonable assurance that the grants will be received and the Company will meet all the terms for receipt thereof.

Government grants received from the Israel Innovation Authority, are recognized upon receipt as a liability, if there is reasonable assurance that the research activity will lead to sales that will entitle the government with royalties.

On each reporting date, the Company assesses if there is reasonable assurance that some or all of the liability that was recognized will not be settled (since the Company will not be required to pay royalties), based on the best estimate of future sales, while using the original effective interest rate; if there is such reasonable assurance, the corresponding liability is derecognized against a decrease in research and development expenses.

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

K. Taxes on income

The tax results in respect of current or deferred taxes are carried to the statement of income, unless they refer to items carried to other comprehensive income or equity.

1. Current taxes

The liability in respect of current taxes is calculated based on the tax rates and the tax laws enacted, or substantively enacted, by the reporting date, as well as required adjustments in respect of the tax liability in respect of previous years.

2. Deferred taxes

Deferred taxes are calculated in respect of temporary differences between the amounts of assets and liabilities as reported in the financial statements and those taken into account for tax purposes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (cont.):

Deferred tax balances are calculated according to the tax rates expected to be in effect when the deferred tax liability is settled, or when the deferred tax asset is realized, based on the tax rates and tax laws that have been enacted or substantively enacted by the reporting date.

On each reporting date, deferred tax assets are assessed in accordance with the expectation that they will be utilized. Carryforward losses and deductible temporary differences, in respect of which deferred taxes were not recognized, are measured at each reporting date, and a corresponding deferred tax asset is recognized in respect thereof, if it is expected that they will be utilized.

Taxes that would apply in the event of the disposal of investments in investee companies have not been taken into account in calculated deferred taxes, as long as the disposal of the investments in investee companies is not probable in the foreseeable future. Also, deferred taxes that would apply in the event of distribution of profits by investees as dividends have not been taken into account in calculating deferred taxes, since the distribution of the dividend does not involve an additional tax liability, or since it is the Company's policy not to trigger distribution of dividends by a consolidated company that triggers an additional tax liability.

L. Leases

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

1. The Group as a lessee

In transactions in which the Company acts as lessee, the Company recognizes a right-of-use asset against a lease liability on the inception date of the lease contract, except in the case of lease transactions with lease term of up to 12 months and lease transactions for which the underlying asset is of low value, in respect of which the Company opted to recognize the lease payments as an expense in the income statement on a straight-line basis over the lease period. As part of the measurement of the lease liability, the Company opted to implement the expedient available under the standard and did not separate between lease and non-lease components, such as: management services, maintenance services and more, which are included in the relevant transaction.

The lease liability on inception date includes all outstanding lease payments discounted by the interest rate implicit in the lease, if that rate can be readily determined, or by the Company's incremental borrowing rate. After the inception date, the Company measures the lease liability using the effective interest method.

The right-of-use asset on inception date is measured based on the lease liability plus lease payments paid on or before inception date plus transaction costs incurred.

The right-of-use asset is measured using the cost model and amortized over the shorter of its useful life and the lease period. When there are indications for impairment, the Company tests the right-of-use asset for impairment in accordance with the provisions of IAS 36.

2. Index-linked lease payments

On the lease's inception date, the Company uses the existing index rate as of the commencement date for the purpose of calculating the future lease payments.

In transactions in which the Company is a lessee, changes in the amount of the future lease payments as a result of a change in the index are discounted (without changing the discount rate applicable to the lease liability) to the carrying amount of the right-of-use asset, and are recognized as an adjustment to the carrying amount of the lease liability, only when there has been a change in the cash flows resulting from a change in the index (meaning, on the date on which the adjustment of the lease payments comes into effect).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (cont.):3. Variable lease payments

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

4. Lease extension and termination options

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

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

5. Lease modifications

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

If a lease modification decreases the scope of the lease, the Company recognizes the gain or loss arising from the partial or full derecognition of the carrying amount of the right-of-use asset and the lease liability. Subsequently, the Company remeasures the lease liability based on the modified lease terms using a revised discount rate as of the modification date and records the change in the lease liability as an adjustment to the right-of-use asset.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (cont.):****M. Property, plant and equipment**

The items of property, plant and equipment are presented at cost plus directly attributable acquisition costs, net of any accumulated depreciation and any accumulated impairment losses, and investment grants received in respect thereof, but excluding current maintenance costs. Cost includes spare-parts and supplies used in the property, plant and equipment items.

Depreciation is calculated at equal annual rates on a straight-line basis over the asset's useful life, as follows:

	<u>%</u>	<u>Mainly %</u>
	8-10	8.33
Machinery and equipment	15	15
Computers and peripheral equipment	25-33	33
Office equipment and furniture	10	10
Vehicles	15	15
Leasehold improvements	See below.	

Leasehold improvements are amortized using the straight-line method over the shorter of the term of the lease (including the extension option held by the Group which it intends to exercise), and the estimated useful life of the improvements.

Components of a depreciable property, plant and equipment item that are considered to be significant in relation to the total cost of the asset are depreciated separately, in accordance with the components method. Depreciation is calculated on a straight-line basis in annual instalments that are considered to be sufficient to depreciate the assets over their useful life.

The useful life, the depreciation method and the residual value of each asset are reviewed at least every year-end, and any changes are accounted for prospectively as a change in accounting estimate. As to testing property, plant and equipment for impairment, see Section XX below.

The Company recognizes the replacement cost of a part of a property, plant and equipment item as part of the balance of that item as per the financial statements when the cost was incurred, if it is probable that future economic benefits associated with the item will flow to the Group, and the cost of the item can be measured reliably. Regular maintenance costs are carried to the income statement as incurred.

An asset is derecognized from the financial statements on disposal date, or when no future economic benefits are expected from its use. Gain or loss from the derecognition of the asset (calculated as the difference between net consideration from derecognition and the depreciated cost in the financial statements), is included in the income statement in the period in which the asset was derecognized.

N. Intangible assets

Separately acquired intangible assets are measured on initial recognition at cost plus direct acquisition costs. Intangible assets acquired in business combinations are included at fair value at the acquisition date. Costs in respect of internally generated intangible assets, excluding capitalized development costs, are recognized in profit or loss when incurred.

Intangible assets with finite useful life are amortized on a straight-line basis over their estimated useful life, subject to impairment testing when there are indications of impairment. The amortization period and the method of amortizing an intangible asset with a finite useful life are reviewed at least at every year-end.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (cont.):

Intangible assets with indefinite useful lives are not systematically amortized, and are subject to impairment testing every year and whenever there is an indication that impairment has occurred. The useful life of these assets is reviewed every year to determine whether their indefinite life assessment continues to be supportable. If the events and circumstances no longer support the assessment, the change in the estimated useful life from indefinite to finite is accounted for as a change in accounting estimate, and on that date the asset is tested for impairment. As from that date, the asset is amortized systematically over its useful life.

Research and development costs

Research costs are carried to the income statement as incurred.

Costs incurred in respect of an internally-developed project are recognized as an intangible asset only if: It is technically feasible to complete the intangible asset so that it will be available for use; the Company intends to complete the intangible asset and use or sell it; there is an ability to use or sell the intangible asset; it can be demonstrated how the intangible asset will generate probable future economic benefits; adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available, and the costs attributable to the intangible during its development can be reliably measured.

The asset is measured at cost and presented net of accumulated amortization and impairment loss. The amortization of the asset starts when development is completed and the asset is available for use. The asset is amortized over its useful life. The asset is tested for impairment once a year and over the development period.

When it is not possible to recognize an internally generated intangible asset, development costs are carried to profit or loss as incurred. Development expenses that were previously expensed to profit and loss are not recognized as intangible assets in subsequent reporting periods.

Set forth below is the useful life of intangible assets:

	<u>Goodwill</u>	<u>Customer relations</u>	<u>Product formulae</u>	<u>Brand</u>	<u>Orders backlog</u>
Useful life:	Indefinite	1.5-10 years	10-20 years	4-15 years	0.25 years
Amortization method:	Not amortized	Straight-line	Straight-line	Straight-line	Straight-line
Internally-developed or purchased:	Purchased	Purchased	Purchased	Purchased	Purchased

O. Impairment of non-financial assets

The Company reviews whether any events have occurred or changes in circumstances have taken place which indicate that the carrying amount of non-financial assets is not recoverable and therefore an impairment of non-financial assets should be recorded.

In cases where the carrying amounts of non-financial assets exceed their recoverable amounts, the assets' carrying amounts are written-down to their recoverable amounts. The recoverable amount is the higher of the fair value of the asset and its value in use. The value in use is determined by discounting the anticipated cash flows at a pre-tax discount rate that reflects the specific risks of each asset. For assets that do not generate cash flows independently, a recoverable amount is determined for the cash generating unit to which the asset belongs. Impairment losses are carried to the statement of income.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (cont.):

An impairment loss recognized for an asset, other than goodwill, shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. Reversal of an impairment loss, as above, is limited to the lower of the impairment loss that was previously recognized (net of depreciation or amortization) and the asset's recoverable amount. The reversal of impairment loss of an asset measured at cost is recognized in profit or loss.

The following specific criteria are applied when assessing impairment of goodwill:

1. Goodwill in respect of consolidated companies

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

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 was allocated. When the recoverable amount of the cash-generating unit (or group of cash-generating units) to which goodwill was allocated is lower than the carrying amount of the said cash-generating unit (or group of cash-generating units), any impairment loss is first allocated to goodwill. Impairment losses recognized for goodwill cannot be reversed in subsequent periods.

P. Financial instruments

1. Financial assets

Financial assets are initially recognized at fair value plus directly attributable transaction costs, 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

On each reporting date, the Company checks the provision for losses in respect of financial debt instruments that are not measured at fair value through profit or loss.

The Company distinguishes between two situations of recognition of a provision for loss:

- a) Debt instruments whose credit quality has not suffered significant deterioration since initial recognition, or cases where the credit risk is low - the provision for loss to be recognized in respect of this debt instrument shall take into account credit losses expected in the 12 months period after reporting date, or;
- b) Debt instruments whose credit quality has suffered significant deterioration since initial recognition, and whose credit risk is not low - the provision for loss to be recognized in respect of this debt instrument shall take into account credit losses expected over the remaining life of the instrument.

The Company has financial assets with short credit periods, such as trade receivables, to which it applies the expedient set in the standard, i.e., the Company measures the provision for loss at an amount equal to the expected credit losses over the entire life of the instrument.

Impairment in respect of debt instruments measured at amortized cost will be carried to profit or loss against a provision, whereas impairment in respect of debt instruments measured at fair value through other comprehensive income will be carried to income or loss against other comprehensive income and will not reduce the carrying amount of the financial asset in the statement of financial position.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (cont.):

The Company applies the expedient set in the standard, whereby it assumes that the debt instrument's credit risk has not increased significantly since initial recognition, if on reporting date it is determined that the instrument has a low credit risk, for instance when the instrument has an investment grade credit rating with at least one major rating agency.

Furthermore, the Company is of the opinion that if contractual payments in respect of a debt instrument are more than 30 days overdue, the credit risk has increased significantly, unless there is reasonable and supportable information that proves that the credit risk has not increased significantly.

3. Derecognition of financial assets

The Company derecognizes financial asset only when:

- (a) The contractual rights to the cash flows from the financial asset expired, or
- (b) The Company transferred substantially all the risks and rewards deriving from the contractual rights to receive cash flows from the financial asset or retained some of the risks and rewards of the asset, but has transferred control of the asset; or
- (c) The Company has retained its contractual rights to receive cash flows from the financial asset but has assumed a contractual obligation to pay the cash flows in full without material delay to a third party.

Factoring is accounted for as derecognition when the above conditions are met.

When the Company transferred its rights to receive cash flows from the asset, but has neither transferred nor retained substantially all the risks and rewards of the asset, and retained control of the asset, a new asset is recognized only to the extent of Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Company could be required to pay (the guarantee amount).

When the Company continues to recognize the asset in accordance with the extent of its continuing involvement therein, the Company also recognizes the corresponding liability. The corresponding liability is measured such that the net carrying amount of the transferred asset and the corresponding liability is:

- (a) The amortized cost of the rights and obligations retained by the Company if the transferred asset is measured at amortized cost ; or
- (b) Equal to the fair value of the rights and obligations retained by the Company when measured on a standalone basis, if the transferred asset is measured at fair value.

4. Financial liabilities1. Financial liabilities measured at amortized cost

On the date of initial recognition, the Company measures its financial liabilities at fair value, net of transaction costs that are directly attributable to the issuance of the financial liability.

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (cont.)5. Derecognition of financial liabilities

The Company derecognizes a financial liability when, and only when, it is extinguished - i.e., when the obligation specified in the contract is discharged or cancelled or expires.

A financial liability is extinguished when the debtor discharges the liability in cash, other financial assets, goods or services, or is legally released from the liability.

In the event of modification to the terms of an existing financial liability, the Company assesses whether the terms of the liability are materially different than those of the existing liability, and takes into account qualitative and quantitative considerations.

When a material change is made to the terms of an existing financial liability, or where the liability is replaced by another liability between the Company and that lender with substantially different terms, the change is treated as derecognition of the original liability and recognition of a new liability. The difference between the balance of these two liabilities in the financial statements is carried to profit or loss.

If the modification or the exchange is not substantial, the Company is required to update the carrying amount of the original liability by discounting the modified cash flows discounted at the original effective interest rate, and recognize a gain or loss in profit or loss.

6. Offsetting of financial instruments

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

The right to offset must be legally enforceable not only in the ordinary course of business of the parties to the contract, but also in the event of bankruptcy or insolvency of one of the parties. In order for the offset right to be readily available, it must not be contingent on a future event, or have periods of time in which it is inapplicable, nor events that may cause it to expire.

Q. Fair value measurement

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

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or, in the absence of a principal market, in the most advantageous market for the asset or liability.

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (cont.):R. Provisions

A provision in accordance with IAS 37 is recorded in the books of accounts when the Group has an existing legal or constructive obligation due to past events, it is expected that a negative cash flow shall be required to settle the obligation, and the obligation can be reliably estimated. When the Group expects that some or all of the expense will be reimbursed to the Company, such as in an insurance contract, the repayment will be recognized as a separate asset, only when it is highly likely that the asset will be received. The expense is recognized in the income statement less the reimbursement of the expense.

Set forth below are the types of provisions included in the financial statements:

Warranty

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

Legal claims

A provision for claims is recognized when the Group has an existing legal or constructive obligation due to past events, it is more likely than not that a negative cash flow shall be required to settle the obligation, and the obligation can be reliably estimated.

Provision for waste removal

The provision was recorded in respect of activity purchase agreements, under which the subsidiary (Chemada Industries Ltd.) undertook to bear the cost of removing organic chemical substances from the plant's premises. The Group assesses the quantities of waste in the plant on a regular basis, and records a provision accordingly.

S. Liabilities for employee benefits

The Group has a number of types of employee benefits:

1. Short-term employee benefits

Short-term employee benefits are benefits that are expected to be settled in full within 12 months after the end of the annual reporting period in which the employees render the related services. Those employee benefits include salaries, paid leave, sick leave, recreation pay and national insurance contributions; the benefits are recognized as expenses upon provision of the services. A liability in respect of a cash bonus or a profit-sharing plan is recognized when the Group has a legal or constructive obligation to make such payment as a result of past service rendered by an employee and a reliable estimate of the amount can be made.

2. Post-employment benefits

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

The Group has defined contribution plans in accordance with Section 14 to the Severance Pay Law, whereby the Group makes regular contributions without having any legal or constructive obligation to make any future severance pay payments, if the plan does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (cont.):3. Other long-term employee benefits

Group employees are entitled to adaptation grants. Those benefits are accounted for as other long-term benefits since the Company expects that these benefits will be utilized and the Group's obligation in respect thereof will be settled during the employment period and after one year from the end of the annual reporting period in which the employees rendered the related service.

T. Share-based payment transactions

The cost of equity-settled transactions is measured in accordance with the fair value of the equity instruments on award date. The fair value is determined using a generally accepted options pricing model. As to other service providers, the cost of the transactions is measured in accordance with the fair value of the goods or services received in return for the equity instruments that were granted. The cost of equity-settled transactions is recognized in profit or loss in addition to a corresponding increase in equity over the period in which the conditions of performance and/or service are met and ends on the date on which the relevant employees are entitled to the compensation (hereinafter - the "Vesting Period"). The recognized cumulative expense in respect of equity-settled transactions as of the end of each reporting period up to the vesting date reflects the extent to which the vesting period has elapsed, and the Group's best estimate of the number of equity instruments that will eventually vest.

U. Earnings per share

Earnings per share are calculated by dividing the net income attributable to the Company's shareholders by the weighted number of ordinary shares outstanding in the period.

