KAFRIT INDUSTRIES (1993) LTD.

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2022

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Building a better working world

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AUDITORS' REPORT

To the Shareholders of

KAFRIT INDUSTRIES (1993) LTD.

Regarding the Audit of Components of Internal Control over Financial Reporting

Pursuant to Section 9b(c) to the Israeli Securities Regulations (Periodic and Immediate Reports), 1970

We have audited the components of internal control over financial reporting of Kafrit Industries (1993) Ltd. and subsidiaries (collectively, "the Company") as of December 31, 2022. Control components were determined as explained in the following paragraph. The Company's board of directors and management are responsible for maintaining effective internal control over financial reporting, and for their assessment of the effectiveness of the components of internal control over financial reporting included in the accompanying periodic report for said date. Our responsibility is to express an opinion on the Company's components of internal control over financial reporting based on our audit.

The components of internal control over financial reporting audited by us were determined in conformity with Auditing Standard (Israel) 911 of the Institute of Certified Public Accountants in Israel, "Audit of Components of Internal Control over Financial Reporting" ("Auditing Standard (Israel) 911"). These components consist of: (1) entity level controls, including financial reporting preparation and close process controls and information technology general controls; (2) controls over the revenue process; (3) controls over the procurement and inventories process (collectively, "the audited control components").

We conducted our audit in accordance with Auditing Standard (Israel) 911. That Standard requires that we plan and perform the audit to identify the audited control components and obtain reasonable assurance about whether these control components have been effectively maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, identifying the audited control components, assessing the risk that a material weakness exists regarding the audited control components and testing and evaluating the design and operating effectiveness of the audited control components based on the assessed risk. Our audit of these control components also included performing such other procedures as we considered necessary in the circumstances. Our audit only addressed the audited control components, as opposed to internal control over all the material processes in connection with financial reporting and, therefore, our opinion addresses solely the audited control components. Moreover, our audit did not address any reciprocal effects between the audited control components and unaudited ones and, accordingly, our opinion does not take into account any such possible effects. We believe that our audit provides a reasonable basis for our opinion within the context described above.

Because of its inherent limitations, internal control over financial reporting as a whole, and specifically the components therein, may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company effectively maintained, in all material respects, the audited control components as of December 31, 2022.

We have also audited, in accordance with generally accepted auditing standards in Israel, the consolidated financial statements of the Company as of December 31, 2022 and 2021 and for each of the three years in the period ended December 31, 2022 and our report dated March 30, 2023 expressed an unqualified opinion thereon.

Kost Forer Gabbay and Kasierer

Tel-Aviv, Israel	KOST FORER GABBAY & KASIERER
March 30, 2023	A Member of Ernst & Young Global

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AUDITORS' REPORT

To the Shareholders of

KAFRIT INDUSTRIES (1993) LTD.

We have audited the accompanying consolidated statements of financial position of Kafrit Industries (1993) Ltd. ("the Company") as of December 31, 2022 and 2021, and the related consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2022. These financial statements are the responsibility of the Company's board of directors and management. Our responsibility is to express an opinion on these financial statements based on our audits.

We did not audit the financial statements of certain subsidiaries, whose assets constitute approximately 21% and 15% of total consolidated assets as of December 31, 2022 and 2021, respectively, and whose revenues constitute approximately 22% of total consolidated revenues for the year ended December 31, 2022, 20% of total consolidated revenues for the year ended December 31, 2021 and 17% of total consolidated revenues for the year ended December 31, 2020. The financial statements of those companies were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for those companies, is based on the reports of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards in Israel, including those prescribed by the Auditors' Regulations (Auditor's Mode of Performance), 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 the other auditors provide a reasonable basis for our opinion.

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

Key audit matters

The key audit matters described below were those which were communicated to the Company's board of directors, or should have been communicated to them and which, in our professional judgment, were of most significance in the audit of the financial statements of the current period. These matters include, among others, any matter: (1) relating to, or potentially relating to, significant accounts or disclosures in the financial statements or (2) involving our judgment that was especially challenging, subjective or complex. These matters were addressed as part of our audit of the financial statements as a whole and in forming our opinion thereon. In communicating these matters below, we do not change our opinion on the financial statements as a whole, nor do we provide through such communication a separate opinion on these matters or the accounts or disclosures they relate to.

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Testing goodwill for impairment

As stated in Note 12 to the financial statements, the carrying amount of goodwill as of December 31, 2022 was NIS 103,878 thousand. As described in the note regarding significant accounting policies, the Group tests goodwill for impairment once a year or more frequently if events or changes in circumstances indicate impairment. This test requires management to make an estimate of the cash flows expected to be generated in the future from the continued use of the cash-generating unit (or groups of cash-generating units) to which goodwill has been allocated and to examine whether the carrying amount of the cash-generating unit exceeds its recoverable amount. If there is a difference, the impairment loss is first allocated to goodwill. This evaluation is based on significant estimates which involve uncertainly and subjective assessments including (1) cash flow projections derived from budgets and forecasts approved by management (2) determining an appropriate discount rate that reflects the market risks and the specific risks of the cash-generating units. In order to assess the reasonableness of management's assumptions and inputs in determining the recoverable amount of the cash-generating units to which the goodwill relates, the auditors must use their judgement as well as their knowledge and experience during the test of goodwill for impairment.

The audit procedures performed in response to the key audit matters

To address this key matter in our audit, we performed the following main audit procedures: (1) identify the cash-generating units to which goodwill has been allocated (2) review the methodology used in the valuation performed (3) evaluate and assess the appraiser's competence, capabilities and objectivity (4) evaluate the reasonableness of the major assumptions underlying impairment test papers, such as projected cash flows, EBITDA and discount rates with the assistance of the firm's professionals, to the extent necessary (5) determine the probability while taking into account past and present performance of the cash-generating units and whether these assumptions match evidence obtained from other aspects of the audit (6) analyze the sensitivity of management's major assumptions used for estimating the value and testing the change in the recoverable amount of the cash-generating units to which goodwill has been allocated (7) assess the appropriateness of the disclosures about testing goodwill and intangible assets for impairment in the financial statements.

We have also audited, in accordance with Auditing Standard (Israel) 911 of the Institute of Certified Public Accountants in Israel, "Audit of Components of Internal Control over Financial Reporting", the Company's components of internal control over financial reporting as of December 31, 2022 and our report dated March 30, 2023 expressed an unqualified opinion on the effective existence of those components.

Kost Forer Gabbay and Kasierer

Tel-Aviv, Israel
March 30, 2023

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CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

NIS in thousands

	Note	December 31, 2022	December 31, 2021
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	6	36,895	18,552
Investment in financial assets at fair value through profit or loss		61	110
Trade receivables	7	177,469	207,213
Other accounts receivable	8	14,992	15,596
Inventories	9	232,631	223,178
Total current assets		462,048	464,649
NON-CURRENT ASSETS:			
Long-term receivables		639	472
Long-term prepaid expenses		41	57
Investment in a company accounted for at equity	10	336	-
Investment in financial assets at fair value through other comprehensive income		811	-
Investment in financial assets at fair value through profit or loss		885	-
Property, plant and equipment and right-of-use assets	11	236,384	183,798
Goodwill	12	103,878	68,304
Intangible assets	12	52,422	36,183
Total non-current assets		395,396	288,814
Total assets		857,444	753,463

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

NIS in thousands

	Note	December 31, 2022	December 31, 2021
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Credit from banks	13	118,268	117,708
Trade payables	14	80,793	99,922
Other accounts payable	15	45,576	38,964
Total current liabilities		244,637	256,594
NON-CURRENT LIABILITIES:			
Loans from banks and others	16	104,988	48,466
Lease liabilities	11d	42,676	42,106
Other non-current liabilities	16	8,787	2,812
Employee benefit liabilities	18	900	1,188
Deferred taxes	19e	15,328	10,511
Total non-current liabilities		172,679	105,083
EQUITY:	21		
Share capital		29,540	29,512
Share premium		136,111	123,972
Reserves		(23,933)	(43,715)
Reserve for transactions with non-controlling interests		(3,734)	(3,734)
Retained earnings		302,144	285,751
Total equity		440,128	391,786
Total liabilities and equity		857,444	753,463

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

March 30, 2023			
Date of approval of the financial statements	Itzik Sharir Chairman of the Board	Daniel Singer CEO	Moody Pruss Deputy CEO, Finance

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

NIS in thousands, except per share data

	Note	Year ended December 31, 2022	Year ended December 31, 2021	Year ended December 31, 2020
Revenues from sales	25	1,063,195	1,028,374	846,657
Cost of sales	23a	870,455	835,581	672,769
Gross profit		192,740	192,793	173,888
Selling and marketing expenses	23b	77,556	66,140	60,681
General and administrative expenses	23c	46,006	42,922	37,351
Other expenses (income)	23d	2,404	(1,425)	-
Operating income		66,774	85,156	75,856
Finance income	23e	27,009	20,575	10,368
Finance expenses	23e	31,599	20,650	24,137
Company's share of earnings of investee, net		43	-	-
Income before taxes on income		62,227	85,081	62,087
Taxes on income	19f	17,834	20,138	18,873
Net income		44,393	64,943	43,214
Other comprehensive income (loss) (net of tax effect):				
Amounts that will not be subsequently reclassified to profit or loss:				
Reserve for remeasurement of defined benefit plans		142	51	(19)
Amounts that will be subsequently reclassified to profit or loss when specific conditions are met:				
Adjustments arising from translating financial statements of foreign operations		18,282	(18,040)	(201)
Total other comprehensive income (loss)		18,424	(17,989)	(220)
Total comprehensive income		62,817	46,954	42,994
Net earnings per share attributable to equity holders of the Company (in NIS):	24			
Basic		1.86	2.73	1.82
Diluted		1.85	2.70	1.81

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

NIS in thousands

	Share capital	Share premium	Reserve for share-based payment transactions	Reserve for remeasurement of defined benefit plans	Adjustments arising from translating financial statements	Reserve for transactions with non-controlling interests	Reserve for hedge transactions	Retained earnings	Total
Balance as of January 1, 2022	29,512	123,972	2,304	(202)	(49,578)	(3,734)	3,761	285,751	391,786
Net income	-	-	-	-	-	-	-	44,393	44,393
Other comprehensive income (loss):									
Reserve for remeasurement of defined benefit plans	-	-	-	142	-	-	-	-	142
Adjustments arising from translating financial statements of foreign operations	-	-	-	-	18,282	-	-	-	18,282
Total other comprehensive income (loss)	-	-	-	142	18,282	-	-	-	18,424
Total comprehensive income (loss)	-	-	-	142	18,282	-	-	44,393	62,817
Dividend to equity holders of the Company	-	-	-	-	-	-	-	(16,000)	(16,000)
Exercise of share options	28	139	(167)	-	-	-	-	-	-
Issue of bonus shares	-	12,000	-	-	-	-	-	(12,000)	-
Cost of share-based payment	-	-	1,525	-	-	-	-	-	1,525
Balance as of December 31, 2022	29,540	136,111	3,662	(60)	(31,296)	(3,734)	3,761	302,144	440,128

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

NIS in thousands

	Share capital	Share premium	Reserve for share-based payment transactions	Reserve for remeasurement of defined benefit plans	Adjustments arising from translating financial statements	Reserve for transactions with non-controlling interests	Reserve for hedge transactions	Retained earnings	Total
Balance as of January 1, 2021	29,491	123,149	1,465	(253)	(31,538)	(3,734)	3,761	234,808	357,149
Net income	-	-	-	-	-	-	-	64,943	64,943
Other comprehensive income (loss):									
Reserve for remeasurement of defined benefit plans	-	-	-	51	-	-	-	-	51
Adjustments arising from translating financial statements of foreign operations	-	-	-	-	(18,040)	-	-	-	(18,040)
Total other comprehensive income (loss)	-	-	-	51	(18,040)	-	-	-	(17,989)
Total comprehensive income (loss)	-	-	-	51	(18,040)	-	-	64,943	46,954
Dividend to equity holders of the Company	-	-	-	-	-	-	-	(14,000)	(14,000)
Exercise of share options	21	823	(806)	-	-	-	-	-	38
Cost of share-based payment	-	-	1,645	-	-	-	-	-	1,645
Balance as of December 31, 2021	29,512	123,972	2,304	(202)	(49,578)	(3,734)	3,761	285,751	391,786