Potential ordinary shares are included in the calculation of diluted earnings per share when their conversion dilutes earnings per share from continuing operations. Potential ordinary shares that have been converted during the period are included in the diluted earnings per share only until the conversion date, and starting from that date - they are included in basic earnings per share. The Company's share in the earnings of investees is based on its share in the earnings per share of the investees multiplied by the number of shares held by the Company.

NOTE 3:- SIGNIFICANT CONSIDERATIONS, ESTIMATES AND ASSUMPTIONS USED IN THE PREPARATION OF THE FINANCIAL STATEMENTS

In applying the principal accounting policies, the Group exercised judgement and weighted the considerations regarding the following issues, which have the most material effect on the amounts recognized in the financial statements:

A. The considerationsDiscount rate of a lease liability

The lease's implicit interest rate is not readily available to the Company; therefore, in order to calculate the lease liability, it uses the Company's incremental interest rate. The incremental interest rate set by the Company is the interest rate that the Company would have to pay when borrowing, for a similar term and with a similar collateral, the resources necessary to obtain the asset with a value similar to the right-of-use asset in a similar economic environment. Where there are no financing transactions that can be based upon by the Company, it determines the incremental interest rate in accordance with the financing risk attributed to the Company, the lease period, and other economic parameters arising from conditions and restrictions included in the lease. Sometimes the Company uses the services of an external appraiser in order to determine the incremental interest rate.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3:- SIGNIFICANT CONSIDERATIONS, ESTIMATES AND ASSUMPTIONS USED IN THE PREPARATION OF THE FINANCIAL STATEMENTS (cont.)

B. Estimates and assumptions

The preparation of financial statements requires Company's management to use estimates, assumptions and assessments that impact the application of the accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates and underlying assumptions are reviewed on an ongoing basis. Changes in accounting estimates are recorded in the period during which the estimate was changed.

Set forth below are the main assumptions made as part of the preparation of the financial statements in connection with uncertainties as of reporting date and critical estimates made by the Group, a material change therein may change the value of assets and liabilities in the financial statements for the next reporting year:

- Grants from the Israel Innovation Authority

Government grants received from the Israel Innovation Authority of the Ministry of Industry, Trade and Labor are recognized as a liability if economic benefits are expected as a result of research and development activities leading to sales that would qualify the government to royalties. There is uncertainty regarding the estimated future cash flow that was used for the determining the amount of liability.

- Legal claims

In assessing the likely outcome of legal claims filed against the Company and its investees, the companies relied on the opinion of their legal counsels. Those assessments by the legal counsels are based on their best professional judgement, considering the stage of the proceedings, and based on accumulated legal experience on different matters. Since the outcomes of the claims are to be determined in court, they may be different than those estimates.

- Impairment of goodwill

The Group tests its goodwill for impairment at least once a year. The test requires management to estimate the future cash flow expected to arise from continued use of the cash generating unit to which the goodwill was allocated, and to estimate a suitable discount rate for those cash flows.

- Deferred taxes

Deferred tax assets are recognized in respect of carryforward losses and unused deductible temporary differences, if it is expected that future taxable income will exist against which they can be utilized. A management estimate is required to determine the amount of the deferred tax asset that can be recognized based on the timing, amount of expected taxable income, its origin and the tax planning strategy.

- The amortization period and the method of amortizing intangibles

The amortization period and the amortization method of intangible assets with a finite useful life are reviewed at least at every year-end.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4: DISCLOSURE REGARDING NEW IFRS THAT HAVE NOT YET BEEN APPLIEDA. Amendment to IAS 16 Property, Plant and Equipment

In May 2020, the IASB published an amendment to IAS 16 (hereinafter - the “Amendment”). The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment, any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, the Company will recognize the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment will apply to annual reporting periods commencing on January 1 2022 or thereafter. Early adoption is permitted. The amendment must be applied retrospectively only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the Company first applies the amendment. The Company will recognize the cumulative effect of initially applying the Amendment as an adjustment to the opening balance of retained earnings at the beginning of the reporting period in which it first applies the amendment.

The Company is of the opinion that the application of the Amendment is not expected to impact the financial statements.

B. Amendment to IAS 37 Provisions, Contingent Liabilities and Contingent Assets

In May 2020, the IASB issued an amendment to IAS 37 regarding the costs an entity needs to include when assessing whether a contract is onerous (hereinafter - the “Amendment”).

In accordance with the Amendment, this assessment should include both incremental costs (e.g., the costs of direct labor and raw materials), and an allocation of costs directly related to contract activities (e.g., depreciation of property, plant and equipment used to fulfil the contract).

The amendment will apply to annual reporting periods commencing on January 1 2022 or thereafter. The Amendment will apply to contracts, the obligations in respect of which have not yet been fulfilled as of January 1 2022. Early adoption is permitted.

The Company is of the opinion that the said amendments are not expected to have a material effect on the financial statements.

C. The IASB’s 2018-2020 Cycle of Improvements to IFRSs

In May 2020, the IASB published certain amendments as part of its 2018-2020 cycle of improvements to IFRS. Set forth below is the main amendment relating to IFRS 9:

The amendment to IFRS 9 clarifies the fees the Company should include when applying the “10 percent” test to assess whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability.

The amendment will apply to annual reporting periods commencing on January 1 2022 or thereafter. Early adoption is permitted. The amendment is applied to debt instruments modified or replaced since the year in which the amendment to the standard was initially applied.

The Company is of the opinion that the said amendments are not expected to have a material effect on the financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4: DISCLOSURE REGARDING NEW IFRS THAT HAVE NOT YET BEEN APPLIED (cont.)D. Amendment to IAS 1, *Presentation of Financial Statements*

In January 2020, the IASB issued an amendment to IAS 1 regarding the requirements for classifying liabilities as current or non-current (hereinafter - the “Amendment”).

The Amendment clarifies the following matters:

- That which is meant by unconditional right to defer settlement;
- The right to defer must exist as of the end of the reporting date;
- Classification is not affected by the likelihood that an entity will exercise the right to defer;
- Only if a derivative embedded in the convertible liability is an equity instrument, the terms and conditions of the liability will not affect its classification.

The amendment will apply to annual reporting periods commencing on January 1 2023 or thereafter. The Amendment shall be applied retrospectively.

The Company is of the opinion that the said amendments are not expected to have a material effect on the financial statements.

E. Amendment to IAS 12, *Taxes on Income*

In May 2021, the IASB issued an amendment to IAS 12, Taxes on Income (hereinafter - “IAS 12” or the “Amendment”), which reduces the applicability of the “initial recognition exception” described in Sections 15 and 24 to IAS 12 (hereinafter - the “Amendment”).

As part of the guidelines for recognition of deferred tax assets and liabilities, IAS 12 excludes the recognition of deferred tax assets and liabilities in respect of certain temporary differences arising from initial recognition of certain assets and liabilities in certain transactions. This exception is named the “initial recognition exception”. The Amendment narrows the scope of the “initial recognition exception”, and clarifies that it no longer applies to recognition of deferred tax assets and liabilities stemming from a transaction which is not a business combination and in respect of which equal taxable and deductible temporary differences arise, even if they meet all other conditions of the exception.

The amendment will apply to annual reporting periods commencing on January 1 2023 or thereafter. Early adoption is permitted. Regarding lease transactions and recognition of decommissioning and obligations - the standard will be applied as from the beginning of the earliest reporting period presented in the financial statements in which the Amendment was applied for the first time; and the cumulative effect of the initial application will be carried to the opening balance of retained earnings (or any other equity component, if relevant) as of that date.

The Company is of the opinion that the application of the Amendment is not expected to impact the financial statements.

F. Amendment to IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*

In February 2021, the IASB published an amendment to IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors (hereinafter - the “Amendment”). The purpose of the amendment is to present a new definition of the term “accounting estimates”

Accounting estimates are defined as “monetary amounts in financial statements that are subject to measurement uncertainty”. The Amendment clarifies what are changes in accounting estimates and also how they differ from changes in an accounting policy and from corrections of errors.

The Amendment will be implemented prospectively for annual periods commencing on January 1 2023, and it applies to changes in accounting policy and accounting estimates taking place at the beginning of that period or thereafter. Early adoption is permitted.

The Company is studying the effect of the Amendment on the financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5: - BUSINESS COMBINATIONSA. The acquisition of FIT

On October 28 2021, the Company completed a transaction for the purchase of control (60%) in Food Ingredients Technology (hereinafter - "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 for approx. EUR 12.8 million (approx. USD 14.5 million), of which EUR 1.99 million (approx. USD 2.25 million) were paid in cash, and the remaining balance was paid by way of allocating shares, based on the average share price in the 30 days preceding the date on which the agreement was entered into, constituting - on allocation date - approx. 1.74% of the issued and paid-up share capital (approx. 1.73% on a fully diluted basis). 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 EUR 0.9 million (USD 1 million) in respect of the said adjustment.

Furthermore, the agreement includes a mutual option to purchase FIT's remaining shares (40%) three years from the transaction completion date for a period of one year, and at a price based on FIT's business performance in the twelve quarters preceding the date of the option exercise notice. Taking into consideration the identical option terms for each of the parties to the transaction, the Company 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 18C2)).

The Company hired an independent appraiser to carry out the excess purchase price allocation as of purchase date. The excess purchase price was allocated to product formulae, customer relations and goodwill, as described below.

The following table presents the consideration paid for FIT, and the amounts of assets purchased and liabilities assumed that were recorded on acquisition date, at the fair value of FIT's identifiable assets:

	As of October 28 2021 USD in thousands
Working capital, net	642
Property, plant and equipment	3,697
Identified assets, net	4,339
Customer relations	8,798
Product formulae	5,424
Goodwill arising from acquisition	14,533
Deferred taxes	(3,556)
Total purchase cost	29,538

The purchased activity generated revenues of approx. USD 3,840 thousand, and net income of approx. USD 253 thousand net of purchase and financing expenses as from the consolidation date and through December 31 2021.

B. Acquisition of the activity of Pilpel and Galilee Herbs

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5: - BUSINESS COMBINATIONS (cont.)

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 (USD 0.32 million) in each of the years 2021 and 2022; adjustments will be added or deducted from the consideration based on the EBITDA arising from the purchased activity in each of the said years; the consideration is also subject to a further adjustment at the value of the inventory; this adjustment shall be reviewed a year after the completion date.

The cost of acquisition was allocated to inventory of 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:

	As of October 3 2021
	USD in thousands
Inventory	984
Property, plant and equipment	1,444
Identified assets, net	2,428
Customer relations	525
Product formulae	175
Goodwill arising from acquisition	203
Total purchase cost	3,331

The purchased activity generated revenues of approx. USD 1,696 thousand, and net income of approx. USD 24 thousand net of purchase and financing expenses as from the consolidation date and through December 31 2021.

C. The 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.

Under the agreement, Turpaz Extracts was allocated rights constituting 51% of the rights in SDA's capital in consideration for USD 2 million (NIS 6.63 million). Turpaz Extracts has also undertaken to pay Kibbutz Sde Eliyahu a performance-based payment of up to USD 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 paid-up share capital of SDA.

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

As part of the transaction, Turpaz Extracts has undertaken to repay the shareholders' loans the Kibbutz extended to SDA, whose balance as of December 31 2021 is approx. USD 1.04 million (approx. NIS 3.25 million).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5: - BUSINESS COMBINATIONS (cont.)D. Acquisition of the activity of Florasynth

On January 15 2020, the Company entered into an agreement for the purchase of the activity of Florasynth Israeli Enterprise Ltd. (hereinafter - “**Florasynth**”), which is engaged in the development, production, marketing, distribution and sale of flavor extracts to various sectors of the food industry. In consideration for the activity as described above, the Company paid USD 0.62 (NIS 2 million); the Company has also undertaken to pay further consideration in respect of its use of inventory; such consideration will not exceed USD 0.15 million (NIS 500 thousand).

Furthermore, in respect of each of the years 2020 through 2024, the seller shall be entitled to further consideration at an amount equal to 20% of the increase in the net income stemming from the Company’s flavor extracts activity (as purchased from Florasynth) in the relevant calendar year in respect of the previous calendar year, subject to the approval of the Company’s Board of Directors.

E. The acquisition of WFF

On July 22 2020, Turpaz Extracts purchased from Frutarom Switzerland Ltd. (hereinafter - the “Seller”) 60% of the share capital and voting rights of Western Flavors Fragrances Production JSC (hereinafter - “WFF”) in consideration for USD 639 thousand and other considerations. Simultaneously with the signing of the agreement, a USD 724 thousand loan, that was provided to WFF by the Seller, was assigned to Turpaz.

Furthermore, Turpaz Extracts was awarded an option to purchase the remaining holdings in WFF; the option may be exercised in whole or in part at any time through July 22 2024, in consideration for an amount to be calculated on exercise date, based on WFF’s average monthly EBITDA.

WFF is engaged in the production and marketing of flavors to the Vietnamese market, mainly in the field of sweet flavors, with an emphasis on the dairy, beverages, sweets and pastries segments.

F. Purchase of Continental

In August 2019, Turpaz Inc. signed an agreement for the acquisition of the activity of Flavor Associates (hereinafter - “**Continental**”), which is engaged in the development, production, marketing and sale of fragrance and flavor extracts for the US and Chinese markets.

On the transaction completion date, Turpaz Inc. paid for the activity a total of approx. USD 1.1 million, and undertook to pay further USD 400 thousand over the next 4 years; as of the financial statements date, a total of USD 100 thousand remains outstanding.

G. Purchase of Chemada

In August 2018, Chemada Industries Ltd. (hereinafter - “Chemada”) - a company owned by the Company’s shareholders - filed a motion to the Be’er Sheva District Court regarding the acquisition and the activity of Chemada Fine Chemicals Company (1996) Ltd. (under suspension of proceedings) (hereinafter - “Chemada Chemicals”). The process was completed and granted final approval in June 2019.

As described above, in June 2019, the Company’s shareholders completed - through Chemada - the acquisition of Chemada Chemicals from the trustees for the suspension of proceedings in consideration for approx. USD 3.9 million and the injection of USD 1 million to fund the working capital required for the activity. Furthermore, Chemada’s buyers undertook to remove waste accumulated in the plant’s premises; the said undertaking was estimated at approx. USD 64 million.

In November 2020, as part of restructuring (see Section 1b below) a merger agreement by way of exchange of shares was signed, such that upon completion of the merger transaction, the Company will hold the entire share capital of Chemada.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5: - BUSINESS COMBINATIONS (cont.)H. Purchase of Pollena

In December 2018, Turpaz Extracts established Frutarom Fragrances (UK) Limited, through which the Company purchased the shares of Pollena-Aroma (hereinafter - “Pollena”), a Polish company engaged in the development, production, marketing and sale of flavor and fragrance extracts, aromatic oils and specialty ingredients for the aromatherapy and natural cosmetics industries for a total consideration of approx. EUR 6.96 million (NIS 29.1 million), and a contingent consideration of EUR 0.28 million, which is based, among other things, on Pollena’s performances during the two years since acquisition date. In April 2019, it was decided to pay EUR 0.14 million in respect of the contingent consideration.

- I. In November 2020, the Group executed a tax-exempted restructuring in accordance with Part 2 of the Income Tax Ordinance (see Section b above); as part of the restructuring, Turpaz Extracts and Chemada became wholly-owned subsidiaries of the Company. As part of the restructuring, shareholders of the said subsidiaries were allocated Company shares in exchange for their holdings in Turpaz Extracts and Chemada. The Company has undertaken that its holdings in Turpaz Extracts and Chemada shall not fall below 51% of the issued and paid-up share capital of each of those companies, in accordance with the provisions of Section 103 to the Income Tax Ordinance. Immediately prior to the restructuring, Chemada distributed a NIS 17 million dividend to its shareholders as they were prior to the restructuring.
- J. On November 5 2020, the Company (hereinafter - the “Transferee Company”) and Turpaz Perfume and Flavor Extracts Ltd. (hereinafter - the “Transferor Company”) and its shareholders signed a merger agreement (hereinafter - the “Merger Agreement”) in accordance with the provisions of Section 103T to the Income Tax Ordinance; the said agreement was signed after it was approved by the Boards of Directors of each of the companies. In accordance with the Merger Agreement, the companies will be merged by way of exchange of shares in accordance with the provisions of Section 103T to the Income Tax Ordinance, such that upon completion of the merger transaction, the Company will hold the entire share capital of Turpaz.
- K. Since the Company will purchase these activities from the transferring entities, which are controlled by the Company’s controlling shareholders before and after the merger, the allocation of shares does not constitute a business combination that falls within the scope of IFRS 3. The Company accounts for the acquisition in a manner similar to the pooling of interests method. The Company has drawn up consolidated financial statements for the purpose of an IPO of the Company’s shares on the Stock Exchange in order to account for the acquisition as if it took place at the beginning of the earliest period presented in the financial statements (January 1 2019). Furthermore, the consolidated financial statements include the consolidated financial position and the consolidated results of operations and cash flows of the Company and the activities purchased from the transferring entities.
- L. On December 16 2021, the Company’s Board of Directors approved a merger with Turpaz Extracts (hereinafter in this section - the “Target Company”); Under the merger agreement that was signed on December 16 2021, the Target Company shall merge with and into the Company subject to the fulfillment of the conditions precedent on completion date. The effective date for the merger agreement is December 31 2021. In view of the fact that the Company holds the entire share capital of the Target Company, the merger shall be executed without consideration. As of the financial statements date, the conditions precedent of the merger agreement have not yet been fulfilled.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5: - BUSINESS COMBINATIONS (cont.)M. Set forth below is a table presenting the Company's holdings

<u>Company's name</u>	<u>Country of incorporation</u>	<u>Percentage of holding</u>	
		<u>Shares conferring voting rights</u>	<u>Shares conferring rights to profits</u>
Turpaz Perfume and Flavor Extracts Ltd.	Israel	100%	100%
Chemada Industries Ltd	Israel	100%	100%
Turpaz Fragrances and Flavors Aroma Inc.	USA	100%	100%
Frutarom Fragrances (UK) Limited	UK	100%	100%
Pollena-Aroma	Poland	100%	100%
Western Flavors Fragrances Production JSC	Vietnam	60%	60%
SDA Spice Agricultural Cooperative Society Ltd.	Israel	100%	100%
Food Ingredients Technologies	Belgium	60%	60%
Turpaz Belgium	Belgium	100%	100%

NOTE 6: - CASH AND CASH EQUIVALENTS

	<u>December 31</u>	
	<u>2021</u>	<u>2020</u>
	<u>USD in thousands</u>	
Cash and deposits for immediate withdrawal - NIS	43,780	1,416
Cash and deposits for immediate withdrawal - USD	4,857	468
Cash and deposits for immediate withdrawal - Zloty	582	573
Cash and deposits for immediate withdrawal - NIS, Euro	6,538	159
Cash and deposits for immediate withdrawal - other currencies	144	187
	<u>55,901</u>	<u>2,803</u>

NOTE 7: - TRADE RECEIVABLE

	<u>December 31</u>	
	<u>2021</u>	<u>2020</u>
	<u>USD in thousands</u>	
Open accounts	19,939	14,797
Checks collectible	1,029	774
	<u>20,968</u>	<u>15,571</u>
Less - allowance for doubtful accounts	<u>107</u>	<u>82</u>
Trade receivable, net	<u>20,861</u>	<u>15,489</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**NOTE 7: - TRADE RECEIVABLE (Cont.)**

Set forth below is the movement in the allowance for doubtful accounts:

	December 31	
	2021	2020
	USD in thousands	
Balance as of January 1	82	6
Consolidation of a company consolidated for the first time	-	59
Provision during the year	25	21
Recognition of bad debts	-	(3)
Doubtful accounts collected	-	(1)
Balance at December 31	107	82

Set forth below is an analysis of the trade receivable balances in respect of which impairment was not recognized (allowance for doubtful accounts), net receivables by arrears periods in relation to the reporting date:

	Trade receivable that are not yet due (without arrears)	Trade receivables with arrears of					
	up to 30 days	31-60 days	61-90 days	91-120 days	More than 120 days	Total	
	USD in thousands						
	As of December 31 2021						
Trade receivable balance before allowance for doubtful debts	17,189	3,088	338	130	101	122	20,968
Balance of allowance for doubtful accounts	-	-	-	-	-	107	107
	As of December 31 2020						
Trade receivable balance before allowance for doubtful debts	13,288	2,003	81	46	41	112	15,571
Balance of allowance for doubtful accounts	-	-	-	-	-	82	82

NOTE 8: - ACCOUNTS RECEIVABLE

	December 31	
	2021	2020
	USD in thousands	
Prepaid expenses and advances to suppliers	826	962
Government institutions	554	684
Income receivable, see Note 27	12,099	-
Others	181	256
	13,660	1,902

NOTE 9: - INVENTORY

	December 31	
	2021	2020
	USD in thousands	
Raw materials	8,680	6,004
Work in progress	279	4,549
Finished goods	6,701	4,511
	15,660	15,064

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10: - PROPERTY, PLANT AND EQUIPMENTA. Composition and movements2021

	Land, buildings	Leasehold improvements	Vehicles	Computers, office equipment and furniture	Machinery and equipment	Total
	USD in thousands					
<u>Cost</u>						
Balance as of January 1 2021	7,564	544	586	1,426	19,255	29,375
Purchases:	75	228	41	192	2,398	2,934
Company consolidated for the first time and purchase of activity	3,644	1,238	-	678	2,810	8,370
Adjustments arising from translation of financial statements from the functional currency to the presentation currency	398	62	14	71	648	1,193
Adjustments arising from translation of financial statements of foreign operations	(826)	(74)	(1)	(74)	(576)	(1,551)
Retirements during the year, see Note 27	-	(309)	(220)	(297)	(5,141)	(5,967)
Balance as of December 31 2021	10,855	1,689	420	1,996	19,394	34,354
<u>Accumulated depreciation</u>						
Balance as of January 1 2021	1,270	246	313	1,128	10,558	13,515
Depreciation	213	67	60	126	924	1,390
Company consolidated for the first time and purchase of activity	1,538	386	-	411	894	3,229
Adjustments arising from translation of financial statements from the functional currency to the presentation currency	109	24	13	50	379	575
Adjustments arising from translation of financial statements of foreign operations	(231)	(39)	(1)	(57)	(286)	(614)
Retirements during the year, see Note 27	-	(30)	(146)	(231)	(1,252)	(1,659)
Balance as of December 31 2021	2,899	654	239	1,427	11,217	16,436
Amortized cost as of December 31 2021	7,956	1,035	181	569	8,177	17,918

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10: - PROPERTY, PLANT AND EQUIPMENT (cont.)A. Composition and movements (cont.)
2020 (*)

	Land, buildings	Leasehold improvements	Vehicles	Computers, office equipment and furniture	Machinery and equipment	Total
	USD in thousands					
<u>Cost</u>						
Balance as of January 1 2020 (*)	7,104	246	42	296	6,133	13,821
Purchases	67	19	-	167	406	659
Company consolidated for the first time	857	252	506	862	11,339	13,816
Adjustments arising from translation of financial statements from the functional currency to the presentation currency	96	27	38	119	1,748	2,028
Adjustments arising from translation of financial statements of foreign operations	(560)	-	-	(18)	(371)	(949)
Balance at December 31 2020	<u>7,564</u>	<u>544</u>	<u>586</u>	<u>1,426</u>	<u>19,255</u>	<u>29,375</u>
<u>Accumulated depreciation</u>						
Balance as of January 1 2020 (*)	872	183	-	273	2,111	3,439
Depreciation	502	13	25	60	849	1,449
Company consolidated for the first time	10	43	274	715	7,208	8,250
Adjustments arising from translation of financial statements from the functional currency to the presentation currency	(21)	7	14	89	721	810
Adjustments arising from translation of financial statements of foreign operations	(93)	-	-	(9)	(331)	(433)
Balance at December 31 2020	<u>1,270</u>	<u>246</u>	<u>313</u>	<u>1,128</u>	<u>10,558</u>	<u>13,515</u>
Amortized cost as of December 31 2020	<u>6,294</u>	<u>298</u>	<u>273</u>	<u>298</u>	<u>8,697</u>	<u>15,860</u>

(*) Reclassified

B. The real estate assets are owned by the subsidiaries in Poland (Pollena Aroma) and in Belgium (FIT).

C. 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; 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. 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 statements' approval date, the Company has not yet received grants.

D. During 2010-2012, the subsidiary - Pollena Aroma - received grants for the construction of its new plant under an economic European project for industrial plants. The grants amounted to approx. PLN 11.8 million.

E. For information about charges, see Note 20.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11:- GOODWILL AND OTHER INTANGIBLESA. Composition and movements2021

	Customer relations	Product formulae Product	Trademark	Orders backlog	Non- Competit ion	Goodwill	Total
	USD in thousands						
<u>Cost</u>							
Balance as of January 1 2021	6,165	1,144	227	2,230	10	4,318	14,094
Additions as part of purchase of activities	9,323	5,599	--	--	--	14,736	29,658
Adjustments arising from translation of financial statements of foreign operations	(743)	(352)	--	--	--	(705)	(1,800)
Adjustments arising from translation of financial statements from the functional currency to the presentation currency	655	305	15	--	--	440	1,415
Balance as of December 31 2021	15,400	6,696	242	2,230	10	18,789	43,367
<u>Accumulated amortization and impairment losses</u>							
Balance as of January 1 2021	3,922	368	193	2,230	5	--	6,719
Amortization recognized during the year	597	160	58	--	2	--	817
Adjustments arising from translation of financial statements from the functional currency to the presentation currency	147	(38)	(9)	--	--	--	99
Balance as of December 31 2021	4,666	490	242	2,230	7	--	7,635
<u>Net balance</u>							
As of December 31 2021	10,734	6,206	--	--	3	18,789	35,732

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11:- GOODWILL AND OTHER INTANGIBLES (cont.)2020

	Customer relations	Product formulae Product	Trademark	Orders backlog	Non- Competit ion	Goodwill	Total
	USD in thousands						
<u>Cost</u>							
Balance as of January 1 2020	4,610	927	218	2,230	10	3,391	11,386
Additions as part of purchase of activities	1,442	168	--	--	--	634	2,244
Adjustments arising from translation of financial statements from the functional currency to the presentation currency	113	49	9	--	--	293	464
Balance at December 31 2020	6,165	1,144	227	2,230	10	4,318	14,094
<u>Accumulated amortization and impairment losses</u>							
Balance as of January 1 2020	2,712	186	109	2,230	5	--	5,242
Amortization recognized during the year	816	115	58	--	1	--	990
Adjustments arising from translation of financial statements from the functional currency to the presentation currency	394	67	26	--	--	--	487
Balance at December 31 2020	3,922	368	193	2,230	6	--	6,719
<u>Net balance</u>							
As of December 31 2020	2,243	776	34	--	4	4,318	7,375

B. Purchase during the year

The goodwill and intangible assets were purchased as part of business combinations For more information, see Note 5 above.

C. Amortization expenses

The intangible assets' amortization expenses are classified under general and administrative expenses in the income statement.

D. Impairment of goodwill and intangible assets with finite useful life

In order to test the goodwill as of December 31 2021 for impairment, the Company conducted internal appraisals using the DCF method, which is based on an analysis of the Company's activity under the going concern assumption. Having compared the value determined in the appraisal to the carrying amount as of December 31 2021, the Company concluded that there is no need to record impairment.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12: - LEASESDisclosures in respect of lease transactions in which the Company is the lessee

The Company is a party to lease agreements that include leases of building and vehicles used during the course of the Company's operating activities. As of balance sheet date, the Company operates eleven production sites across the world.

The term of the buildings' lease agreements range between 2 to 25 years, while the term of the vehicle lease agreements is 3 years.

Some of the lease agreements to which the Company is a party include extension and/or termination options and variable lease payments.

A. Information regarding lease transactions

	For the year ended December 31		
	2021	2020	2019
	USD in thousands		
Interest expenses in respect of lease liabilities	515	360	181
Expenses in respect of short-term leases	65	65	65
Expenses in respect of variable lease payments	1,847	1,896	573
Total cash flows for leases	2,427	2,321	819

B. Lease extension and termination options

The Company has lease agreements that include both extension and termination options. These options provide the Company with flexibility in the management of the lease transactions and allow them to change the leases such that they are in line with its business needs.

The Company exercises significant judgement when assessing if it is reasonably certain that the termination option will not be exercised.

In lease agreements that include non-cancellable lease periods of 3 to 10 years, the Company also included in the lease period the exercise of the extension options included therein. In those lease agreements, the Company normally exercises the extension options, since in the event that a replacement asset is not immediately available at the end of the non-cancellable lease period, the Company will suffer significant damage to its operating activities.

In addition, in its lease agreements for vehicles, the Company did not include in the lease period the exercise of the extension options, since the Company does not normally exercise those options and lease the vehicles for a period of more than 3 years (without exercising the extension option).

Moreover, the lease periods under the lease termination option were included in the term of the lease when it is reasonably certain that the termination option will not be exercised.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12: - LEASES (cont.)C. Disclosures regarding right-of-use assets2021

	Land and buildings	Vehicles USD in thousands	Total
<u>Cost</u>			
Balance as of January 1 2021	11,931	2,044	13,975
Additions during the year			
New leases	4,594	658	5,252
Company consolidated for the first time	--	145	145
Adjustments in respect of linkage to the index	33	1	34
Adjustments arising from translation of financial statements of foreign operations	(177)	(77)	(254)
Adjustments arising from translation of financial statements from the functional currency to the presentation currency	396	97	493
Retirements during the year, see Note 27	(4,638)	--	(4,638)
Balance as of December 31 2021	12,139	2,868	15,007
<u>Accumulated depreciation</u>			
Balance as of January 1 2021	1,663	543	2,206
Additions during the year:			
Depreciation and amortization	1,041	549	1,590
Adjustments arising from translation of financial statements of foreign operations	(27)	(32)	(59)
Adjustments arising from translation of financial statements from the functional currency to the presentation currency	49	39	88
Retirements during the year, see Note 27	(1,213)	--	(1,213)
Balance as of December 31 2021	1,513	1,099	2,612
<u>Amortized cost as of December 31 2021</u>	<u>10,626</u>	<u>1,769</u>	<u>12,395</u>

2020 (*)

	Land and buildings	Vehicles USD in thousands	Total
<u>Cost</u>			
Balance as of January 1 2020	6,242	986	7,228
Additions during the year			
New leases	389	1,028	1,417
Company consolidated for the first time	5,165	-	5,165
Adjustments in respect of linkage to the index	42	-	42
Adjustments arising from translation of financial statements of foreign operations	-	(9)	(9)
Adjustments arising from translation of financial statements from the functional currency to the presentation currency	93	39	132
Balance at December 31 2020	11,931	2,044	13,975
<u>Accumulated depreciation</u>			
Balance as of January 1 2020	1,071	127	1,198
Additions during the year			
Depreciation and amortization	473	426	899
Adjustments arising from translation of financial statements of foreign operations	-	(10)	(10)
Adjustments arising from translation of financial statements from the functional currency to the presentation currency	119	-	119
Balance at December 31 2020	1,663	543	2,206
<u>Amortized cost as of December 31 2020</u>	<u>10,268</u>	<u>1,501</u>	<u>11,769</u>

(*) Reclassified

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12: - LEASES (cont.)

D. Lease liabilities:

	2021	2020
	USD in thousands	
Balance as of January 1 2021	11,631	6,052
Additions	5,252	1,934
Inclusion in consolidation	145	4,793
Retirements	(3,799)	-
Expenses Interest	515	360
Lease payments	(1,847)	(1,896)
Other changes	358	388
Balance at December 31	12,255	11,631

E. Analysis of repayment dates of lease liabilities:

	2021	2020
	USD in thousands	
First year - current maturities	1,811	1,150
Second year	982	1,182
Third year	687	1,040
Fourth year	490	804
Fifth year	509	719
Sixth year and thereafter	7,776	6,736
Balance at December 31	12,255	11,631

- F. The Company has lease agreements for vehicles with terms of up to 12 months, as well as lease agreements for office equipment of low monetary value. For these leases, the Company implements the expedient available under the standard, and recognizes the lease payments as an expense on a straight-line basis over the lease period.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13:- CREDIT FROM BANKSA. Composed as follows:As of December 31 2021

	Linkage	Effective interest rate December 31 2021	Balance USD in thousands
	terms	%	
Current maturities of long-term loans from banks and others		See Note 16A	3,411
Loans from bank	Linked to the Euro	1.6%	1,103
Loans from bank	Unlinked	2.1%	6,599
			<u>11,113</u>

As of December 31 2020

	Linkage	Interest rate interest rate December 31 2020	Balance USD in thousands
	terms	%	
Current maturities of long-term loans from banks and others		See Note 16A	2,645
Loans from bank	Unlinked	3.1%-2.2%	7,375
			<u>10,020</u>

- B. As of December 31 2021, the Company carried out factoring transactions totaling approx. USD 280 thousand (compared with approx. USD 320 thousands as of December 31 2020), such that the Company only presented the debt repayment on the balance sheet date if payment was made to the end customer. On August 6 2020, the Company entered into a three-way agreement with Pekao Faktoring Sp. z o.o. and mFaktoring S.A whereby the financing entity will be changed to Pekao Faktoring Sp. z o.o, and the existing collaboration will be settled. The Company entered into a direct factoring agreement with Pekao Faktoring Sp. z o.o. The execution of the agreement by the Company is secured by a power of attorney provided as a promissory note for the factoring transactions.
- C. For information about the key points of the credit agreement, including financial covenants and other undertakings by the Company, see Note 16.
- D. As of the end of 2021, the Company has unutilized credit facilities totaling approx. USD 6.27 million (compared with approx. USD 2.91 million as of the end of 2020).
- E. Collaterals, see Note 20.
- F. Charges, see Note 20.