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

NIS in thousands

	Share capital	Share premium	Reserve for share-based payment transactions	Reserve for remeasurement of defined benefit plans	Adjustments arising from translating financial statements	Reserve for transactions with non-controlling interests	Reserve for hedge transactions	Retained earnings	Total
Balance as of January 1, 2020	29,481	121,611	2,418	(234)	(31,337)	(3,734)	3,761	204,094	326,060
Net income	-	-	-	-	-	-	-	43,214	43,214
Other comprehensive income (loss):									
Reserve for remeasurement of defined benefit plans	-	-	-	(19)	-	-	-	-	(19)
Adjustments arising from translating financial statements of foreign operations	-	-	-	-	(201)	-	-	-	(201)
Total other comprehensive income (loss)	-	-	-	(19)	(201)	-	-	-	(220)
Total comprehensive income (loss)	-	-	-	(19)	(201)	-	-	43,214	42,994
Dividend to equity holders of the Company	-	-	-	-	-	-	-	(12,500)	(12,500)
Exercise of share options	10	376	(386)	-	-	-	-	-	-
Expiration of options	-	1,162	(1,162)	-	-	-	-	-	-
Cost of share-based payment	-	-	595	-	-	-	-	-	595
Balance as of December 31, 2020	29,491	123,149	1,465	(253)	(31,538)	(3,734)	3,761	234,808	357,149

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

NIS in thousands

	Year ended December 31, 2022	Year ended December 31, 2021	Year ended December 31, 2020
Cash flow from operating activities:			
Net income	44,393	64,943	43,214
Adjustments to reconcile net income to net cash provided by operating activities:			
Adjustments to the profit or loss items:			
Company's share of earnings of investee, net	(43)	-	-
Depreciation and amortization and property, plant and equipment, right-of-use assets and intangible assets	33,763	29,802	26,687
Loss (gain) from sale of property, plant and equipment	(47)	(302)	437
Decrease (increase) in long-term prepaid expenses	(239)	74	67
Cost of share-based payment	1,525	1,645	595
Exchange differences of liabilities to banks and other liabilities	5,631	(3,631)	-
Decrease (increase) in value of financial assets at fair value through profit or loss	50	214	(61)
Taxes on income	17,834	20,138	18,873
Change in employee benefit liabilities	(147)	(301)	(146)
Revaluation of contingent consideration liability for acquisition of a company	(10)	(100)	-
Interest expenses, net	6,943	4,534	4,994
	65,260	52,073	51,446
Changes in asset and liability items:			
Decrease (increase) in trade receivables	39,486	(30,453)	5,435
Increase in other accounts receivable	3,013	(4,399)	(1,698)
Decrease (increase) in inventories	5,344	(68,379)	(8,490)
Increase (decrease) in trade payables	(29,607)	34,820	(8,605)
Increase (decrease) in other accounts payable	(1,637)	(475)	6,949
	16,599	(68,886)	(6,409)
Cash paid and received during the year for:			
Interest paid	(6,658)	(4,721)	(5,305)
Interest received	146	18	42
Taxes paid	(18,083)	(18,437)	(13,708)
Taxes received	1,411	814	-
	(23,184)	(22,326)	(18,971)
Net cash provided by operating activities	103,068	25,804	69,280

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

NIS in thousands

	Year ended December 31, 2022	Year ended December 31, 2021	Year ended December 31, 2020
Cash flows from investing activities:			
Purchase of property, plant and equipment	(50,436)	(25,274)	(17,703)
Purchase of intangible assets	(2,696)	(1,075)	(3,960)
Acquisition of initially consolidated company (a)	(46,534)	(34,836)	-
Proceeds from sale of property, plant and equipment	246	436	192
Proceeds from sale (purchase) of financial assets	(1,696)	1,008	-
Investment grants received (refunded)	4,387	(24)	1,440
Repayment of liability for acquisition of activity	-	(927)	(1,152)
Net cash used in investing activities	(96,729)	(60,692)	(21,183)
Cash flows from financing activities:			
Dividend paid to equity holders of the Company	(16,000)	(14,000)	(12,500)
Exercise of share options	-	38	-
Repayment of lease liabilities	(5,796)	(4,737)	(3,275)
Receipt of long-term loans	70,339	40,756	4,316
Repayment of long-term loans	(27,392)	(20,726)	(28,615)
Receipt (repayment) of short-term credit from banks, net	(10,264)	21,259	(17,141)
Net cash provided by (used in) financing activities	10,887	22,590	(57,215)
Exchange rate differences on balances of cash and cash equivalents	1,117	(660)	(423)
Increase (decrease) in cash and cash equivalents	18,343	(12,958)	(9,541)
Cash and cash equivalents at the beginning of the year	18,552	31,510	41,051
Cash and cash equivalents at the end of the year	36,895	18,552	31,510

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

NIS in thousands

	Year ended December 31, 2022	Year ended December 31, 2021	Year ended December 31, 2020
Significant non-cash transactions:			
Purchase of property, plant and equipment on credit	1,322	1,928	1,608
Liabilities for business combination	5,482	1,023	-
Right-of-use asset recognized with corresponding lease liability	4,583	3,108	1,700
(a) Acquisition of initially consolidated company:			
The subsidiary's assets and liabilities at date of acquisition:			
Working capital (excluding cash and cash equivalents)	(3,485)	(950)	-
Property, plant and equipment, net	(19,262)	(9,919)	-
Long-term assets	-	(116)	-
Long-term liabilities	15,058	4,771	-
Goodwill arising on acquisition	(28,208)	(21,863)	
Intangible assets arising on acquisition	(16,119)	(7,782)	-
Contingent consideration liability	5,482	1,023	-
	(46,534)	(34,836)	-

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

NOTE 1:- GENERAL

a. Company description:

The Company manufactures masterbatches and compounds that are key raw materials in the plastics industry.

The Company is a public company whose shares are traded on the Tel-Aviv Stock Exchange ("TASE"), headquartered in Kibbutz Kfar Aza.

The Company is controlled by Kibbutz Kfar Aza ("the Kibbutz") which holds the Company's shares indirectly through K.K.A. Holdings Ltd.

b. Definitions:

In these financial statements:

The Company	-	Kafrit Industries (1993) Ltd.
The Kibbutz	-	Kibbutz Kfar Aza.
Subsidiaries	-	Companies that are controlled by the Company and whose accounts are consolidated with those of the Company.
Interested parties and controlling shareholder	-	As defined in the Israeli Securities Regulations (Annual Financial Statements), 2010.

c. The implication of war between Russia and Ukraine:

The Russian-Ukrainian war began in February 2022. ("the war"). In Ukraine, the war has caused and continues to cause significant casualties, infrastructure damage and economic disruption. As a result, several countries (including the U.S., U.K., and the EU) have imposed economic sanctions against certain Russian related entities and individuals worldwide. In addition, various sanctions have also been imposed on Belarus.

In the foreseeable future, the Company does not expect that the war will have a significant direct impact on it since it has no significant export activity to the Russian or Ukrainian markets.

The Company sells to a limited number of customers in Russia and Ukraine through its subsidiaries in Israel and Germany. As of the date of release of the financial statements, the war had no material effect on the business results.

NOTE 1:- GENERAL (Cont.)

d. The implications of the Coronavirus crisis:

The Coronavirus (COVID-19) which was first detected in the city of Wuhan, China in January 2020 later spread to many other countries around the world including Israel, Germany, Canada, the U.S. and Sweden in which the Company and its investees operate. Most countries in the world imposed many restrictions on citizens and businesses which caused a significant slowdown in the global economy and a crisis whose final outcome have yet to be clarified.

As of the date of release of the financial statements, all restrictions resulting from the Coronavirus have been lifted in all geographic areas where the Company operates (in China, most restrictions have been lifted). As of the date of release of the financial statements, the direct effect on the Company's business is estimated as insignificant and the Company believes that it has good financial health to deal with such a crisis if aggravated, among others, due to its cash flow, industrial diversification, reasonable leverage ratios and unused credit facilities.

e. The effects of inflation and increase in interest rate:

As a result of global macroeconomic developments in H1 of 2022 and from Q2 of 2022, inflation rates have increased in Israel and around the world. As part of the steps taken in order to curb price increases, central banks around the world, including the Bank of Israel, have begun raising the interest rates.

As of December 31, 2022, about 70% of the Company's financing sources are at variable interest rates based on the Prime rate, the Euribor rate or the SOFR rate in the U.S. It is expected that on a yearly basis each 1% increase in interest rates on the loan balance as of December 31, 2022 will add approximately NIS 2.2 million to the Company's finance expenses.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

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

a. Basis of presentation of the financial statements:

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company's financial statements have been prepared on a cost basis, except for: financial assets and liabilities (including derivatives) which are presented at fair value through profit or loss.

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

b. The operating cycle:

The operating cycle of the Company and its subsidiaries is one year.

c. Consolidated financial statements:

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

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

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

d. Business combinations and goodwill:

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

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

Contingent consideration is recognized at fair value on the acquisition date and classified as a financial asset or liability in accordance with IAS 39. Subsequent changes in the fair value of the contingent consideration are recognized in profit or loss or in the statement of other comprehensive income. If the contingent consideration is classified as an equity instrument, it is measured at fair value on the acquisition date without subsequent remeasurement.

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

e. Investments accounted for using the equity method:

The Group's investments in associates are accounted for using the equity method.

Under the equity method, the investment in the associate is presented at cost with the addition of post-acquisition changes in the Group's share of net assets, including other comprehensive income of the associate. Gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate. The cost of the investment includes transaction costs.

f. Functional currency, presentation currency and foreign currency:

1. Functional currency and presentation currency:

The functional and presentation currency of the financial statements is the NIS. The functional currency is the currency of the primary economic environment in which an entity operates.

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

The Company determines the functional currency of each Group entity.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

Intragroup loans for which settlement is neither planned nor likely to occur in the foreseeable future are, in substance, a part of the investment in the foreign operation and, accordingly, the exchange rate differences from these loans (net of the tax effect) are recorded in other comprehensive income (loss).

2. Transactions, assets and liabilities in foreign currency:

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

3. Index-linked monetary items:

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

g. Cash equivalents:

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

h. Short-term deposits:

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

i. Inventories:

Inventories are measured at the lower of cost and net realizable value. The cost of inventories comprises costs of purchase and costs incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less estimated costs of completion and estimated costs necessary to make the sale. The Company periodically evaluates the condition and age of inventories and makes provisions for slow moving inventories accordingly.

Cost of inventories is determined as follows:

Raw materials - at cost of purchase using the "first-in, first-out" method or based on specific identification, as applicable.

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

j. Revenue recognition:

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

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

Revenue from the sale of goods:

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

Customer discounts for which the customer is required to meet certain targets, such as a minimum amount of annual purchases (either quantitative or monetary), an increase in purchases compared to previous periods, etc. are recognized in the financial statements in proportion to the purchases made by the customer during the year that qualify for the target, provided that it is expected that the targets will be achieved and the amount of the discount can be reasonably estimated.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

k. Government grants:

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

Government grants received from the Israel Innovation Authority are recognized upon receipt as a liability if future economic benefits are expected from the research project that will result in royalty-bearing sales.

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

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

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

l. Taxes on income:

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

1. Current taxes:

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

2. Deferred taxes:

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

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

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

Deferred tax assets and deferred tax liabilities are presented as non-current assets and non-current liabilities respectively. Deferred taxes are offset if there is a legally enforceable right to offset a current tax asset against a current tax liability and the deferred taxes relate to the same taxpayer and the same taxation authority.

m. Leases:

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

1. The Group as a lessee:

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

Leases which entitle employees to a company car as part of their employment terms are accounted for as employee benefits in accordance with the provisions of IAS 19 and not as subleases.

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

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

Following are the periods of depreciation of the right-of-use assets by class of underlying asset:

	Years	Mainly
Real estate	4 – 25	25
Forklifts	3 – 6	5
Motor vehicles	3 – 4	3

2. Lease payments that are linked to the Israeli CPI:

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

3. 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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

4. Lease modifications:

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

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

n. Property, plant and equipment:

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

A part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately using the component method.

The gain or loss from the derecognition of an item of property, plant and equipment is measured as the difference between the proceeds received from the asset's disposal and its carrying amount and is recognized in the statement of profit or loss in the item general and administrative.

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

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

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

	%	Mainly %
Real estate (excluding the land component)	2 – 5	3
Machinery and equipment	8.33 – 33	10
Motor vehicles	15 – 32	20
Office furniture and equipment	10 - 20	20
Leasehold improvements	10 – 25	10

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

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

o. Intangible assets:

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

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

Intangible assets with indefinite useful lives are not systematically amortized and are tested for impairment annually or whenever there is an indication that the intangible asset may be impaired. The useful life of these assets is reviewed annually to determine whether their indefinite life assessment continues to be supportable.

Research and development expenditures:

Research expenditures are recognized in profit or loss when incurred.

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

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

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

For all the reporting periods, the above criteria have not been met and therefore all development costs have been recognized as an expense in profit or loss. See also Note 3a.

Software:

The assets of the Company and its subsidiaries include computer systems comprising hardware and software. Software forming an integral part of the hardware to the extent that the hardware cannot function without the programs installed on it is classified as property, plant and equipment. In contrast, stand-alone software that adds functionality to the hardware is classified as an intangible asset.