NOTE 14: - LIABILITIES TO SUPPLIERS AND SERVICE PROVIDERS

	December 31	
	2021	2020
	USD in thousands	
Open accounts	13,390	9,815
Notes repayable	2,470	419
	<u>15,860</u>	<u>10,234</u>

The debts to suppliers do not bear interest The average suppliers credit days is approx. 120 days

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15: - ACCOUNTS PAYABLE

	December 31	
	2021	2020
	USD in thousands	
Employees and payroll institutions	2,268	1,566
Government institutions	792	327
Provision for wastewater	800	800
Deferred consideration	-	74
Accrued expenses (a)	2,621	3,205
Others	569	154
	<u>7,050</u>	<u>6,126</u>

(a) Including interested parties, companies owned by interested parties and related companies (see Note 26).

NOTE 16:- LONG-TERM BANK LOANSA. Composed as follows:

	Interest rate As of December 31 2021 %	December 31	
		2021	2020
		USD in thousands	
Long-term loans	3.1%-2.2%	10,512	11,415
Net of current maturities (see also Note 13 above)		<u>(3,411)</u>	<u>(2,645)</u>
		<u>7,101</u>	<u>8,770</u>

B. Collaterals - see Note 20.

C. Financial covenants:1. Turpaz Industries Ltd.

On April 29 2021, the Company and a bank signed revised financing agreements whereby the Company undertook upon itself all of the undertakings of the subsidiary - Turpaz Perfume and Flavor Extracts Ltd. - without making any changes to their terms.

In 2021, the Company signed a new letter of undertaking with the banks, as described below:

The Company's equity shall not be lower than 25% of total assets at any given time
The result of dividing the aggregate amount of debt to financial institutions and other lenders, including debt to shareholders, by the EBITDA shall not exceed 3.5 at any given time.

As of December 31 2021, the Company complies with the terms of the financial covenants.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16:- LONG-TERM BANK LOANS (cont.)2. SDA Spice Agricultural Cooperative Society Ltd. (hereinafter - "SDA")

A. SDA has provided a bank with an undertaking to comply with financial covenants as described below:

- (1) The Company's tangible equity shall not be lower than 18% of total assets at any given time, and its amount will not be lower than NIS 12 million.
- (2) The debt service coverage ratio shall not be lower than 1.2 at any time.
- (3) Long-term debt to EBITDA ratio shall not exceed 5 at any time.
- (4) Control of the corporation shall not change without first obtaining the bank's consent.
- (5) Repayment of a shareholders loan can only be executed after obtaining the bank's approval.

B. SDA has also provided a second bank with an undertaking to comply with financial covenants as described below:

- (1) The Company's tangible equity shall not be lower than 30% of total assets at any given time, and its amount will not be lower than NIS 18 million linked to the index in respect of December 2017.
- (2) Holding rates in the corporation shall not change without first obtaining the bank's consent.
- (3) Repayment of a shareholders loan can only be executed after obtaining the bank's approval, with the exception of a NIS 4 million loan received from the kibbutz in 2017.

As of December 31, 2020, SDA did not comply with the covenant set out in Section b(1) (the equity as of December 31 2020 was NIS 14.2 million). In view of the above, in its 2020 financial statements the company classified the NIS 0.5 million balance of long-term loans from banks to the 'credit from banks' line item under current liabilities.

On June 29 2021, SDA signed a new letter of undertaking with the said bank, with terms similar to those included in the letter of undertaking signed by the company with a second bank as described in Section a. above. As of December 31 2021, the SDA complies with the terms of the required financial covenants.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17: - OTHER LIABILITIESA. Composed as follows:

	December 31	
	2021	2020
	USD in thousands	
Obligation to remove waste (b)	5,174	5,445
Government grants (c)	112	329
Loans from others, net of current maturities (d)	1,056	1,278
Liabilities in respect of purchase of activity (e)	14,522	1,608
	<u>20,864</u>	<u>8,660</u>

- B. As described in Note 5G above, as part of the agreement for the purchase of Chemada's activity, the subsidiary undertook to bear the cost of removing organic chemical substances from the plant's premises. The subsidiary assesses the quantities of waste in the plant on a regular basis, and records a provision accordingly.
- C. Over the years, SDA and Chemada received R&D participation grants from the Israel Innovation Authority in connection with various projects in consideration for an undertaking to pay royalties of 3% to 100% of the amount of the grant received plus Libor interest. As of the financial statements' publication date, the amount of the grants received totals approx. USD 990 thousand. As of December 31 2021 and 2020, the Company recorded in its financial statements liabilities to the Israel Innovation Authority in respect of those grants at the total amount of approx. USD 330 thousand.
- D. Loan to SDA from former minority interest of SDA (see Note 5C) at the total amount of USD 778 thousand, and a loan to WFF from minority interest in WFF at the total amount of USD 500 thousand.
- E. In 2021 - includes liabilities in respect of the put options granted to former owners in FIT (see Note 5a and Note 18C2)) at the total amount of USD 13,600 thousand, and performance-based consideration of USD 900 thousand in connection with the completion of the remaining rights in SDA, see Note 5C.
In 2020 - in respect of the purchase of the activities of Florasynth Israeli Enterprise Ltd. and SDA, see Note 5C and 5D.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 18: – FINANCIAL INSTRUMENTSA Financial risk factors

The Group's activities expose it to various financial risks, such as market risks (foreign currency risk, CPI risk and interest risk), credit risk and liquidity risk. The Group's overall risk management policy focuses on steps aimed to mitigate potential adverse effects on the Group's financial performance.

Risk management is conducted by the Group's finance department, which estimates and hedges financial risks in collaboration with the Group's operating units. The Board of Directors sets the principles for the overall management of risks as well as the specific policy applied to risk exposures, such as exchange rate risk, interest rate risk and credit risk. This policy also covers areas such as cash management and raising short and long-term loans.

1. Market risksa) Foreign currency risk

The Group operates globally, and some of its sales are made in the functional currencies, mainly Euro, NIS, Polish Zloty, and Vietnamese dong. Exchange rate fluctuations impact the Group's net income and financial position, which are presented in US Dollars; the Company purchases its some of its raw materials from various countries across the world, and it is exposed to an exchange rate risk stemming from exposure to various currencies, mainly the Euro, NIS, US Dollar, Polish Zloty and Vietnamese dong.

Exchange rate risk stems from future commercial transactions and assets and liabilities recognized, which are denominated in foreign currency other than the functional currency. Exposure to change in exchange rates may also arise in the process of consolidating the financial statements of consolidated companies presented in foreign currencies. The impact of this exposure on the Group's comprehensive income is presented as currency translation differences.

	Representative exchange rate of the NIS	Representative exchange rate of the Euro	Representative exchange rate of the Polish Zloty	Representative exchange rate of the Vietnamese dong
<u>As of</u>	<u>USD</u>	<u>USD</u>	<u>USD</u>	<u>USD</u>
December 31 2021	0.322	1.132	0.247	0.000044
December 31 2020	0.311	1.227	0.268	0.000043
December 31 2019	0.290	1.122	0.264	0.000043
<u>Rate of change in the year ended</u>	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>
December 31 2021	3.38	(7.74)	(7.50)	1.12
December 31 2020	7.24	9.00	1.52	0.00
December 31 2019	8.61	(2.09)	(1.12)	0.00

b) Interest risk

Since the Group does not have significant interest-bearing assets, its revenues and its cash flow from operating activities are not dependent on interest rates. The Group is exposed to the risk in respect of changes in the market interest rate due to short and long-term loans received bearing variable interest.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 18: – FINANCIAL INSTRUMENTS (cont.)2. Credit risk

The Group does not have significant concentrations of credit risks. The Group has a policy ensuring that wholesale sales of its products are carried out with customers, who have good credit history; some of those sales are insured under credit insurance. Retail sales are normally conducted in cash or through credit cards.

Group's revenues stem from customers in Israel and across the world. The Group monitors customers' 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 following table presents the repayment periods of the Group's financial liabilities in accordance with the contractual conditions on an undiscounted basis (including payments in respect of interest):

As of December 31 2021

	Up to one year	One to five years	Five years and thereafter	Total
	USD in thousands			
Liabilities to suppliers and service providers	15,860	--	--	15,860
Other Payables	6,250	--	--	6,250
Lease liability	1,811	2,668	7,776	12,255
Liability in respect of purchase of activity	1,198	14,522	--	15,720
Provision for waste removal	800	3,200	1,974	5,974
Credit from banks and others	11,113	8,157	--	19,270
Other	--	474	--	474
	<u>37,032</u>	<u>29,021</u>	<u>9,750</u>	<u>75,803</u>

As of December 31 2020

	Up to one year	One to five years	Five years and thereafter	Total
	USD in thousands			
Liabilities to suppliers and service providers	10,234	--	--	10,234
Other Payables	5,292	--	--	5,292
Lease liability	1,150	3,745	6,736	11,631
Provision for waste removal	800	3,200	2,245	6,245
Deferred consideration	1,665	1,608	--	3,273
Credit from banks and others	9,550	10,518	--	20,068
Other	--	594	--	594
	<u>28,691</u>	<u>19,665</u>	<u>8,981</u>	<u>57,337</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 18: – FINANCIAL INSTRUMENTS (cont.)C. Fair value

1. The carrying amount of cash and cash equivalents, trade receivables, other receivables, credit from banks and others (mostly in variable interest), liabilities to suppliers and credit providers and accounts payable is equal to or approximates their fair value.
2. Liabilities in respect of put options-

One of the business combinations executed by the Company includes a mechanism whereby the previous owners have an option to sell the remaining shares they hold to the Company, and the Company has the option to buy the shares (the price and terms of the put and sale options are identical); this mechanism is in place in connection with the purchase of FIT (see Note 5A).

As of December 31 2021, the put option amounted to USD 13,600 thousand. The value of the liabilities was estimated in accordance with the average EBITDA to be achieved over the term of the agreement. The options' weighted annual discount rate is 2.64%.

The key non-observable input used by the Company in order to assess the value of the option is the future EBITDA that will be achieved; in order to assess the liabilities in respect of the options and updated their value, the Company used the companies' ongoing results and updated forecasts.

D. Sensitivity tests in respect of changes in market factors

Sensitivity test for changes in
exchange rate of the Dollar

Income (loss) from the
changes

	10% increase in exchange rate	10% decrease in exchange rate
	rate	rate
	USD in thousands	

2021

3,787

(3,787)

2020

1,292

(1,292)

Sensitivity test for changes
in interest

Income (loss) from the
change

	0.5% increase in interest	0.5% decrease in interest
	interest	interest
	USD in thousands	

2021

(67)

67

2020

(66)

66

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**NOTE 19 :- ASSETS AND LIABILITIES IN RESPECT OF EMPLOYEE BENEFITS**

Employee benefits comprise short-term benefits and post-employment benefits.

Post-employment benefits

Labor laws in Israel and the Israeli Severance Pay Law require the Company to pay severance pay to employees upon dismissal or retirement, or to make regular deposits with a defined benefit plan in accordance with Section 14 to the Severance Pay Law, as described below. Consequently, the Company's liability is accounted for as a post-employment benefit. The calculation of the Company's liability for employee benefits is carried out in accordance with a valid employment agreement, and is based on the employee's salary and his/her period of employment, which establish the right to receive severance pay.

As to severance pay payments, the provisions of Section 14 to the Severance Pay Law, 1963 apply, whereby the Group's regular deposits with pension funds and/or insurance policies exempt is from any further obligation to employees in respect of whom amounts were deposited as described above.

NOTES 20: - CONTINGENT LIABILITIES, COMMITMENTS, CHARGES AND FINANCIAL COVENANTS**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. The key points of the collective agreement are as follows:

The agreement applies to Chemada's non-managerial employees, who have been working for the company for 3 years or more. 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. (hereinafter - 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 and bromine compounds from the Bromine Companies. The agreement is due to expire in June 2022.

(3) Marketing and distribution agreement

As part of the purchase of Chemada's activity, Chemada was assigned a marketing and distribution agreement. Under the terms of the agreement, through April 2020 Chemada marketed its products through Bromine Compounds Ltd. (hereinafter - "Bromine Compounds") and Dead Sea Bromine Company Ltd. (hereinafter - the "Dead Sea") (hereinafter jointly - the "Bromine Companies"); under the agreement, Chemada granted the Bromine Companies a worldwide exclusive license to distribute, market and sell all of the company's bromine products.

NOTES 20: - CONTINGENT LIABILITIES, COMMITMENTS, CHARGES AND FINANCIAL COVENANTS (cont.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The consideration under this agreement was based on payment to Chemada of a percentage of the revenues generated from the sale of its products by the Bromine Companies; the higher the sales the lower the percentage paid to Chemada. Furthermore, if a sub-agent and/or a distributor of the Bromine Companies was involved in the sale, a further commission out of the sale amount was payable; however, the total amount in commissions paid to the sub-agent and the Bromine Companies did not exceed 10% of the sales. In April 2020, the agreement expired, and the Company started operating through an independent marketing and distribution function.

B. Outstanding lawsuits

The total amount of outstanding claims against the Group is approx. USD 25 thousand (2020 - USD 30 thousand); according to the Group's legal counsels, the claimants' chances in prevailing in those lawsuits are low.

C. Charges:

The following charges were placed in favor of banks and others:

1. In 2021, the Company signed to new letters of undertaking with two banks.
In the new letters of undertaking, the Company undertook not to place and not to undertake to place any floating charges on some or all of the Company's assets, of any type whatsoever, without first obtaining the banks' 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.
2. As part of the agreement for the purchase the activity of Chemada Fine Chemicals Company (1996) Ltd. (hereinafter - "Chemada Chemicals") by the Group, a pledge is in place on the Company's current and future inventory of any kind whatsoever, regardless of whether it is located in the Company's warehouses in Israel or abroad; the pledge also applies to any indemnity and/or compensation rights relating to the inventory (including through an insurance company) in favor of securing the payment of the consideration in respect of activity purchase agreement.
As of the financial statements' publication date, the said charge was removed.

D. Guarantees

The Group has guarantees at the total amount of approx. USD 350 thousand.

NOTE 21: - EQUITY**A. Composition of share capital**

	December 31 2021		December 31 2020	
	Authorized	Issued and paid	Authorized	Issued and paid
	Number of shares- of no par value		Number of shares- of NIS 1 par value	
Ordinary shares	1,000,000,000	100,084,776	1,000,000,000	23,437

1. Immediately before the listing of the securities on the Stock Exchange: (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, Company's shareholders as above were allotted 3,199 ordinary shares.

On May 23 2021, the Company completed an IPO, of 23,334,100 shares on the Stock Exchange by way of non-uniform offer to institutional investors. The overall consideration received amounted to a gross amount of approx. NIS 207,995 thousand before issuance expenses. The issuance costs amounted to approx. NIS 5,700 thousand; they are presented net of share premium.

NOTE 21: - EQUITY (cont.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 5A.

B. Allocation of options to a Company director

In May 2021, the Company's Board of Directors 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 options' exercise price shall be equal to the share price as determined in the IPO.

The options award plan complies with the provisions of Section 102 to the Income Tax Ordinance. The options were allotted to a trustee on May 23 2021 (hereinafter - the "Allotment Date").

The options shall vest in equal tranches over 4 years from Allotment Date; the first tranche (25% of the options) shall vest a year after Allotment Date, and all remaining options shall vest in 6 semi-annual tranches (12.5% of the option in each such tranche) starting 18 months after the Allotment Date. The first tranche will be exercisable over two years from vesting date, and each further tranche shall be exercisable over a year from vesting date on a cashless basis. Any options not exercised by the end of the said period will expire, and no rights shall be conferred upon their holders.

Set forth below is a table presenting the data used in the measurement of the fair value of the share options settled with the Company's equity instruments, using the Black-Scholes model:

Expected volatility of share price (%)	39.26%-34.83%
Risk-free interest rate	0.25%-0.52%
Expected term of the share options (years)	In accordance with the vesting dates
Share price (NIS)	NIS 8.91

In accordance with the above data, the options' fair value was set at approx. USD 575 thousand as of award date.