The useful life of intangible assets is as follows:

	Years
Brand name	8 – 15
Customer relations	3 – 12
Non-competition	8
Software	1 - 5

p. Impairment of non-financial assets:

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

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The following criteria are applied in assessing impairment of goodwill in respect of subsidiaries:

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

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

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

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

q. Financial instruments:

1. Financial assets:

Financial assets in the scope of IFRS 9 are measured upon initial recognition at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets, except for financial assets measured at fair value through profit or loss in respect of which transaction costs are recorded in profit or loss.

The Company classifies and measures debt instruments in the financial statements based on the following criteria:

(a) The Company's business model for managing financial assets; and

(b) The contractual cash flow terms of the financial asset.

2. Impairment of financial assets:

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

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

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

3. Derecognition of financial assets:

A financial asset is derecognized only when:

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

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

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.

4. Financial liabilities:

a) Financial liabilities measured at amortized cost:

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

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

(a) Financial liabilities 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;

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

(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 applies.

b) Financial liabilities measured at fair value through profit or loss:

Financial liabilities measured at fair value through profit or loss include liabilities held for trading, including derivatives, and financial liabilities that meet certain criteria which are designated upon initial recognition to fair value through profit or loss.

At initial recognition, the Company designates a financial liability as measured at fair value through profit or loss.

At initial recognition, the Company measures these financial liabilities at fair value. Transaction costs are recognized in profit or loss.

After initial recognition, changes in fair value are recognized in profit or loss, except for changes that can be attributed to changes in the financial liability's credit risk which are recorded in other comprehensive income.

5. Derecognition of financial liabilities:

A financial liability is derecognized only when it is extinguished, that is when the obligation specified in the contract is discharged or canceled or expires.

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

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

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

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

6. Offsetting financial instruments:

Financial assets and financial liabilities are offset and the net amount is presented in the statement of financial position if there is a legally enforceable right to set off the recognized amounts and there is an intention either to settle on a net basis or to realize the asset and settle the liability simultaneously. The right of set-off must be legally enforceable not only during the ordinary course of business of the parties to the contract but also in the event of bankruptcy or insolvency of one of the parties. In order for the right of set-off to be currently available, it must not be contingent on a future event, there may not be periods during which the right is not available, or there may not be any events that will cause the right to expire.

7. Derivative financial instruments (hedges):

Hedges qualify for hedge accounting, among others, when at inception of the hedging relationship there is a formal designation and documentation of the hedging relationship and of the risk management objective and strategy for undertaking the hedge. Hedges are assessed on an ongoing basis to determine whether they are highly effective during the reporting period for which the hedge is designated.

The Company has hedges that are accounted for similar to cash flow hedges.

A hedge of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, is accounted for similar to cash flow hedges. Gains or losses relating to the effective portion of the hedge (exchange rate differences) are recognized in other comprehensive income while any gains or losses relating to the ineffective portion of the hedge are recognized in profit or loss. On disposal of the foreign operation, the cumulative amount of any such gains or losses recognized in other comprehensive income (loss) is reclassified to profit or loss.

r. Fair value measurement:

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

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

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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 Company 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.

All assets and liabilities measured at fair value or for which fair value is disclosed are categorized into levels within the fair value hierarchy based on the lowest level input that is significant to the entire fair value measurement:

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - inputs other than quoted prices included within Level 1 that are observable directly or indirectly.

Level 3 - inputs that are not based on observable market data (valuation techniques which use inputs that are not based on observable market data).

s. Provisions:

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

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

Warranty:

The Company recognizes a provision for warranty when the product is sold or when the service is provided to the customer. The provision for warranty is initially recognized based on past experience. The estimate of the provision for warranty is reviewed on an annual basis.

Legal claims:

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

t. Employee benefit liabilities:

The Company has several employee benefit plans:

1. Short-term employee benefits:

Short-term employee benefits are benefits that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related services. These benefits include salaries, paid annual leave, paid sick leave, recreation and social security contributions and are recognized as expenses as the services are rendered. A liability in respect of a cash bonus or a profit-sharing plan is recognized when the Company 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. The short-term employee benefit liability in the statement of financial position is measured on an undiscounted basis.

2. Post-employment benefits:

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

a) Defined contribution plans:

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Contributions to a defined contribution plan for severance or retirement pay are recognized as an expense concurrently with the performance of the employee's services.

If the contributions to defined contribution plans are not expected to be wholly settled before 12 months after the end of the annual reporting period in which the employees render the related services, the Group will recognize these liabilities at present value discounted using the yield rate of high quality corporate bonds with similar maturities at the reporting date.

b) Defined benefit plans:

The Group operates a defined benefit plan in respect of severance pay pursuant to the Severance Pay Law. According to the Law, employees are entitled to severance pay upon dismissal or retirement. The liability for termination of employment is measured using the projected unit credit method. The actuarial assumptions include expected salary increases and rates of employee turnover based on the estimated timing of payment. The amounts are presented based on discounted expected future cash flows using a discount rate determined by reference to market yields at the reporting date on high quality corporate bonds that are linked to the Consumer Price Index with a term that is consistent with the estimated term of the severance pay obligation.

In respect of its severance pay obligation to certain of its employees, the Company makes current deposits in pension funds and insurance companies ("the plan assets"). Plan assets comprise assets held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the Group's own creditors and cannot be returned directly to the Group.

The liability for employee benefits shown in the statement of financial position reflects the present value of the defined benefit obligation less the fair value of the plan assets.

Remeasurements of the net liability are recognized in other comprehensive income in the period in which they occur.

u. Share-based payment transactions:

The Company's employees are entitled to remuneration in the form of equity-settled share-based payment transactions.

The cost of equity-settled transactions with employees is measured at the fair value of the equity instruments granted at grant date. The fair value is determined using an acceptable option pricing model.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

No expense is recognized for awards that do not ultimately vest.

v. Earnings (loss) per share:

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

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

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

1. Amendment to IAS 16, "Property, Plant and Equipment":

In May 2020, the IASB issued an amendment to IAS 16 ("the Amendment"). The Amendment prohibits a company from deducting from the cost of property, plant and equipment consideration received from the sales of items produced while the company is preparing the asset for its intended use. Instead, the company should recognize such consideration and related costs in profit or loss.

As of January 1, 2022, the Amendment applies to annual reporting periods. The Amendment is applied retrospectively only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management at the beginning of the earliest period presented in the financial statements in which the company first applies the Amendment.

The cumulative effect of initially applying the Amendment is recognized as an adjustment to the opening balance of retained earnings (or other component of equity, as applicable) at the beginning of the earliest period presented.

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

2. Amendment to IFRS 3, "Business Combinations":

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

The Amendment added an exception to the recognition principle of a liability under IFRS 3 to avoid cases of recognition of gains or losses immediately after the business combination ('day 2 gain or loss') arising from liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21, if incurred separately.

According to the exception, the buyer applied the provisions of IAS 37 or IFRIC 21, as the case may be, instead of the Conceptual Framework, to determine at the acquisition date whether as a result of a past event, a present obligation exists or whether the event that creates an obligation to pay the levy occurred by the acquisition date.

The Amendment also clarifies that contingent assets do not qualify for recognition at the date of the business combination.

As of January 1, 2022, the Amendment applies prospectively to annual reporting periods.

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

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

a. Judgments:

In the process of applying the significant accounting policies, the Group has made the following judgments which have the most significant effect on the amounts recognized in the financial statements:

- Determining the fair value of share-based payment transactions:

  The fair value of share-based payment transactions is determined upon initial recognition by an acceptable option pricing model. The inputs to the model include share price, exercise price and assumptions regarding expected volatility, expected life of share option and expected dividend.

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

- Discount rate for a lease liability:

  When the Company is unable to readily determine the discount rate implicit in a lease in order to measure the lease liability, the Company uses an incremental borrowing rate. That rate represents the rate of interest that the Company would have to pay to borrow over a similar term and with similar security, the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment. When there are no financing transactions that can serve as a basis, the Company determines the incremental borrowing rate based on its credit risk, the lease term and other economic variables deriving from the lease contract's conditions and restrictions.

- Development costs:

  The Company's management is required to exercise judgment in assessing whether the criteria for recognizing development project costs as intangible assets are met. The assessment relies on the parameters detailed in Note 2o above.

  In all the reporting periods, the criteria for recognizing internal development costs as an intangible asset have not been met, among others due to the fact that before the Company completed the development of the software in its current configuration, there was insufficient certainty that the software would generate future economic benefits and it was uncertain that the development activities would result in a technologically completed product that would be available for use or sale. Accordingly, all development costs were recognized in profit or loss.

b. Estimates and assumptions:

The preparation of the financial statements requires management to make estimates and assumptions that have an effect on the application of the accounting policies and on the reported amounts of assets, liabilities, revenues and expenses. In determining its accounting estimates, management relies on past experience, various underlying facts, external factors and reasonable assumptions, based on the relevant circumstances. Changes in accounting estimates are reported in the period of the change in estimate.

The key assumptions made in the financial statements concerning uncertainties at the reporting date and the critical estimates computed by the Company that may result in a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

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

- Grants from the Israel Innovation Authority ("the IIA"):

  Government grants received from the IIA at the Ministry of Industry, Trade and Labor are recognized as a liability if future economic benefits are expected from the research and development activity that will result in royalty-bearing sales. There is uncertainty regarding the estimated future cash flows used to measure the amount of the liability.

- Impairment of goodwill:

  The Company reviews goodwill for impairment at least once a year. This requires management to make an estimate of the projected future cash flows from the continuing use of the cash-generating unit (or a group of cash-generating units) to which the goodwill is allocated and also to choose a suitable discount rate for those cash flows. Recording impairment losses in profit or loss in the period when they occur can affect the financial statements.

- Deferred tax assets:

  Deferred tax assets are recognized for unused carryforward tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the timing and level of future taxable profits, its source and the tax planning strategy. Based on the changes in these assumptions, the Company either recognizes a deferred tax asset or eliminates an existing deferred tax asset.

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

a. Amendment to IAS 1, "Presentation of Financial Statements":

In January 2020, the IASB issued an amendment to IAS 1, "Presentation of Financial Statements" regarding the criteria for classifying liabilities as current or non-current ("the Original Amendment"). In October 2022, the IASB issued a subsequent amendment ("the Subsequent Amendment").

According to the Subsequent Amendment:

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

NOTE 4:- DISCLOSURE OF NEW STANDARDS IN THE PERIOD PRIOR TO THEIR ADOPTION (Cont.)

- Liabilities whose compliance with financial covenants is tested within 12 months after the reporting date should be disclosed in a way that will enable users of the financial statements to assess the risks of that liability, namely, according to the Subsequent Amendment disclosure should be given to the carrying amount of the liability, information about the financial covenants and facts and circumstances at the end of the reporting period that indicate the entity may have difficulty complying with the financial covenants.

According to the Original Amendment, the conversion option of a liability affects the classification of the entire liability as current or non-current unless the conversion component is an equity instrument.

The Original Amendment and Subsequent Amendment are both effective for annual periods beginning on or after January 1, 2024. Early application is permitted. The Amendments will be applied retrospectively.

The Company estimates that the above Amendment is not expected to have a material impact on the Company's financial statements.

b. Amendment to IAS 8, "Accounting Policies, Changes to Accounting Estimates and Errors":

In February 2021, the IASB issued an amendment to IAS 8, "Accounting Policies, Changes to Accounting Estimates and Errors" ("the Amendment"), in which it introduces a new definition of "accounting estimates".

Accounting estimates are defined as "monetary amounts in financial statements that are subject to measurement uncertainty". The Amendment clarifies the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors.

The Amendment is effective prospectively for annual periods beginning on or after January 1, 2023 and is applicable to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Early application is permitted.

The Company estimates that the above Amendment is not expected to have a material impact on the Company's financial statements.

NOTE 4:- DISCLOSURE OF NEW STANDARDS IN THE PERIOD PRIOR TO THEIR ADOPTION (Cont.)

c. Amendment to IAS 12, "Income Taxes":

In May 2021, the IASB issued an amendment to IAS 12, "Income Taxes" ("IAS 12"), which narrows the scope of the initial recognition exception under IAS 12.15 and IAS 12.24 ("the Amendment").

According to the recognition guidelines of deferred tax assets and liabilities, IAS 12 excludes recognition of deferred tax assets and liabilities in respect of certain temporary differences arising from the initial recognition of certain transactions. This exception is referred to as the "initial recognition exception". The Amendment narrows the scope of the initial recognition exception and clarifies that it does not apply to the recognition of deferred tax assets and liabilities arising from transactions that are not a business combination and that give rise to equal taxable and deductible temporary differences, even if they meet the other criteria of the initial recognition exception.

The Amendment is effective for annual periods beginning on or after January 1, 2023, with earlier application permitted. In relation to leases and decommissioning obligations, the Amendment is to be applied commencing from the earliest reporting period presented in the financial statements in which the Amendment is initially applied. The cumulative effect of the initial application of the Amendment should be recognized as an adjustment to the opening balance of retained earnings (or another component of equity, as appropriate) at that date.

The Company estimates that the above Amendment is not expected to have a material impact on the Company's financial statements.

d. Amendment to IAS 1, "Disclosure of Accounting Policies":

In February 2021, the IASB issued an amendment to IAS 1, "Presentation of Financial Statements" ("the Amendment"), which replaces the requirement to disclose 'significant' accounting policies with a requirement to disclose 'material' accounting policies. One of the main reasons for the Amendment is the absence of a definition of the term 'significant' in IFRS whereas the term 'material' is defined in several standards and particularly in IAS 1.

The Amendment is effective for annual periods beginning on or after January 1, 2023. Early application is permitted.

The Company is evaluating the effects of the Amendment on the financial statements.

NOTE 5:- BUSINESS COMBINATIONS

Acquisition of a company in Germany:

On October 1, 2022, the Company, through its German wholly owned subsidiary, Constab Polyolefin Additives GmbH, entered in a binding agreement with the sellers to acquire 100% of the issued and outstanding capital of a German company called Delta Kunststoffe AG, which specializes in developing, producing and marketing concentrates and mixtures for the plastics industry including conductive products, paints and other additives.

A total of € 11.3 million was paid to the sellers as consideration for the acquisition.

In addition, an amount of € 2.5 million was deposited in an escrow account to secure the Company's commitment to pay the sellers additional consideration based on the acquiree's performance as measured by the average adjusted EBITDA for 2022 and 2023 ("the average EBITDA") so the sellers will receive a total of € 1.3 million from the escrow account if the average EBITDA exceeds € 2 million (but not more than € 2.1 million); if the average EBITDA exceeds € 2.1 million, the entire amount in the escrow account will be transferred to the sellers ("the additional consideration").

Besides the payment of the consideration and the additional consideration, as above, the sellers will be entitled to a contingent consideration calculated based on the average EBITDA ("the contingent consideration"), as follows:

Average EBITDA (Euro in millions)	Contingent consideration Euro in millions
Less than 2.1	Ineligibility
Between 2.1 and 2.3	0.6
Between 2.3 and 2.5	1.2
More than 2.5	1.8

The purchase agreement includes presentation and indemnity clauses as is standard in similar agreements.

The financial statements include the operating results of Delta Kunststoffe AG from the date of the transaction.

The Company recognized the fair value of the assets acquired and liabilities assumed in the business combination according to a provisional measurement. As of the date of the approval of the financial statements, a final valuation for the fair value of the identifiable assets acquired and liabilities assumed by an external valuation specialist has not been obtained. The purchase consideration and the fair value of the acquired assets and liabilities may be adjusted within 12 months from the acquisition date. At the date of final measurement, adjustments are generally made by restating comparative information previously determined provisionally.

NOTE 5:- BUSINESS COMBINATIONS (Cont.)

The fair value of the identifiable assets and the identifiable liabilities net of tax as of the acquisition date (NIS in thousands):

	NIS in thousands
Cash and cash equivalents	625
Working capital	3,485
Property, plant and equipment, net	19,262
Long-term liabilities	(15,058)
Goodwill arising on acquisition	28,208
Intangible assets arising on acquisition	16,119
Total acquisition cost	52,641

Acquisition cost:

	NIS in thousands
Cash paid	47,159
Contingent consideration liability	5,482
Total acquisition cost	52,641

Cash outflow on the acquisition:

	NIS in thousands
Cash and cash equivalents acquired with the acquiree at the acquisition date	(625)
Cash paid for the acquisition	47,159
Net cash	46,534

Acquisition costs directly attributable to the transaction of approximately NIS 2.4 million were included in the item other expenses in profit or loss.

The goodwill arising on acquisition is attributed to the expected benefits from the synergies of the combination of the activities of the Company and the acquiree.

NOTE 6:- CASH AND CASH EQUIVALENTS

	December 31, 2022	December 31, 2021
	NIS in thousands	NIS in thousands
Cash for immediate withdrawal	36,127	17,810
Cash equivalents – short-term deposits	768	742
	36,895	18,552

Information about the Group's exposure to currency risk, interest rate and sensitivity analysis to financial assets is detailed in Note 17 regarding financial instruments.

NOTE 7:- TRADE RECEIVABLES

a. Trade receivables, net:

	December 31, 2022	December 31, 2021
	NIS in thousands	NIS in thousands
Open accounts	168,367	193,897
Checks receivable	12,663	17,077
	181,030	210,974
Less - allowance for doubtful accounts	(3,561)	(3,761)
Trade receivables, net	177,469	207,213

Trade receivables are presented net of an allowance for doubtful accounts and do not bear interest. As for charges, see Note 20c.

Uncollectible receivables are accounted for by recording an allowance for doubtful accounts.

NOTE 7:- TRADE RECEIVABLES (Cont.)

b. The movement in the allowance for doubtful accounts is as follows:

	NIS in thousands
Balance at January 1, 2021	3,677
Provision for the year	471
Derecognition of bad debts	-
Reversal in respect of collected doubtful accounts	(325)
Adjustments arising from translating financial statements	(62)
Balance at December 31, 2021	3,761
Provision for the year	120
Derecognition of bad debts	(388)
Reversal in respect of collected doubtful accounts	(70)
Adjustments arising from translating financial statements	138
Balance at December 31, 2022	3,561

The Company grants its customers interest-free credit for periods of 10-120 days.

c. Following is information about the credit risk exposure of the Company's trade receivables (NIS in thousands):

	Neither past due (nor aging)	Past due trade receivables with aging of < 30 days	Past due trade receivables with aging of 30 – 60 days	Past due trade receivables with aging of 60 – 90 days	Past due trade receivables with aging of 90 – 120 days	Past due trade receivables with aging of > 120 days	Trade receivables Total
December 31, 2022:							
Gross carrying amount	140,672	23,414	10,841	3,174	750	2,179	181,030
Allowance for doubtful accounts	(2,119)	(88)	(76)	(11)	(308)	(959)	(3,561)
Net carrying amount	138,553	23,326	10,765	3,163	442	1,220	177,469
December 31, 2021:							
Gross carrying amount	172,807	21,534	9,914	3,943	812	1,964	210,974
Allowance for doubtful accounts	(2,041)	(73)	(46)	(18)	(146)	(1,437)	(3,761)
Net carrying amount	170,766	21,461	9,868	3,925	666	527	207,213

NOTE 8:- OTHER ACCOUNTS RECEIVABLE

	December 31, 2022	December 31, 2021
	NIS in thousands	NIS in thousands
Employees	235	174
Prepaid expenses	1,521	2,077
Government ministries	5,281	7,783
Advances to suppliers	5,882	4,776
Accrued income	717	-
Other	1,356	786
	14,992	15,596

NOTE 9:- INVENTORIES

a. Composition:

	December 31, 2022	December 31, 2021
	NIS in thousands	NIS in thousands
Raw materials	118,955	111,324
Finished goods	91,984	77,993
	210,939	189,317
Inventories of raw materials and finished goods in transit	21,692	33,861
	232,631	223,178

b. Additional information:

	Year ended December 31, 2022	Year ended December 31, 2021	Year ended December 31, 2020
	NIS in thousands	NIS in thousands	NIS in thousands
Impairment (reversal of impairment) of inventories recognized in cost of sales	1,276	5,623	1,650

As for charges, see Note 20c.

NOTE 10:- INVESTMENTS IN INVESTEES

a. For a list of investees, see Appendix to the consolidated financial statements.

b. Additional information regarding investees:

	Country of incorporation	Company's share of equity and voting rights	Balance of long-term loans provided by the Company to investee: Long-term loans	Balance of guarantees provided by the Company to investee: Guarantees	Total investment in investee
		%	NIS in thousands	NIS in thousands	NIS in thousands
December 31, 2022:					
Kafrit Group B.V. (*)	Holland	100.00	-	-	(46,284)
Constab Polyolefin Additives GmbH	Germany	100.00	30,465	-	124,039
Constab Properties GmbH	Germany	100.00	-	-	14,435
Suzhou Constab Engineering Plastics	China	100.00	-	-	147,669
Kafrit Holding AG	Switzerland	100.00	-	-	(43,430)
Kafrit NA Ltd	Canada	100.00	-	-	107,485
KS Holding AG	Switzerland	100.00	-	-	(76,182)
Polyfil Inc	USA	100.00	58,724	-	40,724
Addvanze AB	Sweden	100.00	-	-	33,612
Delta Kunststoffe AG	Germany	100.00	-	-	22,409
Kasa Polymer & Additives Distribution Ltd.	Israel	50.00	-	-	336
			89,189	-	324,813
December 31, 2021:					
Kafrit Group B.V. (*)	Holland	100.00	-	-	(44,104)
Constab Polyolefin Additives GmbH	Germany	100.00	-	-	119,724
Constab Properties GmbH	Germany	100.00	-	-	12,406
Suzhou Constab Engineering Plastics	China	100.00	-	-	127,751
Kafrit Holding AG	Switzerland	100.00	-	-	(43,708)
Kafrit NA Ltd	Canada	100.00	-	-	97,236
KS Holding AG	Switzerland	100.00	-	-	(71,241)
Polyfil Inc	USA	100.00	51,898	-	21,766
Addvanze AB	Sweden	100.00	-	-	34,725
			51,898	-	254,555

*) In view of the transfer of the subsidiary, Kafrit Group B.V., from Holland to Israel, since January 1, 2017, the company is considered an Israeli resident foreign company.

NOTE 11:- PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

a. Composition and movement:

	Land and buildings	Machinery and equipment	Motor vehicles	Office furniture and equipment	Leasehold improvements	Total
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
Cost:						
Balance at January 1, 2021	93,106	213,783	5,870	15,616	11,558	339,933
Additions in 2021:						
Purchases	10,262	13,781	1,980	1,764	916	28,703
Initially consolidated company	3,766	8,844	183	286	38	13,117
Adjustments arising from translating financial statements	(4,532)	(9,412)	(304)	(947)	(247)	(15,442)
Disposals in 2021:						
Disposals	-	(87)	(900)	(445)	441	(991)
Less - investment grant	-	24	-	-	-	24
Balance at December 31, 2021	102,602	226,933	6,829	16,274	12,706	365,344
Additions in 2022:						
Purchases	28,787	21,302	1,635	2,737	120	54,581
Initially consolidated company	15,711	27,003	-	-	-	42,714
Adjustments arising from translating financial statements	7,144	12,878	220	908	491	21,641
Disposals in 2022:						
Disposals	-	(245)	(544)	-	-	(789)
Less - investment grant	-	(4,387)	-	-	-	(4,387)
Balance at December 31, 2022	154,244	283,484	8,140	19,919	13,317	479,104

NOTE 11:- PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS (Cont.)

	Land and buildings	Machinery and equipment	Motor vehicles	Office furniture and equipment	Leasehold improvements	Total
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
Accumulated depreciation:						
Balance at January 1, 2021	14,319	125,608	3,222	11,168	8,367	162,684
Additions in 2021:						
Depreciation	4,769	16,691	884	1,173	493	24,010
Initially consolidated company	-	2,953	21	224	-	3,198
Adjustments arising from translating financial statements	(1,062)	(5,475)	(162)	(643)	(147)	(7,489)
Disposals in 2021:						
Disposals	-	(46)	(807)	(4)	-	(857)
Balance at December 31, 2021	18,026	139,731	3,158	11,918	8,713	181,546
Additions in 2022:						
Depreciation	5,196	18,567	1,527	1,239	522	27,051
Initially consolidated company	5,671	17,809	-	-	-	23,480
Adjustments arising from translating financial statements	1,543	8,539	137	589	425	11,233
Disposals in 2022:						
Disposals	-	(161)	(429)	-	-	(590)
Balance at December 31, 2022	30,436	184,485	4,393	13,746	9,660	242,720
Depreciated cost:						
At December 31, 2021	84,576	87,202	3,671	4,356	3,993	183,798
At December 31, 2022	123,808	98,999	3,747	6,173	3,657	236,384

b. As for investment grants, see Note 19a(1).

c. As for charges, see Note 20c.

NOTE 11:- PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS (Cont.)

d. Disclosures for leases of right-of-use assets in which the Company acts as the lessee:

The Company has entered into leases of buildings, machinery and equipment, motor vehicles etc. which are used for the Company's operating activities.

Leases of buildings have lease terms of between 4 and 25 years whereas leases of machinery and equipment and motor vehicles have lease terms of between 3 and 6 years.

Some of the leases entered into by the Company include extension and/or termination options.

Composition and movement of right-of-use assets within property, plant and equipment:

	Land and buildings	Machinery and equipment	Motor vehicles	Leasehold improvements	Total
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
Cost:					
Balance at January 1, 2021	44,200	2,748	1,285	19	48,252
Additions in 2021:					
Purchases	6,037	1,325	1,078	-	8,440
Initially consolidated company	3,765	2,382	155	-	6,302
Adjustments arising from translating financial statements	(668)	(412)	(226)	(1)	(1,307)
Balance at December 31, 2021	53,334	6,043	2,292	18	61,687
Additions in 2022:					
Purchases	1,865	2,163	555	-	4,583
Initially consolidated company	643	461	-	-	1,104
Adjustments arising from translating financial statements	796	141	152	2	1,091
Disposals in 2022:					
Disposals	-	-	(80)	-	(80)
Balance at December 31, 2022	56,638	8,808	2,919	20	68,385

NOTE 11:- PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS (Cont.)