The total amount recorded by the Company as payroll expenses in the period from the allocation date through December 31 2021 is USD 184 thousand.

C. Right attached to the shares

Voting rights in the general meeting of the Company's shareholders, right to receive dividends, and rights upon liquidation.

D. Capital reduction

In May 2018, Frutarom was purchased by the US company International Flavor & Fragrances Inc. (hereinafter - "IFF"); the purchase was completed in October 2018. As a result of the purchase, in December 2018 the parties agreed on the termination of the original investment and sale agreement of 2017 by way of capital reduction against the premium allocated at the time of purchase and the repayment of approx. NIS 27 million to Frutarom. The capital reduction was approved by the court in February 2019 and completed in May 2019.

E. Distributions to owners

In November 2020, prior to its merger, Chemada Industries Ltd. distributed a NIS 17 million (USD 5,286 thousand) dividend to its shareholders. The Company's 2020 financial statements, in which Chemada's accounts are accounted for in accordance with the pooling of interest method, account for the merger as if it took place at the beginning of the earliest period presented in the financial statements (January 1 2018), and the dividend was deducted from the Company's retained earnings balance as distribution to owners.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 22: - SUPPLEMENTARY INCOME OR LOSS INFORMATIONA. Cost of sales and services

	For the year ended December 31		
	2021	2020	2019
	USD in thousands		
Materials consumed	33,983	18,584	13,817
Payroll and related expenses	6,912	5,004	2,548
Depreciation and amortization	2,354	2,147	1,509
Other	7,357	5,171	2,576
	<u>50,606</u>	<u>30,906</u>	<u>20,450</u>

B. RESEARCH AND DEVELOPMENT EXPENSES

	For the year ended December 31		
	2021	2020	2019
	USD in thousands		
Payroll and related expenses	1,510	489	343
Other	439	373	207
	<u>1,949</u>	<u>862</u>	<u>550</u>

C. SELLING AND MARKETING EXPENSES

	For the year ended December 31		
	2021	2020	2019
	USD in thousands		
Payroll and related expenses	1,954	1,339	813
Travel Abroad	113	39	410
Transportation	2,605	1,202	440
Other	1,602	1,268	1,306
	<u>6,274</u>	<u>3,848</u>	<u>2,968</u>

D. GENERAL AND ADMINISTRATIVE EXPENSES

	For the year ended December 31		
	2021	2020	2019
	USD in thousands		
Payroll, wages, and related expenses (*)	6,473	4,417	2,832
Computer and office supplies	485	324	401
Professional fees	830	294	380
Depreciation and amortization of intangible assets	1,236	990	2,826
Other	1,233	600	381
	<u>10,257</u>	<u>6,625</u>	<u>6,820</u>

(*) Reclassified

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 22: - SUPPLEMENTARY INCOME OR LOSS INFORMATION (cont.):E. OTHER INCOME (EXPENSES)

	For the year ended December 31		
	2021	2020	2019
	USD in thousands		
Profit from the acquisition of Chemada's activity	--	--	4,148
Other	(208)	(304)	(18)
	<u>(208)</u>	<u>(304)</u>	<u>4,130</u>

F. FINANCE INCOME (EXPENSES)

	For the year ended December 31		
	2021	2020	2019
	USD in thousands		
<u>Finance income</u>			
Exchange rate differences	710	295	16
Other	52	112	10
	<u>762</u>	<u>407</u>	<u>26</u>
<u>Finance expenses</u>			
Finance expenses in respect of banks	583	495	316
Exchange rate differences	312	260	9
Finance expenses in respect of lease liability	515	360	181
Other	461	75	220
	<u>1,871</u>	<u>1,190</u>	<u>726</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 23: - TAXES ON INCOMEA. Taxes on income applicable to Group companiesIncome Tax (Inflationary Adjustments) Law, 1985

Under the law, through the end of 2007, results for tax purposes are measured in Israel in real terms, having regard to the changes in the CPI.

In February 2008, the Knesset passed an amendment to the Income Tax (Inflationary Adjustments) Law, 1985, which limits the scope of the law starting 2008 and thereafter. Starting 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 in respect of disposal of real estate (betterment) and securities, continue to apply until the disposal date. The amendment to the law includes, among other things, the elimination of the inflationary additions and deductions, and the additional deduction for depreciation (for depreciable assets purchased after tax year 2007) starting 2008.

The Law for the Encouragement of Capital Investments, 1959

Under the law, by virtue of the "approved enterprise" or "benefited enterprise" status granted to certain of their enterprises the companies are entitled to various tax benefits.

The Law for the Encouragement of Capital Investments, 1959 (Amendment No. 73)

The Economic Efficiency Law (Legislative Amendments for Applying the Economic Policy for the 2017 and 2018 Budget Years), 2017, which includes Amendment No. 73 to the Law for the Encouragement of Capital Investments (hereinafter - the "Amendment") was published in December 2016. The Amendment stipulates that the tax rate that will apply - as from January 1 2017 - to a preferred enterprise located in Development Zone A is 7.5% instead of 9% (the tax rate applicable to a preferred enterprise that is not located in Development Zone A remained 16%).

Furthermore, the Amendment stipulates that the distribution of a dividend to an individual or a foreign resident out of the profits of a preferred enterprise as described above shall be subject to tax at the 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. As such, and by virtue of the regulations promulgated, the Company is entitled to claim depreciation at increased rates for equipment used in industrial activity, as stipulated by regulations published under the Inflationary Adjustments Law.

B. The tax rates applicable to the Group

1. The Economic Efficiency Law (Legislative Amendments for Applying the Economic Policy for the 2017 and 2018 Budget Years), 2017, which includes the reduction of corporate tax law as from January 1 2017 to 24% (instead of 25%), and as from January 1 2018 to 23%, was published in December 2016.

A body of person liable to corporate tax on real capital gain starting in the year of sale.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 23:- TAXES ON INCOME (cont.)

In August 2013, the Law for Changes in National Priorities (Legislative Amendments for Achieving Budget Objectives in the Years 2013 and 2014), 2013 was published on the official gazette (hereinafter - the "Budget Law"). The law includes, among other things, provisions regarding the taxation of revaluation gains starting August 1 2013; however, the coming into effect of the said provisions regarding revaluation gains is conditional upon the issuance of regulations, which define what are "earnings that are not liable to corporate tax", and regulations that will set provisions for the prevention of double taxation that might apply to assets outside Israel. As of the publication date of these financial statements, such provisions have not yet been published.

2. The main tax rates applicable to consolidated companies incorporated outside Israel are:

	Tax rate
USA	21%
UK	19%
Poland	19%
Vietnam	20%
Belgium	25%

C. Restructuring of the Group

In November 2020, the Group executed a tax-exempted restructuring in accordance with Part 2 of the Income Tax Ordinance (see below); as part of the restructuring, Turpaz Extracts and Chemada became wholly-owned subsidiaries of the Company. Immediately prior to the restructuring, Chemada distributed a NIS 17 million dividend to its shareholders as they were prior to the restructuring (see also Note 1).

D. Final tax assessments

The Company has submitted tax assessments, which are considered to be final through tax year 2016.

E. Composition of deferred taxes

	December 31	
	2021	2020
	USD in thousands	
Non-current assets	542	128
Non-current liabilities	(3,750)	(275)
	(3,208)	(147)

F. Changes in deferred taxes

	2021	2020
	USD in thousands	
Balance at beginning of year	(147)	(128)
Purchase of a consolidated company and activity consolidated for the first time	(3,556)	-
Changes carried to the income statement	232	(14)
Changes carried to other comprehensive income	263	(5)
Balance at end of year	(3,208)	(147)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 23:- TAXES ON INCOME (CONT.)

G. Taxes on income included in the statement of comprehensive income

	For the year ended December 31		
	2021	2020	2019
	USD in thousands		
Current tax expenses	1,887	1,285	945
Deferred tax expenses (income)	232	(14)	(85)
	<u>2,119</u>	<u>1,271</u>	<u>860</u>

H. Theoretical tax expense

Following is a reconciliation between the tax amount that would have been payable had all income and expenses, gains and losses in the statement of comprehensive income been taxed at the statutory tax rate, and the actual tax expense charged in the statement of comprehensive income:

	For the year ended December 31		
	2021	2020	2019
	USD in thousands		
Income before taxes on income	<u>14,931</u>	<u>9,402</u>	<u>4,829</u>
Statutory tax rate	<u>23%</u>	<u>23%</u>	<u>23%</u>
Tax calculated in accordance with the statutory tax rate	3,434	2,162	1,111
Tax benefit due to reduced tax rates by virtue of the Law for the Encouragement of Capital Investments	(1,320)	(942)	(462)
Different tax rate in respect of a consolidated company abroad	(20)	63	56
Non-deductible expenses	34	27	27
Tax losses and tax benefits for which no deferred taxes were created	542	4	47
Revision to deferred taxes in respect of previous years' losses	(593)	-	-
Other differences, net	<u>42</u>	<u>(43)</u>	<u>81</u>
Taxes on income (tax benefit)	<u>2,119</u>	<u>1,271</u>	<u>860</u>

NOTE 24:- EARNINGS PER SHARE

A. Number of shares and earnings used in the calculation of earnings per share:

	For the year ended December 31					
	2021		2020		2019	
	Weighted number of shares	Net income attributed to Company's shareholders	Weighted number of shares	Net income attributed to Company's shareholders	Weighted number of shares	Net income attributed to Company's shareholders
	<u>Thousands</u>	<u>\$D in thousands</u>	<u>Thousands</u>	<u>\$D in thousands</u>	<u>Thousands</u>	<u>\$D in thousands</u>
For the purpose of calculating basic net income	<u>89,374</u>	<u>12,607</u>	<u>37,418 (*)</u>	<u>7,860</u>	<u>32,000(*)</u>	<u>3,969</u>
Effect of dilutive potential ordinary shares	<u>230</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
For the purpose of calculating diluted net income	<u>89,604</u>	<u>12,607</u>	<u>37,418 (*)</u>	<u>7,860</u>	<u>32,000 (*)</u>	<u>3,969</u>

(*) Amended retroactively due to issuance of bonus shares, see Note 21A1.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 25:- OPERATING SEGMENTSA. General

The Group applies the provisions of IFRS 8 regarding “Operating Segments” (hereinafter - “IFRS 8”). In accordance with the provisions of IFRS 8, 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 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 chief operating decision maker 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 4 operating segments based on the products and services of its business units, as described below: flavors, fragrances, specialty intermediates for the pharma industry and specialty ingredients.

The segments’ performances (segment profits) are estimated based on operating income (income before net finance expenses and unallocated expenses, as presented in the financial statements.

Segment results include items that can be directly allocated to the segment as well as those that can be allocated on a reasonable basis.

Unallocated items, which include mainly the Group’s headquarters assets, general and administrative costs, finance costs and taxes on income, are managed on a Group basis.

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

B. Segment information

	For the year ended December 31 2021			
	Flavors	Fragrances	Specialty intermediate s for the pharma industry	Specialty ingredients
	USD in thousands			
				Total
Segment revenue	33,292	19,436	20,873	11,733
Segment’s operating income net of unallocated joint expenses	2,533	6,804	6,615	3,317
Unallocated joint expenses				3,229
Finance expenses, net				1,109
Income before taxes on income				14,931

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 25:- OPERATING SEGMENTS (CONT.)

	For the year ended December 31 2020			
	Specialty intermediate s for the pharma industry			
	Flavors	Fragrances	Specialty ingredients	Total
	USD in thousands			
Segment revenue	9,717	15,144	14,213	52,730
Segment's operating income net of unallocated joint expenses	927	5,054	3,450	12,516
Unallocated joint expenses				2,331
Finance expenses, net				783
Income before taxes on income				9,402

	For the year ended December 31 2019			
	Specialty intermediate s for the pharma industry			
	Flavors	Fragrances	Specialty ingredients	Total
	USD in thousands			
Segment revenue	2,277	13,653	6,770	32,187
Segment's operating income net of unallocated joint expenses	117	3,208	1,479	6,782
Unallocated joint expenses				1,253
Finance expenses, net				700
Income before taxes on income				4,829

C. Geographical information

The revenues reported in the financial statements were generated in the Company's country of residence (Israel) and outside Israel, based on the customers' location, as follows:

	For the year ended December 31		
	2021	2020	2019
	USD in thousands		
Israel and the Middle East	20,421	11,049	8,917
North America	25,804	8,832	2,990
Europe	30,870	24,167	15,031
Asia and other	8,239	8,682	5,249
	85,334	52,730	32,187

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 26: BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIESA. Balances with interested and related parties1. Composed as follows:As of December 31 2021

	Information about conditions See note	Controlling shareholder and companies owned by controlling shareholder	Other interested and related parties	Highest balance during the year
		USD in thousands		
Other payables	A-D	814	782	814

As of December 31 2020

	Information about conditions See note	Controlling shareholder and companies owned by controlling shareholder	Other interested and related parties	Highest balance during the year
		USD in thousands		
Other payables	A-D	1,055	673	1,055

2. Management and employment agreement, rental agreement and other

A. Karenn Cohen Khazon, Chairperson of the Company's Board of Directors and Company's CEO:

As from January 1 2021, Ms. Karenn Cohen Khazon, the Company's controlling shareholder, 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 (hereinafter - "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 (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). 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.

NOTE 26: - BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (cont.)2. Management and employment agreement, rental agreement and other (cont.)

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.

In respect of 2019-2020, Ms. Cohen Khazon was entitled to monthly Management Fees of NIS 190,970.

B. Mr. Eyal Azulay, CEO of Chemada and Deputy CEO of the Company

Mr. Eyal Azulay (hereinafter - "Mr. Azulay") has been serving as Chemada's CEO since June 1 2019, and as Deputy Company CEO since January 1 2021. As part as his terms of employment, Mr. Azulay is entitled to a monthly salary of NIS 85,000, linked to the increase in the CPI in each quarter. As from January 2021, Mr. Azulay is entitled to a monthly salary of NIS 100,000, linked to the increase in the CPI in each quarter.

Furthermore, up until 2021, Mr. Azulay was entitled to a bonus equal to 3% of the EBITDA in accordance with Chemada's audited annual financial statements. As from January 2021, Mr. Azulay is entitled to a performance-based consideration at a total equal to 2% of the Company's aggregate operating income in 2021 and no more than a total equal to the annual management fees paid in respect of that year, and to a bonus of up to 4 gross monthly salaries, at the recommendation of the Chairman of the Board of Directors, and the approval of the Board of Directors the, provided that the Company meets its targets and fulfills its business plan and/or personal targets the Board of Directors will set.

Furthermore, Mr. Azulay is entitled to annual leave, recreation pay, pension fund and/or managers insurance, education fund, social benefits that do not exceed those that are normally acceptable for employees in his position, and to other benefits normally provided by the Company to its employees. Mr. Azulay's employment agreement includes a confidentiality clause.

Furthermore, the Company provides Mr. Azulay 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 90-day advance notice in writing. Upon the termination of his employment and in addition to the advance notice period, Mr. Azulay will be entitled to a 4-month adaptation period, and to a retirement grant at a total equal to his last salary multiplied by the number of his years of service in the Company.

NOTE 26: - BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (cont.)2. Management and employment agreement, rental agreement and other (cont.)C. Engagement with Ms. Shir Kesselman, Head of Sales and Development in the Fragrances Segment in Turpaz Extracts

Ms. Shir Kesselman (hereinafter - "Ms. Kesselman"), the daughter in law of the Company's controlling shareholder, is employed by Turpaz Extracts since January 27 2014 as a sales manager; as from January 1 2021, Ms. Kesselman has been serving as the Head of Sales and Development in the Fragrances Segment. As from 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 will be 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.

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.

D. Engagement with Mr. Shay Khazon, Chief Operating Officer at Turpaz Extracts

As from March 15 2015, Mr. Shay Khazon, the husband of Ms. Karenn Cohen Khazon, the Company's controlling shareholder, has been providing Turpaz Extracts 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 is entitled to monthly management fees of NIS 40,000 linked to the CPI in respect of February 2021; as from March 2021, the monthly management fees amount were increased to NIS 50,000.

Furthermore, through March 2021, the Company has borne all expenses pertaining to Mr. Khazon's car.

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. Mr. Khazon's employment agreement includes a confidentiality clause.