	Land and buildings	Machinery and equipment	Motor vehicles	Leasehold improvements	Total
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
Accumulated depreciation:					
Balance at January 1, 2021	5,561	1,072	719	8	7,360
Additions in 2021:					
Depreciation	3,548	1,109	659	2	5,318
Adjustments arising from translating financial statements	(127)	(111)	(126)	-	(364)
Balance at December 31, 2021	8,982	2,070	1,252	10	12,314
Additions in 2022:					
Depreciation	3,856	1,788	673	2	6,319
Adjustments arising from translating financial statements	336	75	106	1	518
Disposals in 2022:					
Disposals	-	-	(50)	-	(50)
Balance at December 31, 2022	13,174	3,933	1,981	13	19,101
Depreciated cost:					
At December 31, 2021	44,352	3,973	1,040	8	49,373
At December 31, 2022	43,464	4,875	938	7	49,284

Details regarding lease payments:

	Year ended December 31, 2022	Year ended December 31, 2021	Year ended December 31, 2020
	NIS in thousands	NIS in thousands	NIS in thousands
Interest expense on lease liabilities	2,484	2,414	2,393
Principal repayments of lease liabilities	5,796	4,737	3,275
Total cash outflow for leases (principal and interest)	8,280	7,151	5,668

As for an analysis of maturity dates of lease liabilities, see Note 17a(3) below.

NOTE 12:- GOODWILL AND INTANGIBLE ASSETS

a. Composition and movement:

	Brand name and non-competition	Customer relations	Knowhow and computer software	Goodwill	Total
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
Cost:					
Balance at January 1, 2021	6,518	36,230	15,802	53,881	112,431
Additions	-	-	1,075	-	1,075
XXX	-	10,106	-	21,863	31,969
Initially consolidated company	(196)	(2,260)	(814)	(4,564)	(7,834)
Adjustments arising from translating financial statements	6,322	44,076	16,063	71,180	137,641
Balance at December 31, 2021	-	900	1,821	-	2,720
Additions	2,514	13,605	28	28,208	44,355
Initially consolidated company	968	5,410	579	7,506	14,462
Adjustments arising from translating financial statements	9,804	63,991	18,489	106,895	199,179
Balance at December 31, 2022	4,045	12,016	9,378	3,131	28,570
Accumulated amortization:					
Balance at January 1, 2021	427	3,777	1,588	-	5,792
Amortization for the year	(131)	(540)	(282)	(255)	(1,208)
Adjustments arising from translating financial statements	4,341	15,253	10,684	2,876	33,154
Balance at December 31, 2021					
Amortization for the year	657	4,508	1,576	-	6,741
Adjustments arising from translating financial statements	547	2,007	289	141	2,984
Balance at December 31, 2022	5,545	21,768	12,549	3,017	42,879
Net book value:					
At December 31, 2021	1,981	28,823	5,379	68,304	104,487
At December 31, 2022	4,259	42,223	5,940	103,878	156,300

NOTE 12:- GOODWILL AND INTANGIBLE ASSETS (Cont.)

b. Amortization expenses:

Amortization expenses of intangible assets are classified in the statement of profit or loss and other comprehensive income as follows:

	Year ended December 31, 2022	Year ended December 31, 2021	Year ended December 31, 2020
	NIS in thousands	NIS in thousands	NIS in thousands
Selling and marketing expenses	5,165	4,204	4,185
General and administrative expenses	1,576	1,588	516
Total amortization expenses	6,741	5,792	4,701

c. Testing the impairment of goodwill:

The net carrying amount of goodwill attributed to the subsidiaries is as follows:

	December 31, 2022	December 31, 2021
	NIS in thousands	NIS in thousands
Polyfil Inc	42,749	37,780
Addvanze AB	19,120	19,477
Delta Kunststoffe AG	30,371	-
Constab Polyolefin Additives GmbH	6,918	6,592
Suzhou Constab Engineering Plastics Limited	3,905	3,734
Kafrit NA Ltd	815	721
Total	103,878	68,304

The recoverable amount of each of the cash-generating units was determined based on the value in use which is calculated at the expected estimated future cash flows from the cash-generating units, as determined according to the budget approved by the Company's management and other assumptions for the next years.

The post-tax discount rate of the cash flows is 7%-12%. The projected cash flows for the period exceeding five years was estimated using a fixed growth rate of 2%-3%, based on customary estimates in the industry and on various market studies representing the long-term average growth rate as customary in the segment.

Since the recoverable amount is higher than the carrying amount, no impairment was recognized.

NOTE 12:- GOODWILL AND INTANGIBLE ASSETS (Cont.)

The key assumptions used in calculating the value in use:

The computation of the value in use is liable to changes in the following assumptions:

Expenses - the basis for expenses is the Company's budget. The forecasts for future years derive from the assumptions underlying the growth in the scope of operations and the nature of the expenses (variable, direct, indirect).

- Gross profit.
- Discount rate.
- Market share during the budget period.
- Growth rate for the next five years.

Discount rate - the discount rate is calculated using a specific WACC model for each unit and reflects management's assumptions regarding each unit's specific risk. This discount rate forms a standard basis used by management to estimate its operations and assess prospective investments.

Market share - the assumptions are highly important since, in addition to being used to calculate the growth rate (as described below), management's assumptions regarding the operation of the units compared to the competition might change over the budget period. The Company and its subsidiaries anticipate that their market share will remain stable.

Growth rate - growth rates are based on existing segment information and on the Company's experience.

Sensitivity analysis of changes in assumptions:

With respect to the assumptions used in determining the value in use, management believes that there have been no potential changes in the key assumptions detailed above which might lead to a significant increase in the carrying amount over its recoverable amount.

NOTE 13:- CREDIT FROM BANKS

a. Composition:

	Interest rate 31.12.2022	In or linked to foreign currency	Unlinked	Total
	%	NIS in thousands	NIS in thousands	NIS in thousands
December 31, 2022:				
Short-term credit from banks	1 - 5	93,016	-	93,016
Current maturities of long-term loans	1 - 5	25,252	-	25,252
		118,268	-	118,268
December 31, 2021:				
Short-term credit from banks	1 - 5	98,330	-	98,330
Current maturities of long-term loans	1 - 5	19,378	-	19,378
		117,708	-	117,708

As of December 31, 2022, about 65% of the Company's short-term credit bears variable interest.

b. As for charges, see Note 20c.

c. As for financial covenants, see Note 16b.

NOTE 14:- TRADE PAYABLES

	December 31, 2022	December 31, 2021
	NIS in thousands	NIS in thousands
Open accounts	80,791	99,905
Notes payable	2	17
	80,793	99,922

The Company receives from its suppliers interest-free credit for periods of 10-90 days.

NOTE 15:- OTHER ACCOUNTS PAYABLE

	December 31, 2022	December 31, 2021
	NIS in thousands	NIS in thousands
Advances from customers	2,902	1,311
Employees and payroll accruals	6,294	6,491
Accrued vacation	2,726	2,733
Accrued expenses	11,950	10,600
Government ministries	11,485	8,062
Current maturity of lease	5,252	5,481
Other	4,967	4,286
	45,576	38,964

NOTE 16:- NON-CURRENT LIABILITIES

a. Composition:

	Interest rate	In or linked to foreign currency	Linked or unlinked NIS	Total
	%	NIS in thousands	NIS in thousands	NIS in thousands
December 31, 2022:				
Long-term loans from banks and others:				
Long-term loans	1 - 5	130,240	-	130,240
Less - current maturities of long-term loans		(25,252)	-	(25,252)
		104,988	-	104,988
Other non-current liabilities:				
Lease liability	1 - 6	9,925	38,003	47,928
Less - current maturities of lease		(3,810)	(1,442)	(5,252)
Liability to pay royalties to the IIA		-	1,979	1,979
Contingent consideration liability		6,808	-	6,808
		12,923	38,540	51,463

NOTE 16:- NON-CURRENT LIABILITIES (Cont.)

	Interest rate	In or linked to foreign currency	Linked or unlinked NIS	Total
	%	NIS in thousands	NIS in thousands	NIS in thousands
December 31, 2021:				
Long-term loans from banks and others:				
Long-term loans	1 - 5	67,844	-	67,844
Less - current maturities of long-term loans		(19,378)	-	(19,378)
		48,466	-	48,466
Other non-current liabilities:				
Lease liability	1 - 6	10,320	37,267	47,587
Less - current maturities of lease		(4,197)	(1,284)	(5,481)
Liability to pay royalties to the IIA		-	1,896	1,896
Contingent consideration liability		916	-	916
		7,039	37,879	44,918

As of December 31, 2022, about 75% of the Company's long-term credit bears variable interest.

b. Financial covenants:

Name of company	Country	Financial covenants
Kafrit Industries (1993) Ltd.	Israel	The Company has committed towards banks in Israel that its tangible equity (equity less intangible assets, goodwill and deferred taxes) to total tangible statement of financial position will not be lower than 19% or NIS 58 million; the ratio of net financial debt to EBITDA will not exceed 6.5; the current ratio will not be lower than 1; and the ratio of EBITDA to total interest and principal payments on long-term loans will not be lower than 1.6.
Polyfil Inc.	U.S.	The company has committed towards a bank in the U.S., in addition to all of the above, that the ratio between EBITDA less equity investments and interest and principal payments, tax payments and dividend to the parent company will not be lower than 1.0, the ratio of net financial debt to banks to EBIDTA will not exceed 6.5 at the end of 2020, 5.0 at the end of 2021 and 4.0 at the end of 2022 and thereafter.
Constab Polyolefin Additives	Germany	The company has committed towards banks in Germany that the ratio between its equity to total statement of financial position will not be lower than 30%.
Delta Kunststoffe	Germany	The company has committed towards a bank in Germany that the ratio between its equity to total statement of financial position will not be lower than 20%.

As of December 31, 2022, the Company and its subsidiaries have met all of the above financial covenants.

NOTE 17:- FINANCIAL INSTRUMENTS

a. Financial risks factors:

The Company and its subsidiaries operate in international markets using different currencies. Consequently, they are exposed to changes in currency rates, interest rates, linkage bases, credit risks, liquidity and other risks. The Company's comprehensive risk management plan focuses on activities that reduce to a minimum its accounting and economic exposure to material changes. The risk management activities are designed to protect the Company's profits and the value of its assets. The Company occasionally uses financial instruments to minimize its exposure to said market risks. These instruments are used through banks or regulated stock markets, in compliance with the standard required collaterals for this type of activity.

The overall risk management policy of the Company and its subsidiaries is performed by the Company. The officer in the Company in charge of risk management is the CFO, Mr. Moody Pruss. Risk management is performed by the Company's CFO and a forum which consists of the Chairman of the Board and the Company's CEO in keeping with the policy approved by the Board. The Company's finance department analyzes the accounting and economic exposure of the Company and its subsidiaries on a monthly basis and examines the effectiveness of the hedging instruments.

The effectiveness of the instruments is measured at their cost and based on an analysis of macroeconomic or segment trends that are likely to affect financial risks. Based on its work plan, the Company determines the required hedge ratios, types and scope as a percentage of ne exposure to the base asset. The Company only hedges material exposures arising from its industrial activities.

The Company's Board receives quarterly reports of the hedged base assets and hedge scope and terms.

1. Market risks:

a) Foreign currency risk:

Foreign currency risk is the risk of changes in the fair value or future cash flows of financial instruments due to changes in foreign currency exchange rates.

The Company and its subsidiaries operate in a large number of countries and are exposed to foreign exchange risk resulting from the exposure to different currencies, mainly the Euro, the USD and the Chinese Yuan. Exchange rate risk arises on forward commercial transactions, recognized assets and liabilities that are denominated in a foreign currency other than the functional currency and on net investments in foreign operations.

NOTE 17:- FINANCIAL INSTRUMENTS (Cont.)

The Company's policy is to hedge its net exposure to each currency to the extent possible. The Company takes steps to reconcile income and expenses and assets and liabilities in the same currency. The Company also has borrowings in Euro and USD in order to diversify its credit sources and reduce financing costs by matching surplus income and assets to expenses and liabilities. This natural form of hedging reduces borrowing costs, minimizes the effect of fluctuations in profit margins and protects equity.

Sensitivity analysis of foreign currency risks:

The following table demonstrates the sensitivity test of a reasonably possible change in the exchange rates of the Euro and USD when all other variables remain constant. The effect on the Company's pre-tax income arises from changes in monetary assets and liabilities. Translation differences of assets and liabilities of investees that represent foreign operations are carried to other comprehensive income (loss) and not included in the following table. The Company's exposure to changes in all other foreign currencies is immaterial.

	Increase (decrease) in pre-tax income December 31, 2022	Increase (decrease) in pre-tax income December 31, 2021
	NIS in thousands	NIS in thousands
Euro:		
5% increase in exchange rate	(5,639)	(3,874)
5% decrease in exchange rate	5,639	3,874
10% increase in exchange rate	(11,277)	(7,748)
10% decrease in exchange rate	11,277	7,748
USD:		
5% increase in exchange rate	3,723	3,648
5% decrease in exchange rate	(3,723)	(3,648)
10% increase in exchange rate	7,446	7,296
10% decrease in exchange rate	(7,446)	(7,296)

b) Consumer Price Index (CPI) risk:

In the reporting period, the Company has no borrowings or loans from banks that are linked to changes in the Israeli CPI.

NOTE 17:- FINANCIAL INSTRUMENTS (Cont.)

c) Interest risk:

The Company and its subsidiaries are exposed to risk in respect of changes in market interest on long-term and short-term loans bearing variable interest.

In the event that the interest rate increases by 0.5%, the Company's annual finance expenses will increase by approximately NIS 1.0 million based on the loan balance as of December 31, 2022.

d) Price risk:

Any increase, particularly a sharp one, in prices of raw materials adversely affects the profits of the Company and its subsidiaries for a specific period until the readjustment of selling prices. Changes in prices of raw materials are mainly affected by global supplies and demands for polymers and additives and by changes in oil prices. The Company and its subsidiaries take ongoing steps to adjust selling prices to current price levels in the industry.

2. Credit risk:

Credit risk may arise from the exposure of entering into transactions with a single entity or from entering into transactions with several groups of debtors with similar economic characteristics whose ability to discharge their obligations will be similarly affected by changes in economic or other conditions. Factors that have the potential of creating concentration of credit risk consist of the nature of the debtors' activities, such as their business sector, the geographic area of their operations and their financial strength.

The revenues of the Company and its subsidiaries derive from a large number of widely dispersed customers in Israel and overseas. The Company and its subsidiaries provide their customers credit terms ranging from immediate payment to 195 days. The Company and its subsidiaries regularly monitor customer debts and include an allowance for doubtful accounts in the financial statements which adequately reflects the loss inherent in debts whose collection is doubtful.

In order to manage their exposure to credit risks, the Company and its subsidiaries chose to insure their customers at their discretion through a credit insurance company.

The credit provided to customers is examined on an ongoing basis by the management of the Company and its subsidiaries and subject to the credit risk management policy approved by the Company's Board, while adapting the credit facilities to the customer's risk profile. As of the reporting date, the majority of trade receivables (less doubtful accounts) of the Company and its subsidiaries are covered by credit insurance.

NOTE 17:- FINANCIAL INSTRUMENTS (Cont.)

The Company and its subsidiaries maintain cash and cash equivalents in various financial institutions. As for details of the composition as of December 31, 2022, see Note 6.

3. Liquidity risk:

The Company and its subsidiaries aim to create an optimal structural balance between their short-term credit needs and their long-term credit needs while analyzing their working capital requirements, the necessary investments in property, plant and equipment and the cost of money. The Company and its subsidiaries examine alternative uses of long-term borrowings, overdrafts, on call loans and various finance leases. The Company and its subsidiaries match the amount of said borrowings based on cash flows from operating activities.

The table below summarizes the maturity profile of financial liabilities based on contractual undiscounted payments (principal and interest):

	Less than one year	1 to 2 years	2 to 3 years	3 to 4 years	> 5 years	Total
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
December 31, 2022:						
Short-term credit from banks	92,643	-	-	-	-	92,643
Trade payables	80,793	-	-	-	-	80,793
Other accounts payable	37,304	-	-	-	-	37,304
Long-term loans from banks	30,366	61,457	28,278	12,170	6,290	138,561
Other non-current liabilities	1	6,837	241	427	1,281	8,787
Lease liabilities	7,595	6,865	5,151	3,805	50,317	73,733
	248,702	75,159	33,670	16,402	57,888	431,821
December 31, 2021:						
Short-term credit from banks	98,767	-	-	-	-	98,767
Trade payables	99,922	-	-	-	-	99,922
Other accounts payable	32,118	-	-	-	-	32,118
Long-term loans from banks	20,834	16,854	11,123	18,177	4,331	71,319
Other non-current liabilities	-	-	-	-	2,812	2,812
Lease liabilities	7,856	6,549	5,151	4,236	50,499	74,291
	259,497	23,403	16,274	22,413	57,642	379,229

NOTE 17:- FINANCIAL INSTRUMENTS (Cont.)

b. Fair value:

The carrying amount of cash and cash equivalents, trade receivables, other accounts receivable, credit from banks and others, trade payables and other accounts payable approximates their fair value.

c. Linkage terms of long-term financial instruments:

As for linkage terms of long-term financial liabilities, see Note 16a.

d. Changes in liabilities arising from financing activities:

December 31, 2022:

	Balance at January 1, 2022	Cash flows	Effect of changes in exchange rates	Other changes	Balance at December 31, 2022
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
Short-term loans	98,330	(10,264)	3,566	1,383	93,016
Long-term loans	67,843	42,947	9,567	9,883	130,240
Lease liabilities	47,588	(5,796)	866	5,270	47,928
Total liabilities arising from financing activities	213,761	26,887	13,999	16,537	271,184

December 31, 2021:

	Balance at January 1, 2021	Cash flows	Effect of changes in exchange rates	Other changes	Balance at December 31, 2021
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
Short-term loans	80,854	21,258	(3,782)	-	98,330
Long-term loans	53,984	20,030	(6,170)	-	67,844
Lease liabilities	43,871	(4,737)	(834)	9,288	47,588
Total liabilities arising from financing activities	178,709	36,551	(10,786)	9,288	213,762

NOTE 18:- EMPLOYEE BENEFIT ASSETS AND LIABILITIES

Employee benefits consist of post-employment benefits and other long-term benefits.

This note does not include share-based employee benefits. For information on share-based payments, see Note 22 regarding share-based payments.

For additional information on benefits to key management personnel, see Note 26 regarding related and interested parties.

a. Post-employment benefits:

According to the labor laws and Severance Pay Law in Israel, the Company is required to pay compensation to an employee upon dismissal or retirement or to make current contributions in defined contribution plans pursuant to section 14 to the Severance Pay Law, as specified below. The Company's liability is accounted for as a post-employment benefit. The computation of the Company's employee benefit liability is made in accordance with a valid employment contract based on the employee's salary and employment term which establish the entitlement to receive the compensation.

The post-employment employee benefits are normally financed by contributions classified as defined benefit plans or as defined contribution plans as detailed below.

b. Defined contribution plans:

Section 14 to the Severance Pay Law, 1963 applies to part of the compensation payments, pursuant to which the fixed contributions paid by the Company into pension funds and/or policies of insurance companies release the Company from any additional liability to employees for whom said contributions were made. These contributions and contributions for benefits (including contributions made by the companies in Germany, Canada, China and the U.S. in designated funds) represent defined contribution plans.

	Year ended December 31, 2022	Year ended December 31, 2021	Year ended December 31, 2020
	NIS in thousands	NIS in thousands	NIS in thousands
Expenses in respect of defined contribution plans (provident and severance pay)	7,967	6,445	6,133

c. Defined benefit plans:

The Company accounts for that part of the payment of compensation that is not covered by contributions in defined contribution plans, as above, as a defined benefit plan for which an employee benefit liability is recognized.

NOTE 18:- EMPLOYEE BENEFIT ASSETS AND LIABILITIES (Cont.)

The expenses in respect of employee benefits are presented in the consolidated financial statements as follows:

	Year ended December 31, 2022	Year ended December 31, 2021	Year ended December 31, 2020
	NIS in thousands	NIS in thousands	NIS in thousands
Expenses (income) carried to profit or loss	(362)	(428)	82
Expenses (income) carried to other comprehensive income (loss)	(142)	(51)	19
Total expenses (income) carried to comprehensive income	(504)	(479)	101

The net plan liabilities (assets) are presented in the consolidated statements of financial position as follows:

The current portion of the net plan liabilities (assets) repayable within one year of the reporting date is presented in other accounts payable.

The non-current portion of the net plan liabilities (assets) repayable one year after the reporting date is presented in employee benefit liabilities.

	December 31, 2022	December 31, 2021
	NIS in thousands	NIS in thousands
Other accounts payable	169	231
Employee benefit liabilities	900	1,188
	1,069	1,419

d. Raising the retirement age for women:

On November 18, 2021, the Economic Plan Law (Legislative Amendments for Applying the Economic Policy for the 2021 and 2022 Budget Years), 2021 was published which gradually raises the retirement age for women to 65. As the change in retirement age resulted in a change in a defined benefit plan, the effect of approximately NIS 1 thousand was recognized in profit or loss as past service cost.

NOTE 19:- TAXES ON INCOME

a. Tax laws applicable to the Company and its subsidiaries:

1. Companies in Israel:

Income Tax (Inflationary Adjustments) Law, 1985:

According to the law, until 2007, the results for tax purposes were adjusted for the changes in the Israeli CPI.

In February 2008, the Israeli parliament passed an amendment to the Income Tax (Inflationary Adjustments) Law, 1985, which limits the scope of the law starting 2008 and thereafter. Since 2008, the results for tax purposes are measured in nominal values, excluding certain adjustments for changes in the Israeli CPI carried out in the period up to December 31, 2007. Adjustments relating to capital gains such as for sale of property (betterment) and securities continue to apply until disposal. Since 2008, the amendment to the law includes, among others, the cancelation of the inflationary additions and deductions and the additional deduction for depreciation (in respect of depreciable assets purchased after the 2007 tax year).

The Law for the Encouragement of Capital Investments, 1959:

According to the Law and its amendments, the Company is entitled to various tax benefits by virtue of the "approved enterprise" or "preferred enterprise" status (based on the year of approval) granted to its enterprises, as implied by this Law. The Company is located in development area A.

The principal benefits by virtue of the Law are:

Grants:

The Company qualifies for investments grants at the rate of 20% for national priority area A, where the enterprise is located.

The enterprise is located below latitude 100 and is entitled to an additional grant ranging from 2% to 10% according to the principles established by the Investment Authority.

The following are details of the investment programs relevant to the Company:

- A letter of approval from October 2013 for an investment scope of approximately NIS 10 million. All investments were made in 2012-2014. A final performance approval was received from the Investment Center.

- A letter of approval from December 2016 for an investment scope of approximately NIS 32 million. All investments were made in 2016-2021. A final performance approval was received from the Investment Center.

NOTE 19:- TAXES ON INCOME (Cont.)

- A letter of approval from February 2022 for an investment scope of approximately NIS 50 million. These investments are expected to be made by 2027.

Reduced tax rates:

Amendment to the Law for the Encouragement of Capital Investments, 1959 (Amendment 68):

In January 2011, the Knesset published the Law for Economic Policy for 2011 and 2012 (Legislative Amendments), 2011 ("the Amendment") which prescribes, among others, amendments to the Law for the Encouragement of Capital Investments, 1959 ("the Law"). The Amendment became effective from January 1, 2011. According to the Amendment, the benefit tracks in the Law were modified and a flat tax rate applies to the Company's entire preferred income under its status as a preferred company with a preferred enterprise. Commencing from the 2011 tax year, the Company can elect (without possibility of reversal) to apply the Amendment in a certain tax year and from that year and thereafter, it will be subject to the amended tax rates, as detailed below.

In May 2011, the Company informed the tax authorities of its decision to have the provisions of the Amendment apply to its enterprise.

Amendment to the Law for the Encouragement of Capital Investments, 1959 (Amendment 73):

In December 2016, the Economic Efficiency Law (Legislative Amendments for Applying the Economic Policy for the 2017 and 2018 Budget Years), 2016 which includes Amendment 73 to the Law for the Encouragement of Capital Investments ("the Amendment") was published. According to the Amendment, a preferred enterprise located in development area A will be subject to a tax rate of 7.5% instead of 9% effective from January 1, 2017 and thereafter (the tax rate applicable to preferred enterprises located in other areas remains at 16%).

Conditions for the entitlement to the benefits:

The above benefits are conditional upon the fulfillment of the conditions stipulated by the Law, regulations published thereunder and the letters of approval for the investments. Non-compliance with the conditions may cancel all or part of the benefits and refund of the amount of the benefits, including interest. The management believes that the Company is meeting the aforementioned conditions.

NOTE 19:- TAXES ON INCOME (Cont.)

The Law for the Encouragement of Industry (Taxation), 1969:

The Company has an "industrial company" status, as implied by this law. According to this status and by virtue of regulations published thereunder, the Company claims a deduction of accelerated depreciation on equipment used in industrial activities, as determined in the regulations issued under the Inflationary Law.

2. Subsidiaries outside Israel:

Investees operating in Germany, Canada, China, the U.S. and Sweden are assessed according to the tax laws in their country of residence. These entities are effectively managed in said countries, subject to the local tax laws.

b. Tax rates applicable to the Company and subsidiaries:

1. As stated in 1a above, the Company was taxed at a reduced rate of 7.5% in 2010-2022.

The Company is subject to a 23% capital gains tax.