E. Guarantees in favor of the Company

Ms. Cohen Khazon provided personal guarantees in favor of the trustees for the suspension of proceedings of Chemada Fine Chemicals Company (1996) Ltd. This guarantee will be in effect until the completion of the payment of the consideration in respect of the activity of Chemada Fine Chemicals Company (1996) Ltd. As of the publication date of these financial statements, the said charge was removed.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 26: - BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (cont.)C. TRANSACTIONS WITH INTERESTED AND RELATED PARTIES

	For the year ended		
	December 31		
	2021	2020	2019
	USD in thousands		
Payroll and related expenses	<u>2,990</u>	<u>2,350</u>	<u>1,720</u>
Management fees and advisory fees to other related parties	<u>312</u>	<u>-</u>	<u>-</u>
Share-based payment	<u>184</u>	<u>-</u>	<u>-</u>
Number of interested parties in the Company receiving salaries and management fees	<u>6</u>	<u>3</u>	<u>3</u>
Directors' fees	<u>20</u>	<u>-</u>	<u>-</u>
Number of directors entitled to directors' fees (*)	<u>3</u>	<u>-</u>	<u>-</u>

(*) One of his directors waived his right to directors' fees in respect of 2021.

NOTE 27: - THE FIRE EVENT

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 undergone a fire, 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 consideration will be paid at the earlier of 12 months after the engagement date or on the date of receipt of insurance benefits. The consideration amount is final, and it is not conditional on the receipt of insurance benefits for the purchased insurance rights. It should be noted that as of the date of this report, a NIS 35 million advance was received from the insurance company; as mentioned above, the advance was paid directly to the owners of the property.

As of December 31 2021, SDA recognized an indemnification asset at the amount of the direct expenses accrued as a result of the fire and due to derecognition of inventory and equipment that were totally damaged in the fire, and the derecognition of right-of-use asset and the liability recognized in respect thereof.

The Company believes that the fire is not expected to have a material effect on the Group's operating results.

Furthermore, at this stage, the Company is unable to estimate the timing of receipt of the remaining insurance benefits from the insurer; however, the Company believes that it is not expected to face cash flow issues in respect of the fire or the agreement.

NOTE 28: - MATERIAL EVENTS SUBSEQUENT TO BALANCE SHEET DATE

- A. On January 17 2022, the Company completed - through a wholly-owned company - a transaction for the purchase of the entire share capital of LORI RKF (hereinafter - "LORI") - a private company incorporated in Latvia - which operates in the field of fragrance extracts - from its shareholders.

The Company purchased LORI's shares in consideration for approx. EUR 3.14 million (approx. USD 5.3 million), plus net cash balances.

LORI incorporated in 1992, ; LORI employs 50 employees. LORI is engaged in the manufacturing of fragrance extracts and their marketing in Eastern Europe; it has R&D capabilities that allow it to offer solutions that are customized to meet its customers' needs.

- B. Subsequent to balance sheet date, on March 13 2022, the Company declared the distribution of a USD 3.86 million dividend. This amount was not recognized as a distribution to owners during the reported period. The dividend per share amounts to 3.86 cent.
- C. In its meeting of March 13, 2022, the Company's Board of Directors approved the allocation of 3,752 thousand (non-listed) options that are exercisable into an identical number of ordinary shares, in accordance with the Company's equity-based compensation plan. The options shall vest in equal tranches over 4 years from Allotment Date; the first tranche (25% of the options) shall vest a year after Allotment Date, and all remaining options shall vest in 6 semi-annual tranches (12.5% of the option in each such tranche) starting 18 months after the Allotment Date. Each tranche will be exercisable over two years from its vesting date on a cashless basis. The options shall be subject to various adjustments.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 29: - NOMINAL-HISTORICAL DATA OF THE COMPANY FOR TAX PURPOSES

- A. The Company includes nominal-historical data for tax purposes only.
- B. The financial statements have been drawn up in accordance with generally accepted accounting principles on the basis of the historical cost convention, without taking into account changes in the general purchasing power of Israeli currency.

C. Company's statements of financial position

	As of December 31	
	2021	2020
	NIS in thousands	
<u>Current assets</u>		
Cash and cash equivalents	130,310	189
Trade receivable	6,179	1,008
Other receivables	320	183
Inventory	3,940	877
	140,749	2,257
<u>Non-current assets</u>		
Property and equipment, net	4,600	78
Intangible assets	4,408	1,745
Right-of-use assets, net	15,827	939
DEFERRED TAXES	17	17
Investment in subsidiaries, net	166,147	34,176
	190,999	36,955
	331,748	39,212
<u>Current liabilities</u>		
Current maturities of long-term loans from banks	5,347	--
Current maturities of lease liabilities	1,147	295
Related parties	3,180	4,212
Liabilities to suppliers and service providers	1,361	1,176
Other payables	2,121	161
	13,156	5,844
<u>Non-current liabilities</u>		
Long-term loans from banks, net of current maturities	16,371	--
Lease liabilities	14,780	652
Long-term liabilities in respect of acquisition of activity	--	479
Deferred taxes	10	10
	31,161	1,141
<u>Equity</u>	287,431	32,227
	331,748	39,212

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 29: - NOMINAL-HISTORICAL DATA OF THE COMPANY FOR TAX PURPOSES (cont.)D. Company's statements of income

	For the year ended December 31		
	2021	2020	2019
	NIS in thousands		
Revenues from sales	7,886	1,828	--
Cost of sales	6,294	1,988	--
Gross (income) loss	1,592	(160)	--
Research and development expenses	745	--	--
Selling and marketing expenses	1,059	464	--
General and administrative expenses	5,620	1,410	18
Expenses Other	776	--	--
Loss from ordinary operations	(6,608)	(2,034)	(18)
Finance expenses (income), net	610	(261)	265
Loss before taxes on income	(7,218)	(1,773)	(283)
Tax benefit	--	(6)	--
Profits in respect of companies accounted for by the equity method	47,943	28,660	14,429
Net income	40,725	26,893	14,146
Other comprehensive income (after tax effect): Amounts that will be subsequently reclassified or are reclassified to profit or loss under certain conditions: Adjustments arising from translation of financial statements of foreign operations	(8,336)	(2,125)	(1,606)
Total comprehensive income	32,389	24,768	12,540

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Turpaz Industries Ltd.

Financial Data Attributed to the Company as Included in the Consolidated Financial Statements

As of December 31 2021

USD in thousands

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To:
The shareholders of Turpaz Industries Ltd.

Dear Sirs/Madams,

Re: Special auditors' report on separate financial information in accordance with Regulation 9C of the Israeli Securities Regulations (Periodic and Immediate Reports), 1970

We have audited the separate financial information presented in accordance with Regulation 9c of the Israeli Securities Regulations (Periodic and Immediate Reports), 1970 of Turpaz Industries Ltd. ("the Company") as of December 31, 2021 and 2020 and for each of the three years the last of which ended on December 31, 2021, as disclosed on pages 4 (inclusive) through 16 (inclusive) of the Company's periodic report. The Company's board of directors and management are responsible for the separate financial information. Our responsibility is to express an opinion on the 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 USD 7,742 thousand and USD 6,849 thousand as of December 31, 2021 and 2020, respectively, and the Company's share of their earnings amounted to approximately USD 1,410 thousand, USD 1,255 thousand and USD 297 thousand for the years ended December 31, 2021, 2020 and 2019, respectively. The financial statements of those companies were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for those companies, is based on the reports of the other auditors.

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

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

Tel-Aviv, Israel
March 13, 2022

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

Special Report in accordance with Regulation 9C

Financial Information and Financial Data from the

Consolidated Financial Statements Attributable to the Company

Below is separate financial information and financial data attributable to the Company from the Group's consolidated financial statements as of December 31, 2018, published as part of the periodic reports ("consolidated financial statements"), presented in accordance with Regulation 9C to the Israeli Securities Regulations (Periodic and Immediate Reports), 1970.

The significant accounting policies applied in presenting this financial information is elaborated in Note 2 to the consolidated financial statements.

"Investees" - as defined in Note 1E to the consolidated financial statements.

Financial data attributed to the Company as included in the consolidated statements of financial position

		December 31,	
		2021	2020
	See	USD in thousands	
<u>Current assets</u>			
Cash and cash equivalents	3	41,900	59
Trade receivable		1,987	314
Other receivables		103	57
Inventory		1,267	273
		45,257	703
<u>Non-current assets</u>			
Deferred taxes		5	5
Property and equipment, net		1,479	24
Right-of-use assets, net		5,089	292
Intangible assets, net		972	309
Goodwill		445	234
Assets, net of liabilities attributed to investees, net, including goodwill		53,423	10,630
		61,413	11,494
		106,670	12,197
<u>Current liabilities</u>			
Current maturities of long-term loans		1,719	-
Liabilities to suppliers and service providers		1,326	366
Other payables	4	648	1,360
Short-term liabilities in respect of acquisition of activity		154	-
Current maturities of lease liabilities		369	92
		4,216	1,818
<u>Non-current liabilities</u>			
Long-term loans from banks, net of current maturities		5,264	-
Long-term leases liabilities		4,752	203
Deferred consideration		-	149
Deferred taxes	5D	3	3
		10,019	355
<u>Equity</u>			
Share capital		1	1
Share premium		74,449	-
Other capital reserves		(6,228)	-
Reserve in respect of translation differences		1,783	200
Retained earnings		22,430	9,823
		92,435	10,024
		106,670	12,197

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

March 13, 2022

Date of approval of financial
statements:

Karenn Cohen Khazon
Chairman of the Board of
Directors and CEO

Israel Leshem
Director authorized
by the Board of
Directors to sign

Ohad Blustein
CFO

Statement of comprehensive income data attributed to the Company as included in the consolidated financial statements

	See	December 31,		
		2021	2020	2019
		USD in thousands		
Revenues from sales		2,441	531	-
Cost of sales		1,949	578	-
Gross (profit) loss		492	(47)	-
Research and development expenses		231	-	-
Selling and marketing expenses		328	135	-
General and administrative expenses		1,740	360	5
Expenses Other		240	-	-
Loss from ordinary operations		(2,047)	(542)	(5)
Finance income		55	83	7
Finance expenses		(243)	(9)	(81)
Loss before taxes on income		(2,235)	(468)	(79)
Taxes on income	5F	-	2	-
Company's share in profits of investees, net		14,842	8,326	4,048
Net income attributed to the Company		12,607	7,860	3,969
Other comprehensive income (loss) (after tax effect):				
<u>Amounts that will not be subsequently reclassified to profit or loss</u>				
Adjustments arising from translation of financial statements from the functional currency to the presentation currency		4,300	(223)	972
<u>Amounts that will be subsequently reclassified or are reclassified to profit or loss under certain conditions:</u>				
Adjustments arising from translation of financial statements of foreign operations		(2,717)	596	(460)
Total comprehensive income attributed to the Company		14,190	8,233	4,481

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

Statement of cash flow data attributed to the Company as included in the consolidated financial statements

	December 31,		
	2021	2020	2019
	USD in thousands		
<u>Cash flows from operating activities</u>			
Net income for the year	12,607	7,860	3,969
Adjustments required to reflect the cash flows from operating activities (a)	(15,770)	(1,840)	3,824
Net cash provided by (used in) operating activities	(3,163)	6,020	7,793
<u>Cash flows from investing activities</u>			
Purchase of property, plant and equipment	(49)	(24)	-
Investment in investees	(16,176)	-	-
Acquisition of activities (A)	(3,331)	(579)	-
Net cash used in investing activities	(19,556)	(603)	-
<u>Cash flows from financing activities</u>			
Capital reduction	-	-	(7,796)
Repayment of long-term loans	(1,242)	-	-
Distributions to owners	-	(5,286)	-
Issuance of share capital (net of issuance expenses)	62,055	-	-
Repayment of long-term lease liabilities	(175)	(93)	-
Net cash provided by (used in) financing activities	60,638	(5,379)	(7,796)
<u>Exchange differences in respect of cash and cash equivalents</u>	3,922	-	-
<u>Increase (decrease) in cash and cash equivalents</u>	41,841	38	(3)
<u>Balance of cash and cash equivalents at beginning of the year</u>	59	21	24
<u>Balance of cash and cash equivalents at end of the year</u>	41,900	59	21

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

Statement of cash flow data attributed to the Company as included in the consolidated financial statements

	December 31,		
	2021	2020	2019
	USD in thousands		
<u>Adjustments required to reflect the cash flows from operating activities</u>			
Adjustments to profit and loss items:			
Depreciation and amortization	288	132	-
Change in liabilities for employee benefits, net	184	-	-
Profits of companies accounted for by the equity method, net	(14,842)	(3,223)	(3,472)
Finance expenses, net	188		
Taxes on income	-	(2)	-
	<u>(14,182)</u>	<u>(3,093)</u>	<u>(3,472)</u>
Changes in operating asset and liability items:			
Increase in trade receivable	(1,601)	(305)	-
Increase (decrease) in other receivables	(44)	(55)	7,217
Increase (decrease) in inventory	36	(99)	-
Increase in trade payables	992	371	-
Increase (decrease) in accounts payable	(806)	1,341	79
	<u>(1,423)</u>	<u>1,253</u>	<u>7,296</u>
	<u>(15,605)</u>	<u>(1,840)</u>	<u>3,824</u>
Cash paid and received during the year in respect of:			
Interest paid, net	<u>(165)</u>	<u>2</u>	<u>1</u>
	<u>(15,770)</u>	<u>2</u>	<u>1</u>

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

Statement of cash flow data attributed to the Company as included in the consolidated financial statements

	December 31,		
	2021	2020	2019
	USD in thousands		
(A) Acquisition of activities (Appendix A)			
Inventory	984	167	-
Property, plant and equipment	1,444	3	-
Intangible assets	903	547	-
Liability in respect of purchase of activity	-	(138)	-
Payment in respect of purchase of transactions	3,331	579	-
(B) Material non-cash operations			
Recognition of right-of-use asset against lease liabilities	4,812	353	-
Purchase of investees in consideration for share issuance	12,394	-	-
Assignment of loan	7,892	-	-

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

1. Disclosure regarding new IFRS that have not yet been appliedA. Amendment to IAS 16 Property, Plant and Equipment

In May 2020, the IASB published an amendment to IAS 16 (hereinafter - the “Amendment”). The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment, any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, the Company will recognize the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment will apply to annual reporting periods commencing on January 1, 2022 or thereafter. Early adoption is permitted. The amendment must be applied retrospectively only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the Company first applies the amendment. The Company will recognize the cumulative effect of initially applying the Amendment as an adjustment to the opening balance of retained earnings at the beginning of the reporting period in which it first applies the amendment.

The Company is of the opinion that the application of the Amendment is not expected to impact the financial statements.

B. Amendment to IAS 37 Provisions, Contingent Liabilities and Contingent Assets

In May 2020, the IASB issued an amendment to IAS 37 regarding the costs an entity needs to include when assessing whether a contract is onerous (hereinafter - the “Amendment”).

In accordance with the Amendment, this assessment should include both incremental costs (e.g., the costs of direct labor and raw materials), and an allocation of costs directly related to contract activities (e.g., depreciation of property, plant and equipment used to fulfil the contract).

The amendment will apply to annual reporting periods commencing on January 1 2022 or thereafter. The Amendment will apply to contracts, the obligations in respect of which have not yet been fulfilled as of January 1 2022. Early adoption is permitted.

The Company is of the opinion that the said amendments are not expected to have a material effect on the financial statements.

C. The IASB’s 2018-2020 Cycle of Improvements to IFRSs

In May 2020, the IASB published certain amendments as part of its 2018-2020 cycle of improvements to IFRS. Set forth below is the main amendment relating to IFRS 9:

The amendment to IFRS 9 clarifies the fees the Company should include when applying the “10 percent” test to assess whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability.

The amendment will apply to annual reporting periods commencing on January 1 2022 or thereafter. Early adoption is permitted. The amendment is applied to debt instruments modified or replaced since the year in which the amendment to the standard was initially applied.

The Company is of the opinion that the said amendments are not expected to have a material effect on the financial statements.

2. Disclosure regarding new IFRS that have not yet been applied (cont.):D. Amendment to IAS 1, *Presentation of Financial Statements*

In January 2020, the IASB issued an amendment to IAS 1 regarding the requirements for classifying liabilities as current or non-current (hereinafter - the “Amendment”).

The Amendment clarifies the following matters:

- That which is meant by unconditional right to defer settlement;
- The right to defer must exist as of the end of the reporting date;
- Classification is not affected by the likelihood that an entity will exercise the right to defer;
- Only if a derivative embedded in the convertible liability is an equity instrument, the terms and conditions of the liability will not affect its classification.

The amendment will apply to annual reporting periods commencing on January 1 2023 or thereafter. The Amendment shall be applied retrospectively.

The Company is of the opinion that the said amendments are not expected to have a material effect on the financial statements.

E. Amendment to IAS 12, *Taxes on Income*

In May 2021, the IASB issued an amendment to IAS 12, Taxes on Income (hereinafter - “IAS 12” or the “Amendment”), which reduces the applicability of the “initial recognition exception” described in Sections 15 and 24 to IAS 12 (hereinafter - the “Amendment”).