2. Foreign subsidiaries incorporated outside Israel:

The principal tax rates applicable to investees operating in various countries are as follows:

	Year ended December 31, 2022	Year ended December 31, 2021	Year ended December 31, 2020
Country			
Germany	31.4%	31.4%	31.4%
China	25%	25%	25%
Canada	27%	27%	27%
U.S.	21%-28%	21%-28%	21%-28%
Sweden	20.6%	20.6%	-

NOTE 19:- TAXES ON INCOME (Cont.)

Distribution of earnings by foreign investees is subject to withholding tax at the following rates (according to applicable laws as of the reporting date):

Country	Effective withholding tax rate *) on distribution of earnings to Israel
Germany	5.0%
China	14.5%
Canada	9.75%
U.S.	12.5%
Sweden	5.0%

*) Including withholding tax at a rate of about 5% applicable to the distribution of dividends to Israel by the holding companies in Switzerland. Withholding tax at a rate of 17.5% applies to interest paid from the U.S. to Israel.

c. Tax assessments:

Name of company	Country	Final tax assessments or assessments that are considered final through the tax year
Kafrit Industries (1993) Ltd.	Israel	2018
Constab Polyolefin Additives	Germany	2015
Suzhou Constab Engineering Plastics	China	2021
Kafrit NA	Canada	2018
Polyfil Inc	U.S.	2017
Addvanze AB	Sweden	2016
Delta Kunststoffe	Germany	2019

d. Carryforward losses for tax purposes and other temporary differences:

The Company does not have carryforward business losses for tax purposes.

Carryforward capital losses of the Company total approximately NIS 9 million and their utilization in the foreseeable future is not probable.

NOTE 19:- TAXES ON INCOME (Cont.)

e. Deferred taxes:

	Statements of financial position	Statements of financial position	Statements of comprehensive income	Statements of comprehensive income	Statements of comprehensive income
	December 31, 2022	December 31, 2021	Year ended December 31, 2022	Year ended December 31, 2021	Year ended December 31, 2020
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
Deferred tax liabilities:					
Property, plant and equipment and right-of-use assets	(9,521)	(9,364)	(157)	(1,217)	(1,646)
Goodwill	(1,650)	(1,547)	(103)	187	93
Undistributed earnings of subsidiaries	(2,566)	(2,757)	191	(240)	(2,165)
Intangible assets	(6,958)	(1,933)	425	138	-
Other	-	-	-	7	344
	(20,695)	(15,601)			
Deferred tax assets:					
Carryforward tax losses	4	5	(1)	5	-
Lease liability	3,892	4,055	(163)	1,235	(1,289)
Property, plant and equipment	-	-	-	(13)	13
Allowance for doubtful accounts	424	388	36	12	143
Accrued vacation, recreation and severance pay	326	409	(83)	(421)	350
Other	721	233	(581)	(1,080)	1,544
	5,367	5,090			
Deferred tax liabilities, net	(15,328)	(10,511)			
Add - capital reserve for translation differences			510	(441)	(105)
Deferred tax income (expenses)			74	(1,828)	(2,718)

The deferred taxes are reflected in the statement of financial position as follows:

	December 31, 2022	December 31, 2021
	NIS in thousands	NIS in thousands
Non-current liabilities	(15,328)	(10,511)

NOTE 19:- TAXES ON INCOME (Cont.)

f. Taxes on income included in the statements of profit or loss:

	Year ended December 31, 2022	Year ended December 31, 2021	Year ended December 31, 2020
	NIS in thousands	NIS in thousands	NIS in thousands
Current taxes	15,919	18,867	15,845
Deferred tax expenses (income), see e above	(74)	1,828	2,718
Taxes in respect of previous years	1,989	(557)	310
Total taxes on income	17,834	20,138	18,873

g. Theoretical tax:

The reconciliation between the tax expense, assuming that all the income and expenses, gains and losses in the statement of comprehensive income were taxed at the statutory tax rate in Israel and the taxes on income recorded in the statement of comprehensive income is as follows:

	Year ended December 31, 2022	Year ended December 31, 2021	Year ended December 31, 2020
	NIS in thousands	NIS in thousands	NIS in thousands
Income before taxes on income	62,227	85,081	62,087
Statutory tax rate	23%	23%	23%
Tax computed at the statutory tax rate	14,312	19,569	14,280
Increase (decrease) in taxes on income resulting from the following factors:			
Nondeductible expenses	419	568	1,318
Expenses (income) at different tax rate	357	(380)	752
Nondeductible tax asset and/or deduction of deferred tax expenses in respect of withholding tax on distribution of earnings by subsidiaries	346	958	2,247
Tax expenses (income) in respect of previous years	1,989	(557)	310
Other	411	(20)	(34)
Total increase in taxes	3,522	569	4,593
Taxes on income	17,834	20,138	18,873
Average effective tax rate	29%	24%	30%

NOTE 20:- CONTINGENT LIABILITIES, COMMITMENTS, GUARANTEES AND CHARGES

a. Contingent liabilities:

1. In accordance with the Law for the Encouragement of Capital Investments, 1959, the Company received State grants for investments in property, plant and equipment made in the context of plant expansion programs approved by the IIA as well as certain tax benefits. The receipt of the grants and tax benefits as above is conditional upon the fulfillment of the conditions of the letters of approval which consist, among others, of certain level of export. If the Company does not comply with the required conditions, it may refund the amount of the grants and benefits, including interest from the date of receipt. The management believes that the Company is meeting the conditions of the letters of approval.

2. As of the date of approval of the financial statements, the Company and its subsidiaries are not a party to any material pending litigations.

b. Commitments with interested party:

As for commitments with the controlling shareholder and interested parties, see Note 26.

c. Charges:

1. The Company recorded a floating charge in an unlimited amount on property, plant and equipment in favor of the State of Israel to secure compliance with the conditions of the investment grants received from the State.

2. The Company recorded fixed and floating charges in an unlimited amount on its entire assets (including share capital, goodwill and financial instruments) to secure its debts to three banks.

3. The subsidiaries in Germany (Constab Properties and Constab Polyolefin Additives) recorded charges on real estate, property, plant and equipment, inventories and trade receivables to secure the repayment of loans from banks.

4. The subsidiary in China (Suzhou Constab) recorded a charge on trade receivables and property, plant and equipment to secure the repayment of short-term and long-term loans from banks.

5. The subsidiary in the U.S. (Polyfil) recorded charges on real estate, property, plant and equipment, inventories and trade receivables to secure the repayment of short-term and long-term loans from a bank.

NOTE 21:- EQUITY

a. Composition of share capital:

	December 31, 2022	December 31, 2022	December 31, 2021	December 31, 2021
	Authorized	Issued and outstanding	Authorized	Issued and outstanding
Number of Ordinary shares of NIS 1 par value each	35,000,000	23,846,745	35,000,000	23,818,796

b. Movement in outstanding share capital - exercise of options in the last year:

	Exercise date	Name and position of optionee	Number of options exercised	Number of shares of NIS 1 par value each issued	Method of exercising the share options
1	February 3, 2022	Avi Zalcman, the former CEO	30,000	14,707	Cashless exercise
2	May 19, 2022	Avi Zalcman, the former CEO	30,000	13,242	Cashless exercise
3	After the balance sheet date 30, March 2023	Itsik sharir ,Chairman of the board	20,000	20,000	Payment of the exercise price

c. Dividends distributed to equity holders of the Company in the last year:

	Date of approval of the distribution by the Company's Board	Amount of dividend (NIS in thousands)	Agorot per share	Payment date	Comments
1	March 24, 2022	4,000	16.78	April 28, 2022	
2	May 26, 2022	4,000	16.77	June 29, 2022	
3	August 31, 2022	4,000	16.77	September 29, 2022	
4	November 30, 2022	4,000	16.77	December 29, 2022	
5	March 30, 2023	4,000	16.76	April 24, 2023	Approved after the reporting date

d. Transfer from retained earnings to share premium:

On November 30, 2022, the Company transferred NIS 12,000,000 from retained earnings to share premium in order to meet the conditions in the letter of approval of the Director of the Investment Authority regarding the receipt of benefits under the Law for the Encouragement of Capital Investments.

e. Rights attached to shares:

1. Rights to vote at the general meeting, to receive dividends, to participate in the distribution of the Company's assets upon liquidation and to nominate directors.

2. The Company's shares are traded on the TASE.

NOTE 21:- EQUITY (Cont.)

f. Foreign currency translation adjustments:

The reserve is used for recording changes in foreign currency exchange rates arising from translating financial statements of investees which represent foreign operations.

g. Capital management in the Company:

The Company's capital management objectives are:

1. To preserve the Group's ability to ensure business continuity thereby creating a return for the shareholders, investors and other interested parties.

2. To maintain a strong credit rating and healthy capital ratios in order to support business activity and maximize shareholders value.

3. To comply with financial covenants.

4. To ensure distribution of dividends to shareholders.

The Company examines equity using the ratio of net debt to equity.

Net debt is calculated as the total debt less cash and cash equivalents.

As for financial covenants undertaken by the Company, see Note 16b.

NOTE 22:- SHARE-BASED PAYMENT TRANSACTIONS

a. Expenses recognized in the financial statements:

The expense recognized in the financial statements for employee services received is shown in the following table:

	Year ended December 31, 2022	Year ended December 31, 2021	Year ended December 31, 2020
	NIS in thousands	NIS in thousands	NIS in thousands
Equity-settled share-based payment plans	1,525	1,645	595

NOTE 22:- SHARE-BASED PAYMENT TRANSACTIONS (Cont.)

b. Allocation of options during the year:

1. On March 24, 2022, after receiving the approval of the Remuneration Committee, the Board decided to approve a material private placement of 266,000 options that may be exercised into up to 266,000 Ordinary shares of the Company of NIS 1 par value to four optionees other than officers of the Company (each 66,500 options). The options were allocated pursuant to the terms set in the Company's option plan. In the case of dividend distributions, the exercise price will be adjusted accordingly.

   The fair value of the options was calculated using the Black & Scholes model at NIS 1,605 thousand.

   The key inputs used for the fair value measurement of options are as follows:

	First batch	**Second batch**
Exercise price (NIS)	28.38	28.38
Grant date price (NIS)	23.82	23.82
Vesting term (years)	2	3
Exercise period of vested options (years)	3	3
Total amount of options	133,000	133,000
Total value (NIS in thousands)	776	829

2. On November 30, 2022, after receiving the approval of the Remuneration Committee and subject to the approval of the general meeting and the approval of the TASE, the Board decided to approve a material private placement of 440,100 options that may be exercised into up to 440,100 Ordinary shares of the Company of NIS 1 par value to five officers of the Company: the Chairman - 120,000 options, the CEO – 133,350 options, the Senior Deputy CEO Business Development and Innovation – 66,700 options, the Deputy CEO Finance – 66,700 options and to the Business Operations Manager of Kafrit Israel – 53,350 options. The options were allocated under the equity track according to section 102 to the Israeli Income Tax Ordinance pursuant to the terms set in the Company's option plan. In the case of dividend distributions, the exercise price will be adjusted accordingly.

   The fair value of the options was calculated using the Black & Scholes model at NIS 2,739 thousand.

NOTE 22:- SHARE-BASED PAYMENT TRANSACTIONS (Cont.)

The key inputs used for the fair value measurement of options are as follows:

	First batch	Second batch
Exercise price (NIS)	26.53	26.53
Grant date price (NIS)	22.15	22.15
Vesting term (years)	2	3
Exercise period of vested options (years)	3	3
Total amount of options	220,050	220,050
Total fair value (NIS in thousands)	1,286	1,453

c. Movement in options during the year:

	2022	2021
	Number of options	Number of options
Share options at the beginning of the year	920,000	903,929
Share options granted during the year	706,100	200,000
Share options exercised during the year	(60,000)	(163,929)
Share options forfeited during the year	-	(20,000)
Share options expired during the year	-	-
Share options outstanding at the end of the year	1,566,100	920,000
Share options exercisable at the end of the year	433,300	220,000

NOTE 23:- ADDITIONAL INFORMATION TO THE ITEMS OF THE STATEMENTS OF COMPREHENSIVE INCOME

	Year ended December 31, 2022	Year ended December 31, 2021	Year ended December 31, 2020
	NIS in thousands	NIS in thousands	NIS in thousands
a. Cost of sales:			
Materials consumed	731,146	714,086	556,902
Labor	62,248	57,402	55,217
Manufacturing expenses	52,258	42,138	40,194
Depreciation and amortization	24,803	21,955	20,456
	870,455	835,581	672,769

NOTE 23:- ADDITIONAL INFORMATION TO THE ITEMS OF THE STATEMENTS OF COMPREHENSIVE INCOME (Cont.)

		Year ended December 31, 2022	Year ended December 31, 2021	Year ended December 31, 2020
		NIS in thousands	NIS in thousands	NIS in thousands
b.	Selling and marketing expenses:			
	Delivery to customers	34,176	27,074	23,351
	Labor	25,010	23,806	22,363
	Commissions to agents	5,462	5,991	6,307
	Depreciation and amortization	5,653	4,774	4,744
	Business trips	1,496	580	520
	Exhibitions	987	-	-
	Other	4,772	3,915	3,396
		77,556	66,140	60,681
c.	General and administrative expenses:			
	Labor	24,466	21,986	20,487
	Consulting	6,637	7,297	6,096
	Depreciation and amortization	3,307	3,074	1,487
	Bad debts and doubtful accounts	371	153	1,420
	Salaries of directors	795	783	715
	Audit	1,474	1,373	1,083
	Security	665	623	646
	Communication	423	419	418
	Computer maintenance	2,999	2,277	632
	Other expenses	4,869	4,937	4,367
		46,006	42,922	37,351
d.	Other expenses (income):			
	State compensation for indirect damage caused by Operation Guardian of the Walls	-	(1,425)	-
	Costs of acquiring a company	2,404	-	-
e.	Finance income and expenses:			
	Finance income:			
	Net gain from change in exchange rate	26,422	20,441	8,932
	Change in fair value of financial assets	35	2	592
	Other finance income	552	132	844
		27,009	20,575	10,368

NOTE 23:- ADDITIONAL INFORMATION TO THE ITEMS OF THE STATEMENTS OF COMPREHENSIVE INCOME (Cont.)

	Year ended December 31, 2022	Year ended December 31, 2021	Year ended December 31, 2020
	NIS in thousands	NIS in thousands	NIS in thousands
Finance expenses:			
Net loss from changes in exchange rate	24,085	15,072	17,759
Interest on short-term loan	2,300	972	1,149
Bank commissions and interest	594	536	454
Interest on long-term loan	1,736	1,438	1,848
Change in fair value of financial assets	85	216	531
Interest expense in respect of leases	2,484	2,414	2,393
Other finance expenses	315	2	3
	31,599	20,650	24,137

NOTE 24:- NET EARNINGS PER SHARE

Details of the amount of shares and income used in the computation of net earnings per share:

	Year ended December 31, 2022	Year ended December 31, 2022	Year ended December 31, 2021	Year ended December 31, 2021	Year ended December 31, 2020	Year ended December 31, 2020
	Weighted amount of shares	Net income attributable to equity holders of the Company	Weighted amount of shares	Net income attributable to equity holders of the Company	Weighted amount of shares	Net income attributable to equity holders of the Company
	In thousands	NIS in thousands	In thousands	NIS in thousands	In thousands	NIS in thousands
Amount of shares	23,840		23,808		23,789	
Basic net income used in the computation		44,393		64,943		43,214
Effect of potentially dilutive Ordinary shares	123		263		46	
Amount of shares used in the computation of diluted earnings per share	23,963		24,071		23,835	

NOTE 25:- OPERATING SEGMENTS

a. General:

The operating segments are identified on the basis of information that is reviewed by the chief operating decision maker ("CODM") to make decisions about resources to be allocated and assess its performance.

Accordingly, for management purposes, the Company and its subsidiaries are organized into operating segments based on their geographical location. All the operating segments are engaged in the development, manufacture and marketing of masterbatches and compounds for the plastics industry.

The segment results are measured based on operating income or loss, excluding other income and expenses, and include items that are allocated directly to the segments and items that can be allocated on a reasonable basis.

Items that were not allocated are managed on a group basis, consisting of net finance income (expenses).

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

The Company operates through companies with production and selling sites around the world:

In Israel - Kafrit IL ("Israel");
In Germany - Constab GER ("Europe");
In China - Constab CN ("Asia");
In the U.S. Polyfil USA - ("America") and
In Canada – Kafrit NA, Sweden - Addvanze AB and in Germany - Delta Kunststoffe AG ("Other").

NOTE 25:- OPERATING SEGMENTS (Cont.)

b. Reporting on operating segment:

Year ended December 31, 2022:

	Israel	Asia	Europe	America	Other	Consolidation adjustments	Consolidated
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
Revenues from external customers	302,775	181,940	316,725	128,732	133,023	-	1,063,195
Intersegment revenues	36,605	-	8,261	816	466	(46,148)	-
Total segment revenues	339,380	181,940	324,986	129,548	133,489	(46,148)	1,063,195
Depreciation and amortization	9,759	4,285	6,694	6,782	6,243	-	33,763
Segment income	7,634	19,638	3,513	24,704	13,660	29	69,178
Other expenses							(2,404)
Finance expenses, net							(4,590)
Company's share of earnings of investee, net							43
Income before taxes on income							62,227

Year ended December 31, 2021:

	Israel	Asia	Europe	America	Other	Consolidation adjustments	Consolidated
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
Revenues from external customers	317,413	178,966	305,176	116,926	109,893	-	1,028,374
Intersegment revenues	37,992	-	7,520	574	270	(46,356)	-
Total segment revenues	355,405	178,966	312,696	117,500	110,163	(46,356)	1,028,374
Depreciation and amortization	9,783	3,181	6,637	6,156	4,044	-	29,801
Segment income	14,489	20,415	15,343	19,145	14,184	155	83,731
Other income							1,425
Finance expenses, net							(75)
Income before taxes on income							85,081

NOTE 25:- OPERATING SEGMENTS (Cont.)

Year ended December 31, 2020:

	Israel	Asia	Europe	America	Other	Consolidation adjustments	Consolidated
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
Revenues from external customers	281,302	150,217	256,216	102,126	56,796	-	846,657
Intersegment revenues	29,777	-	11,283	441	272	(41,773)	-
Total segment revenues	311,079	150,217	267,499	102,567	57,068	(41,773)	846,657
Depreciation and amortization	9,215	2,734	6,347	6,335	2,056	-	26,687
Segment income	16,278	17,023	13,420	19,245	10,018	(128)	75,856
Finance expenses, net							(13,769)
Income before taxes on income							62,087

Revenues by main product groups:

	Year ended December 31, 2022	Year ended December 31, 2021	Year ended December 31, 2020
	NIS in thousands	NIS in thousands	NIS in thousands
PE Films	287,964	254,397	215,284
BOPP Films	257,134	260,912	226,205
PEX Pipes	117,922	130,114	94,442
Sheets	102,362	108,470	96,142
Agri Films	91,229	113,136	100,181
Other	206,584	161,345	114,403
Total	1,063,195	1,028,374	846,657

NOTE 25:- OPERATING SEGMENTS (Cont.)

c. Geographical information:

1. Revenues reported in the financial statements were produced in and out of the Company's country of domicile (Israel) based on the location of the customers as follows:

	Year ended December 31, 2022	Year ended December 31, 2021	Year ended December 31, 2020
	NIS in thousands	NIS in thousands	NIS in thousands
Israel	140,899	154,299	124,607
China	169,487	172,314	146,748
U.S.	176,973	153,178	131,073
Germany	110,743	86,059	59,622
Canada	47,638	60,259	37,628
Other countries	417,455	402,265	346,979
	1,063,195	1,028,374	846,657

2. The carrying amount of property, plant and equipment (non-current assets excluding deferred taxes and long-term receivables), based on the Company's country of domicile (Israel) and abroad, is based on the location of the assets as follows:

	December 31, 2022	December 31, 2021
	NIS in thousands	NIS in thousands
Israel	75,823	77,290
Germany	128,428	56,189
U.S.	93,112	84,525
China	48,484	23,126
Other	48,575	47,212
	394,422	288,342

NOTE 26:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES

a. Definitions:

Related parties	Include the controlling shareholder in the Company, associates and key management personnel.
Interested parties and controlling shareholder	As defined in the Israeli Securities Regulations (Annual Financial Statements), 2010.
Remuneration	Consists of obligation to provide direct or indirect remuneration, including any cash or cash equivalents, salaries, grants, management fees, consulting fees, rental fees, commissions, interest, share-based payments, non-pensionary and any other benefits excluding dividends.
The Company's key management personnel	Consist of members of the Board and senior executives.
The controlling shareholder in the Company	Kibbutz Kfar Aza.

b. Benefits to interested and related parties and key management personnel:

Year ended December 31, 2022:

	Directors not employed by the Company	Senior management personnel	Total
	NIS in thousands	NIS in thousands	NIS in thousands
Short-term benefits	1,495	9,373	10,868
Share-based payments	229	1,295	1,524
Total	1,724	10,668	12,392
Number of people at the end of the year	9	8	17

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

Year ended December 31, 2021:

	Directors not employed by the Company	Senior management personnel	Total
	NIS in thousands	NIS in thousands	NIS in thousands
Short-term benefits	1,437	8,850	10,287
Share-based payments	437	1,208	1,645
Total	1,874	10,058	11,932
Number of people at the end of the year	9	8	17

Year ended December 31, 2020:

	Directors not employed by the Company	Senior management personnel	Total
	NIS in thousands	NIS in thousands	NIS in thousands
Short-term benefits	1,310	6,283	7,593
Share-based payments	233	362	595
Total	1,543	6,645	8,188
Number of people at the end of the year	9	9	18

c. Engagements with the controlling shareholder:

1. Right to use lands:

On February 14, 2019, a special shareholders' meeting approved a new lease agreement with the Kibbutz for a period of 299 months (twenty four years and 11 months) from June 1, 2018 to April 30, 2043, including an option reserved for the Company only to terminate the agreement after 150 months (12.5 years).

The agreement determines the payment to be made to the kibbutz for the use of land and buildings from which the Company operates covering some 34 thousand sq.m., of which 17 thousand sq.m. is built area.

The updated usage fees are approximately NIS 255 thousand per month (in terms of December 2022).

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

2. Grant of auxiliary services:

   The Company and the Kibbutz had a service agreement that expired on December 31, 2021.

   On December 30, 2021, a special shareholders' meeting approved the Company's continued engagement with the Kibbutz for a period of three years from January 1, 2019, to receive the following services:

   a) Catering services - the Kibbutz will render Company's employees catering services consisting of the use of the Kibbutz's dining hall and preparation and supply of meals to the Company's employees.

   b) General services - the Kibbutz will render the Company services consisting of: (i) guarding and security; (ii) clinic and healthcare; (iii) post and delivery; (iv) electricity, road and sewage infrastructures; (v) communication.

   c) Monthly services - the Kibbutz will render the Company the following additional services on a monthly basis and on demand: (i) gardening and landscaping; (ii) usage of the Kibbutz's gas station for forklift refueling; (iii) air conditioner insurance.

   The consideration for the services according to the agreement will be paid based on the price agreed upon between the parties for each type of service.

3. The amount paid to the Kibbutz in 2022 in the framework of negligible transactions procedure is approximately NIS 471 thousand.

4. Authorization agreement to use the communication system:

   On December 30, 2020, a special shareholders' meeting approved the Company's engagement in an authorization agreement to use an upgraded communication system with the Kibbutz (the controlling shareholder). According to the agreement, the Kibbutz will purchase new switchboards, switches and telephone sets and will provide the Company with full access and use of the functions in exchange for usage fees.

   The agreement was signed for a period of eight years from January 1, 2019.

5. On December 30, 2021, a special shareholders' meeting approved a remuneration policy for officers, in accordance with amendment 20 to the Companies Law, for a period of three years from January 1, 2022.

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

d. Balances with the controlling shareholder:

	December 31, 2022	December 31, 2021
	NIS in thousands	NIS in thousands
Lease liability	(36,948)	(35,992)
Net credit balance at year end	(941)	(1,030)
Highest debit balance in the year	-	-

e. Transactions with the controlling shareholder:

	Year ended December 31, 2022	Year ended December 31, 2021	Year ended December 31, 2020
	NIS in thousands	NIS in thousands	NIS in thousands
Cost of sales	1,112	956	919
Selling and marketing expenses	56	48	55
General and administrative expenses	361	339	341
	1,529	1,343	1,315
Payments for lease of buildings (principal and interest)	2,992	2,871	2,837
Total	4,521	4,214	4,152

APPENDIX TO CONSOLIDATED FINANCIAL STATEMENTS

LIST OF INVESTEES

Name of company	Holding rate December 31, 2022 %	Holding rate December 31, 2021 %	Holding rate December 31, 2020 %
Kafrit Group B.V.	100.00	100.00	100.00
Constab Polyolefin Additives *)	100.00	100.00	100.00
Constab Properties *)	100.00	100.00	100.00
Kafrit Holding AG	100.00	100.00	100.00
Suzhou Constab Engineering Plastics Limited *)	100.00	100.00	100.00
KS Holding AG	100.00	100.00	100.00
Kafrit NA Ltd. *)	100.00	100.00	100.00
Polyfil Inc.	100.00	100.00	100.00
Addvanze AB	100.00	100.00	-
Delta Kunststoffe AG *)	100.00	-	-
Kasa Polymer & Additives Distribution Ltd.	50.00	-	-

*) Indirectly held.

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