As part of the guidelines for recognition of deferred tax assets and liabilities, IAS 12 excludes the recognition of deferred tax assets and liabilities in respect of certain temporary differences arising from initial recognition of certain assets and liabilities in certain transactions. This exception is named the “initial recognition exception”. The Amendment narrows the scope of the “initial recognition exception”, and clarifies that it no longer applies to recognition of deferred tax assets and liabilities stemming from a transaction which is not a business combination and in respect of which equal taxable and deductible temporary differences arise, even if they meet all other conditions of the exception.

The amendment will apply to annual reporting periods commencing on January 1 2023 or thereafter. Early adoption is permitted. Regarding lease transactions and recognition of decommissioning and obligations - the standard will be applied as from the beginning of the earliest reporting period presented in the financial statements in which the Amendment was applied for the first time; and the cumulative effect of the initial application will be carried to the opening balance of retained earnings (or any other equity component, if relevant) as of that date.

The Company is of the opinion that the application of the Amendment is not expected to impact the financial statements.

2. Disclosure regarding new IFRS that have not yet been applied (cont.):F. Amendment to IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors

In February 2021, the IASB published an amendment to IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors (hereinafter - the "Amendment"). The purpose of the amendment is to present a new definition of the term "accounting estimates"

Accounting estimates are defined as "monetary amounts in financial statements that are subject to measurement uncertainty". The Amendment clarifies what are changes in accounting estimates and also how they differ from changes in an accounting policy and from corrections of errors.

The Amendment will be implemented prospectively for annual periods commencing on January 1 2023, and it applies to changes in accounting policy and accounting estimates taking place at the beginning of that period or thereafter. Early adoption is permitted.

The Company is studying the effect of the Amendment on the financial statements.

3. Balance of cash and cash equivalents attributed to the Company (excluding amounts in respect of investees)

	December 31	
	2021	2020
	USD in thousands	
Cash and deposits that can be withdrawn immediately - NIS	41,900	59

4. Disclosure regarding financial liabilities attributed to the Company (excluding amounts in respect of investees)A. Accounts payable and accruals attributed to the Company

	December 31	
	2021	2020
	USD in thousands	
Employees and payroll institutions	347	31
Related parties	134	1,310
Accrued expenses	152	15
Others	15	4
	648	1,360

Additional information

2. Disclosure regarding financial liabilities attributed to the Company (excluding amounts in respect of investees)B. Liquidity risk attributed to the Company

The following table presents the repayment periods of the Company's financial liabilities in accordance with the contractual conditions on an undiscounted basis (including payments in respect of interest):

December 31, 2021

	Up to one year	One to five years	Five years and thereafter	Total
	USD in thousands			
Liabilities to suppliers and service providers	1,326	-	-	1,326
Payables	648	-	-	648
Long-term bank loans	1,719	5,264	-	6,983
Lease liability	369	4,752	-	5,121
Deferred consideration	154	-	-	154
	<u>4,216</u>	<u>10,016</u>	<u>-</u>	<u>14,232</u>

December 31, 2020

	Up to one year	One to five years	Five years and thereafter	Total
	USD in thousands			
Liabilities to suppliers and service providers	366	-	-	366
Payables	1,360	-	-	1,360
Lease liability	92	203	-	295
Deferred consideration	-	149	-	149
	<u>1,818</u>	<u>352</u>	<u>-</u>	<u>2,170</u>

3. Disclosure regarding deferred tax assets and deferred tax liabilities attributed to the Company (excluding amounts in respect of investees) and disclosure regarding tax income or tax expenses attributed to the Company (excluding amounts in respect of investees)

A. Tax laws applicable to the Company

Income Tax (Inflationary Adjustments) Law, 1985

Under the law, through the end of 2007, results for tax purposes are measured in Israel in real terms, having regard to the changes in the CPI.

In February 2008, the Knesset passed an amendment to the Income Tax (Inflationary Adjustments) Law, 1985, which limits the scope of the law starting 2008 and thereafter. Starting 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 in respect of disposal of real estate (betterment) and securities, continue to apply until the disposal date. The amendment to the law includes, among other things, the elimination of the inflationary additions and deductions, and the additional deduction for depreciation (for depreciable assets purchased after tax year 2007) starting 2008.

The Law for the Encouragement of Capital Investments, 1959

Under the law, by virtue of the "approved enterprise" or "benefited enterprise" status granted to certain of their enterprises the companies are entitled to various tax benefits.

The Law for the Encouragement of Capital Investments, 1959 (Amendment No. 73)

The Economic Efficiency Law (Legislative Amendments for Applying the Economic Policy for the 2017 and 2018 Budget Years), 2017, which includes Amendment No. 73 to the Law for the Encouragement of Capital Investments (hereinafter - the "Amendment") was published in December 2016. The Amendment stipulates that the tax rate that will apply - as from January 1 2017 - to a preferred enterprise located in Development Zone A is 7.5% instead of 9% (the tax rate applicable to a preferred enterprise that is not located in Development Zone A remained 16%).

Furthermore, the Amendment stipulates that the distribution of a dividend to an individual or a foreign resident out of the profits of a preferred enterprise as described above shall be subject to tax at the 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. As such, and by virtue of the regulations promulgated, the Company is entitled to claim depreciation at increased rates for equipment used in industrial activity, as stipulated by regulations published under the Inflationary Adjustments Law.

Additional information

5. Disclosure regarding deferred tax assets and deferred tax liabilities attributed to the Company (excluding amounts in respect of investees) and disclosure regarding tax income or tax expenses attributed to the Company (excluding amounts in respect of investees) (cont.):

B. The tax rates applicable to the Company

1. The Economic Efficiency Law (Legislative Amendments for Applying the Economic Policy for the 2017 and 2018 Budget Years), 2017, which includes the reduction of corporate tax law as from January 1 2017 to 24% (instead of 25%), and as from January 1 2018 to 23%, was published in December 2016.

The corporate tax rate in Israel in 2021, 2020 and 2019 is 23%.

A body of person liable to corporate tax on real capital gain starting in the year of sale.

In August 2013, the Law for Changes in National Priorities (Legislative Amendments for Achieving Budget Objectives in the Years 2013 and 2014), 2013 was published on the official gazette (hereinafter - the "Budget Law"). The law includes, among other things, provisions regarding the taxation of revaluation gains starting August 1 2013; however, the coming into effect of the said provisions regarding revaluation gains is conditional upon the issuance of regulations, which define what are "earnings that are not liable to corporate tax", and regulations that will set provisions for the prevention of double taxation that might apply to assets outside Israel. As of the publication date of these financial statements, such provisions have not yet been published.

C. Final tax assessments

The Company has submitted tax assessments, which are considered to be final through tax year 2016.

D. Composition of deferred taxes

	December 31	
	2021	2020
	USD in thousands	
Non-current assets	5	5
Non-current liabilities	3	3
	<u>2</u>	<u>2</u>

E. Changes in deferred taxes

	December 31	
	2021	2020
	USD in thousands	
Balance at beginning of year	2	-
Changes carried to other comprehensive income	-	-
Changes carried to the income statement	-	2
Balance at end of year	<u>2</u>	<u>2</u>

Additional information

5. Disclosure regarding deferred tax assets and deferred tax liabilities attributed to the Company (excluding amounts in respect of investees) and disclosure regarding tax income or tax expenses attributed to the Company (excluding amounts in respect of investees) (cont.):

F. Taxes on income included in the statement of comprehensive income

	For the year ended December 31		
	2021	2020	2019
	USD in thousands		
Current tax expenses	-	-	-
Deferred taxes income	-	2	-
	-	2	-

G. Theoretical tax expense

Following is a reconciliation between the tax amount that would have been payable had all income and expenses, gains and losses in the statement of comprehensive income been taxed at the statutory tax rate, and the actual tax expense charged in the statement of comprehensive income:

	For the year ended December 31		
	2021	2020	2019
	USD in thousands		
Loss before taxes on income	(2,235)	(468)	(79)
Statutory tax rate	23%	23%	23%
Tax calculated in accordance with the statutory tax rate	(514)	(108)	(18)
Tax losses and tax benefits for which no deferred taxes were created	514	110	18
Taxes on income	-	2	-

Additional information

4. Material balances and engagements with investees

A. Balances with investees1. Composed as follows:

	December 31	
	2021	2020
	USD in thousands	
<u>Accounts payable and accruals:</u>		
Trade payable	889	-
Other payables	-	1,322

B. Transactions with investees

	For the year ended December 31		
	2021	2020	2019
	USD in thousands		
Cost of sales	881	128	-
Selling and marketing expenses	-	212	-
General and administrative expenses	-	89	-

Part Four - 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 2021

Report date: March 13 2022

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 Statements of Comprehensive Income

Condensed semi-annual income statements for 2021 (USD thousands):

	Second half 2021	First half 2021	Annual 2021
Revenues from sales	45,890	39,444	85,334
Cost of sales	26,942	23,664	50,606
Gross profit	18,948	15,780	34,728
Research and development expenses	1,060	889	1,949
Selling and marketing expenses	3,586	2,688	6,274
General and administrative expenses	6,225	4,032	10,257
Expenses Other	41	167	208
Profit from ordinary operations	8,036	8,004	16,040
Finance expenses, net	517	592	1,109
Taxes on income	1,024	1,095	2,119
Net income per year	6,495	6,317	12,812

Regulation 10C: Use of Proceeds for Securities

In May 2021, the Company completed an initial public offering of its shares in accordance with a supplementary prospectus, an initial public offering of May 20, 2021, and a supplementary notice of May 23 2021 (Ref. Nos.: 2021-01-027967 and 2021-01-028936, respectively) (hereafter - the “**Prospectus**”).

The proceeds paid to the Company in respect of the shares issued in accordance with the Prospectus amounted to NIS 208,000 thousand (USD 65 million).

The proceeds received are designed to be used by the Company, among other things, to fund its operating activities and implement its business strategy, strengthen its capital, improve its leveraging ratios, and reduce or refinance the Company’s debt. For more information about the purpose of the proceeds received from the IPO as per the Prospectus, see Section 5.2 to Chapter 5 to the Prospectus.

As of the publication date of this report, the Company used the IPO proceeds to purchase the remaining share capital (49%) of SDA Spice Agricultural Cooperative Society Ltd. from Kibbutz Sde Eliyahu, to purchase of the activity and assets of Pilpel - Food Industries Development Ltd. and FC Galilee Herbs Ltd., to purchase the control in Food Ingredients Technology SA in Western Europe, which operates in the field of savory flavor extracts, and to purchase the entire share capital of Lori RKF - a private company incorporated in Latvia and operating in the field of fragrance extracts - in consideration for USD 20.5 thousand.

Furthermore, during the reporting period, the Company invested in the expansion of Chemada’s plant in Kibbutz Nir Yitzhak, and in the working capital of Group companies.

Regulation 11: List of Investments in Subsidiaries and Associates

Set forth below is a list of the Company's investments in each of its subsidiaries and associates as of the statement of financial position date:

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%	11,083	-
Turpaz Perfume and Flavor Extracts Ltd. (*)	Ordinary	NIS 0.01 par value	10,000	100%	42,340	-
Companies held by Turpaz Perfume and Flavor Extracts Ltd.						
SDA Spice Agricultural Cooperative Society Ltd. ¹	-	-	-	100%	8,022	USD 1,450, at Prime+0.5% interest
Western Flavors Fragrances Production Joint Stock Company	Ordinary	10,000 Vietnamese dong	1,200,000	60%	1,125	USD 663 thousand, 6% interest
Turpaz Fragrances and Flavors Aroma Inc.	Ordinary	of no par value	10,000	100%	1,243	USD 170 thousand, at an interest of Libor+2%
Turpaz Belgium SRL	Ordinary	of no par value	1,000	100%	29,070	-
Pollena Aroma SP. z.o.o ²	Ordinary	50 Zloty	13,928	100%	9,320	-
Companies held by Turpaz Belgium						
Food Ingredients Technologies SA	Ordinary	of no par value	5,654	60%	29,070	-

(*) Under the process of merger with and into the Company.

Regulation 12: List of Investments in Subsidiaries and Associates

During the reported period there were not changes in the investments in subsidiaries and related companies, other than:

- (1) The purchase of the remaining share capital (49%) of SDA Spice Agricultural Cooperative Society Ltd. (hereafter - "**SDA**") from Kibbutz Sde Eliyahu, such that subsequent to the completion of the purchase, Turpaz Perfume and Flavor Extracts Ltd. - a wholly-owned subsidiary of the Company - holds the entire issued and paid-up share capital of SDA. For information about the transaction, see Section 1.4.1.5 in Chapter A to this report.

¹ On November 9, 2021, SDA submitted to the Registrar of Cooperatives a plan whereunder the cooperative shall become a limited company.

² As of the report date, the shares were transferred from Frutarom Fragrances (UK) Limited (under liquidation) to Turpaz Extracts.

- (2) Purchase of 60% of the issued and paid up share capital of Food Ingredients Technology SA. For more information, see Section 1.4.3 to Chapter A to this report.
- (3) Purchase of the entire issued and paid up share capital of LORI RKF that was completed in January 2022. For more information, see Section 1.4.5 to Chapter A to this report.

Regulation 13: Income of Subsidiaries and Associates and Income of the Corporation Therefrom

Company's name	Comprehensive income		Company's revenues in 2021		
	Income (loss)	Other comprehensive income	Dividend	Management fees	Interest
	USD thousand				
Companies held directly by the Company					
Chemada Industries Ltd	7,816	7,816	-	-	-
Turpaz Perfume and Flavor Extracts Ltd.	7,026	7,040	-	-	-
Companies held by Turpaz Perfume and Flavor Extracts Ltd.					
SDA Spice Agricultural Cooperative Society Ltd.	1,598	1,738	-	-	17
Western Flavors Fragrances Production Joint Stock Company	388	400	-	-	40
Turpaz Fragrances and Flavors Aroma Inc.	21	21	-	-	1
Turpaz Belgium	328	(44)	-	-	-
Pollena Aroma SP. z.o.o	988	565	-	-	-
Companies held by Turpaz Belgium					
Food Ingredients Technologies SA	328	(44)	-	-	-

Regulation 20: Trading on the Stock Exchange

1. In 2021, the Company completed an IPO and the listing on the stock exchange of 98,342,500 ordinary shares of the Company of no par value. Trading of the Company's ordinary shares started on May 25 2021.
2. On October 28, 2021, the Company completed the listing of 1,742,276 ordinary shares of the Company of no par value, which were allocated as part of the consideration to the seller in the transaction for the purchase of control (60%) in FIT. For more information, see Section 1.4.3 to Chapter A (Description of the Company's Business).

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 2021 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%	918	814	-	-	-	-	-	-	-	-	1,732
Eyal Azulay	CEO of Chemada and Deputy CEO of the Company	100%	5.25%	535	340	-	-	-	-	-	-	-	-	875
Michael Reiss	CEO of Pollena Aroma	100%	-	207	63	-	-	-	-	-	-	10	-	280
Ari Rosenthal	Head of the Flavors & Food Division	100%	-	257	56	-	-	-	-	-	-	-	-	313
Avhishai Mordehovich	CEO, Sde Eliyahu	100%	-	252	18	-	-	-	-	-	-	-	-	270
Directors			(5)	20		-	-	-	-	-	-	-	-	20
Erez Meltzer	Advisor, a Company director	25%	-	204	-	184	-	-	-	-	-	-	-	388
Interested parties														
Shay Khazon ⁽²⁾	Chief Operating Officer at Turpaz Extracts	80%	-	186	32	-	-	-	-	-	-	-	-	218
Shir Kesselman ⁽³⁾	Head of Sales and Development in the Fragrances Segment	100%	-	91	17	-	-	-	-	-	-	-	-	108
Alon Granot ⁽⁴⁾	Advisor	50%	³ 7.16%	108	-	-	-	-	-	-	-	-	-	108

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

³Holds 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 Turpaz Extracts, through a company he owns. 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, Turpaz Extracts, Pollena Aroma and Turpaz Belgium.
- (5) Ms. Limor Avidor, external director in the Company, holds 0.01% of the Company's issued and paid up share capital

1. Additional details about the terms to which the above-mentioned recipients of compensation are entitled:

1.1. Karen Cohen Khazon, Chairperson of the Company's Board of Directors and Company's CEO

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 2021 was USD 814 thousand (USD 2,530 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 writing⁴. 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. Eyal Azulay, CEO of Chemada and Deputy CEO of the Company

Mr. Eyal Azulay (hereinafter - "**Mr. Azulay**") has been serving as Chemada's CEO since June 1 2019, and as Deputy Company CEO since January 1 2021. As from January 2021, Mr. Azulay is entitled to a monthly salary of NIS 100,000, linked to the increase in the CPI in each quarter. As from 2021, Mr. Azulay is entitled to an annual bonus of 2% of the Company's operating profit as per its audited annual financial statements. The operating profit will not include capital gains and profits that do not stem from operating activities. Furthermore, Mr. Azulay is entitled to a bonus of up to 4 gross monthly salaries, at the recommendation of the Chairman of the Board of Directors, and the approval of the Board of Directors of Base, provided that the Company meets its targets and fulfills its business plan and/or personal targets set for Mr. Azulay. Pursuant to Mr. Azulay's employment agreement, the total amount of bonuses awarded per year will not exceed an amount equal to 16 monthly salaries. The amount of the annual bonus in 2021 was USD 340 thousand.

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. Azulay is entitled to annual leave, recreation pay, pension fund and/or managers insurance, education fund, social benefits that do not exceed those that are normally acceptable for employees in his position, and to other benefits normally provided by the Company to its employees. Mr. Azulay's employment agreement includes a confidentiality clause.

Furthermore, the Company provides Mr. Azulay 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 90-day advance notice in writing. Upon the termination of his employment and in addition to the advance notice period, Mr. Azulay will be entitled to a 4-month adaptation period, and to a retirement grant at a total equal to his last salary multiplied by the number of his years of service in the Company.

1.3. Mr. Michael Reiss, Chief Executive Officer Pollena Aroma

Mr. Michael Reiss (hereinafter - "**Mr. Reiss**") serves as the CEO of Pollena Aroma since April 1 2018. As part as his terms of employment, Mr. Reiss is entitled to a monthly salary of USD 16,000.

Furthermore, Mr. Reiss is entitled to an annual bonus at an amount equal to: (1) 2% of the increase in the annual profit in any year compared to the annual profit of the previous year; plus (2) 3% of the increase in the annual EBIT compared to the previous year's EBIT⁵. 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 2021 on account of 2020 and 2021 was USD 63 (NIS 195 thousand).

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

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.

undertaken to pay Mr. Reiss monthly payments, each of which will be equal to 25% of his latest monthly salary prior to termination.

The term of the employment agreement is not limited in time, and each of the parties may terminate it by giving a 3-month advance notice in writing.

1.4. Mr. Ari Rosenthal, Head of the Flavors & Food Division

Mr. Ari Rosenthal (hereinafter - “**Mr. Rosenthal**”), has been employed in Turpaz Extracts since May 1 2020, and as from January 1 2021 he is employed by the Company in consideration for a monthly salary of NIS 45,000.

Furthermore, Mr. Rosenthal is entitled to annual leave, recreation pay, comprehensive pension fund and/or managers insurance, education fund, social benefits that do not exceed those that are normally acceptable for employees in his position, and to other benefits normally provided by the Company to its employees.

Furthermore, the Company provides Mr. Rosenthal with a car as is generally accepted in the Company, and bears all expenses pertaining to its maintenance, including the grossing up of the tax in respect thereof.

The term of the employment agreement is not limited in time, and each of the parties may terminate it by giving a 180-day advance notice in writing. The employment agreement includes a confidentiality clause whereby Mr. Rosenthal undertook to maintain confidentiality with regard to the Company, and a 12-month non-competition period that will start on termination date. On March 13 2022, the Company’s Compensation Committee and Board of Directors approved an annual bonus of USD 56 thousand (NIS 190 thousand). On March 13, 2022, the Remuneration Committee and the Company's Board of Directors approved the increase of Mr. Rosenthal's monthly salary to NIS 55,000

1.5. Mr. Avhishai Mordehovich, CEO of SDA

Mr. Avhishai Mordehovich, (hereinafter - “**Mr. Mordehovich**”) has been working for SDA since 2007, and as from February 2019 he has been serving as the CEO of SDA. In 2021, Mr. Mordehovich’s monthly salary was NIS 38,000.

Furthermore, Mr. Mordehovich is entitled to annual leave, recreation pay, pension fund and/or managers insurance, education fund, social benefits that do not exceed those that are normally acceptable for employees in his position, and to other benefits normally provided by SDA to its employees. Mr. Mordehovich’s employment agreement includes a confidentiality clause, and a non-competition undertaking for 12 months from termination of employment.

In accordance with his terms of employment, Mr. Mordehovich was entitled to an annual bonus for meeting targets set in the annual bonus. The amount of the annual bonus in 2021 on account of 2020 and 2021 was USD 18 thousand (NIS 55 thousand).

As from 2021, Mr. Mordehovich is entitled to an annual bonus of up to two monthly salaries in respect of meeting the company's targets as set in SDA's budget for that year.

Furthermore, SDA provides Mr. Mordehovich 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 agreement is not limited in time, and each of the parties may terminate it by giving a 90-day advance notice. If Mr. Mordehovich fails to give SDA the advance notice, he will pay it compensation at an amount equal to his monthly salary over the advance notice period.

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, Mr. Shay Khazon and Mr. Erez Meltzer), 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 2021, 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. Engagement with Ms. Shir Kesselman, Head of Sales and Development in the Fragrances Segment in Turpaz Extracts

Ms. Shir Kesselman (hereinafter - "**Ms. Kesselman**"), the daughter in law of the Company's controlling shareholder, is employed by Turpaz Extracts since January 27, 2014 as a sales manager; as from January 1 2021, Ms. Kesselman has been

serving as the Head of Sales and Development in the Fragrances Segment. As from 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 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.

2. Engagement with Mr. Shay Khazon, Chief Operating Officer at Turpaz Extracts

As from March 15 2015, Mr. Shay Khazon, the husband of Ms. Karen Cohen Khazon, the Company's controlling shareholder, has been providing Turpaz Extracts 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.

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.

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.

3. Guarantees in favor of the Group

For information about guarantees cancelled in the reporting period, see Note 20D to the financial statements.

Regulation 24: Holdings of Interested Parties and Senior Officers

For information about the holdings of interested parties and officers in the Company, see the Company's immediate report of January 3 2022 (Ref. No.: 2022-01-001048). 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 October 28 2021 (Ref. No.: 2021-01-092119). 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 October 28 2021 (Ref. No.: 2021-01-092119). 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	Israel Leshem	Erez Meltzer	Shay Shlomo Khazon	Ohad Finkelstein	Limor Avidor	Mordechai Peled
I.D. Number	024429227	051210177	065861338	058641549	024429227	022772628	056092711
Date of Birth	25.8.1969	26.4.1952	30.7.1957	5.2.1964	25.1.1961	07.09.1967	21.10.1959
Address for service of legal documents	2 Halahav St. Holon	16 Abba Hillel Silver, Ramat Gan 5250608	55 Ha'Maayan, Ra'anana	23 Iytzhar, Ramat HaSharon, 4721563	67 Ha'Shahar, Ra'anana	25 HaTikva, Ramat HaSharon, 4721024	47 Ha'Nesher, Ra'anana, 4372633
Citizenship	Israel	Israel	Israel, USA	Israel	Israel	Israel	Israel
Membership in Board of Directors committees	No	No	No	No	The Audit Committee and the Compensation Committee	The Audit Committee and the Compensation Committee	The Audit Committee and the Compensation Committee
External director	No	No	No	No	No	Yes	Yes
Independent director	No	No	No	No	Yes	No	No
Director with accounting and financial expertise or professional qualification	Accounting and financial expertise	No	Accounting and financial expertise	No	No	No	Accounting and financial expertise
Employee of the corporation, subsidiary, related company or of an interested party	Chairperson of the Company's Board of Directors, CEO of the Company and Turpaz Extracts, and director in subsidiaries of the Company.	No	Director in SDA, Chemada, Turpaz Extracts.	Chief Operating Officer at Turpaz Extracts	No	No	No
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

	Karen Khazon Cohen	Israel Leshem	Erez Meltzer	Shay Shlomo Khazon	Ohad Finkelstein	Limor Avidor	Mordechai Peled
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, Chairperson of Turpaz Extracts' Board of Directors and Turpaz Extracts' CEO.	Partner in Meitar Law Offices	Chairman of the Board of Directors and director in a number of companies, including the Hadassah Medical Center (PBC), Hadasit Ltd., Hadasit Bio-Holdings Ltd., Hadassah Medical, Sari., SupPlant Technologies. and SupPlant Agro Project., Plantis Agro, Tevel Aerobotics, Smart Agro., and Rivolis.	Chief Operating Officer at Turpaz Extracts	Partner in Marker LLC Managing Partner in Danli Capital Ltd.	Deputy CEO and Company Secretary, Mivtach Shamir Holdings Ltd. (29 years).	CEO, Pelgo Ltd. (23 years).
Other corporations in which he/she serves as a director	Chairperson of the Company's Board of Directors, Turpaz Extracts, Chemada, WFF, Pollena Aroma FIT, LORI, and Turpaz USA, K-Vision Holdings, BKF	Dr. Israel Leshem, Law Firm, Chemada, WFF, Turpaz Extracts, Corinthus, Meitar Trust Services Ltd.	Nano-X Imaging Ltd., Hadasit Bio-Holdings Ltd., Atlasense Ltd.; GEM Pharma Ltd., SDA, Eltek Ltd., Ericom Ltd., Friends of Loewenstein Hospital Association, Reut Association; Or		Qwilt, Idomoo, Tufin, Overwolf, Colabo, Equalum, Dropitshpping, KWSC, BankM, First Media, Team8, Cosmose	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.,	Bazan Ltd., Pelgo Ltd., and Razor Labs Ltd.

	Karen Khazon Cohen	Israel Leshem	Erez Meltzer	Shay Shlomo Khazon	Ohad Finkelstein	Limor Avidor	Mordechai Peled
	Medical, Director in Sde Eliyahu.		Movement Association; Plantis Agro Ltd., SupPlant, Rivolis Ltd., Ud Nof Ltd.; Tevel Aerobotics Ltd., Capital Nature Ltd., Chemada, Turpaz Extracts.			M.B.S.T Real Estate Ltd., M.S.N.M Real Estate Ltd., Galum Investments Ltd., Ili Investments Ltd. and Sanlakol Ltd.	
Relative of an interested party	Wife of Mr. Shay Khazon, Chief Operating Officer	No	No	Husband of Ms. Karen Khazon Cohen, CEO and Chairperson of the Company's Board of Directors	No	No	No

Regulation 26A: Senior Officers

Set forth below is information about each of the Company's officers, whose details were not provided in accordance with Regulation 26:

	Eyal Azulay, CEO of Chemada and Deputy CEO of the Company	Ari Rosenthal, Head of the Flavors & Food Division	Ohad Blustein, Chief Financial Officer	Dudu Talmon, Group's Comptroller
I.D. Number	032340838	057197550	034370312	057915407
Date of Birth	13.6.1975	15.5.1961	20.10.1977	5.11.1962
Date of start of service as an officer	1.6.2019	1.5.2020	1.7.2021	1.6.2021
Position in the Company, subsidiary, related company of the Company or an interested party thereof:	CEO of Chemada and Deputy CEO of the Company	Head of the Flavors & Food Division	CFO	Group's Comptroller
Relative of another senior officer or another interested party in the Company:	No	No	No	No
Education	BA, Business Administration, Finance and Accounting, College of Management Academic Studies. MBA, Bar Ilan University	BA, Science and Economics, University of Haifa; MA Public Administration, Haifa University	BA, Economics and Accounting, University of Haifa CPA	BA, Economics and Accounting, Ruppiner Academic Center

	CPA - College of Management Academic Studies - Israel CPA Council			
Business experience in the past five years:	Deputy CEO, Turpaz Industries Ltd. CEO, Chemada Industries Ltd. CEO, IFF Ingredients Ltd.	CEO, Israel emerging markets in Frutarom Industries.	CFO, Haogenplast Ltd. CFO, Plasel Ltd.	Comptroller, IFF Ingredients Ltd.

Regulation 26: The Corporation's Authorized Signatory

As of the report's date, the Company does not have independent authorized signatories.

Regulation 27: The Company's Independent Auditor

EY - Ernst & Young, of 144A Menachem Begin Road, Tel Aviv Yaffo.

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

On May 18 2021, the General Meeting of the Company's shareholders approved the replacement of the Company's Articles of Association, the new Articles of Association came into effect when the Company became a publicly-traded company.

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. On May 20 2021, the Company's Board of Directors approved the offering to the public of 23,344,100 ordinary Company shares constituting approx. 23.74% of its issued and paid-up share capital after the issuance, at a price of NIS 8.91 per share and for a total consideration of NIS 208 million.
2. On September 17 2021, the Company's Board of Directors approved the allocation of the Company's shares as part of a transaction for the acquisition of control in FIT. For information about the transaction, see Section 1.4.3 to Chapter A to this report. For information about the changes in the Company's Articles of Association, see Regulation 28 above.
3. In a meeting held on March 13 2022, the Company's Board of Directors decided to approve the distribution of a USD 3.86 million dividend to the Company's shareholders in accordance with the Company's dividend distribution policy. The amount of dividend per share is USD 0.0386, which will be paid on March 31 2022. For more information, see the Company's immediate report that will be published by the Company shortly before the publication date of this report.
4. In a meeting held on March 13 2022, the Company's Board of Directors decided to convene an extraordinary annual General Meeting of the Company's shareholders, whose agenda will include the following resolutions: (a) Approval of allocation of options to Ms. Karen Cohen Khazon, the Company's controlling shareholder; (b) approval of directives regarding the payment of annual bonuses and allocation of options to Mr. Shay Khazon; (c) approval of an annual bonus to Mr. Shay Khazon in respect of 2021; (d) approval of allocation of options to Ms. Shir Kesselman; (e)

approval of an annual bonus to Ms. Shir Kesselman in respect of 2021. The Company intends to take steps to convene a general meeting of the Company's shareholders to approve the said subjects.

Decisions of an Extraordinary General Meeting:

1. On May 18 2021, the General Meeting of the Company's shareholders approved the following resolutions: cancellation of the par value per share as set out in Regulation 29(1) above; (b) distribution of bonus shares as described in Regulation 29(1) above; (c) adoption of new Articles of Association, which are adapted to the needs of a publicly-traded company, as described in Regulation 28 above; (d) adoption of a Compensation Policy for officers and directors for a period of 5 years; (e) award of exemption and indemnification letters as described in Regulation 29a(2) below; (f) approval of the Company's engagement in a professional liability insurance policy for directors and officers as described in Regulation 29A(1) below; (g) approval of directors fees, and (h) ratification and approval of all interested parties' transactions listed in Chapter 8 to the Prospectus.
2. On July 4 2021, the General Meeting of the Company's shareholders approved the appointment of Ms. Limor Avidor and Mr. Mordechai Peled as external directors in the Company for a three-year (first) term in office, starting on the date of approval by the General Meeting. For more information, see immediate report convening the General Meeting of May 30 2021 (Ref. No. 2021-01-032770), which is incorporated herein by way of reference.

Regulation 29A: Company's Resolutions

1. **Directors and officers liability insurance:**

On May 13 2021, the Company's Board of Directors approved, in accordance with the Compensation Policy, the purchase of a professional liability insurance policy covering Company's directors and officers as they may be from time to time; the policy came into effect on the completion date of the issuance of the Company's shares in accordance with the Prospectus, and will be in effect for a year starting on that date, i.e., May 23 2022; the Board of Directors' resolution was approved by the General Meeting of the Company's shareholders on May 18 2021. The terms of the said insurance policies are as follows: Liability limit of up to USD 25 million per claim and per period, plus reasonable legal expenses in excess of the insurer's liability limit. The deductible amount is USD 25 thousand, except for claims in the USA and Canada, in respect of which the deductible amount will be USD 50 thousand, and claims concerning the breach of the Israeli securities law, in respect of which the deductible amount will be USD 100 thousand; the annual premium in respect of the policy amounts to USD 121 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 13, 2022

Names of signatories: Titles:

**Karen Cohen Khazon, Chairperson of the Company's Board
of Directors and Company's CEO**

Dr. Israel Leshem Director⁸

⁸ Director authorized by the Board of Directors to sign.

TURPAZ INDUSTRIES LTD.

Chapter E

Managers' Statements



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 2021 (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 corporation’s auditor, Board of Directors and the Board of Directors’ Audit Committee 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.

The aforesaid does not derogate from my responsibility or from the responsibility of any other person, pursuant to any law.

March 13 2022

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, Ohad Blustein, 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 2021 (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 corporation’s auditor, Board of Directors and Audit Committee 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.

The aforesaid does not derogate from my responsibility or from the responsibility of any other person, pursuant to any law.

March 13 2022

Ohad Blustein, Chief Financial Officer