



# **SARINE TECHNOLOGIES LTD.**

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## **Sustainability Report**

**2018**

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We welcome you to our 2018 Corporate Sustainability Report. Since our objective is to provide readers with pertinent information together with the ability to find all relevant information, we have referenced specific publicly available information in Sarine's Annual Report and website.



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## BOARD OF DIRECTORS STATEMENT

On behalf of the Board of Directors, it is my pleasure to present our second Sustainability Report for Sarine Technologies Ltd. ("Sarine"), for the year 2018.

Sarine celebrated this year 30 years of industry leading innovations in the development, manufacture, marketing and sales of precision technology products for the processing, grading and trade of diamonds.

We continue to implement our strategy of creating a more balanced, integrated and efficient company focused on recurring revenues. In 2018, we set a new standard in rough diamond planning accuracy, efficiency and yield through our midstream polishing products. Most excitingly, we formally opened our new Sarine technology Labs, enabled by our automated, consistent and objective AI-based grading of polished diamonds. We can now provide the first-ever technology-driven 4Cs diamond reports.

We view sustainability as a shared responsibility towards improving our business while contributing to the betterment of our people and communities. Our yearly report continues its focus around Sarine's four point vision on which our business is based: Innovation, Value, Employees and Community.

Being a global leader in our field, we integrate sustainability considerations into our strategy and our operations by actively promoting our overall sustainability efforts. As a responsible member of the modern business environment, Sarine has a Code of Ethics, which assures that we continue to create and maintain appropriate relationships with our business partners, customers and employees.

This report is in conformance with the Singapore Exchange ("SGX") Rule 711A-711B Sustainability Reporting Guide, meeting all relevant requirements for the year 2018. This report, in continuance to last year, has been written in accordance with the Global Reporting Initiative ("GRI") Sustainability Reporting Standards.

Throughout this report, we provide information regarding our sustainability performance and objectives. Our aim is to continue our efforts in creating a suitable corporate environment for responsible sustainability, as well as for effective engagement with our stakeholders. This year's report presents our achievements along with mission statements for Sarine's future.

We hope this report provides you with broad understanding of our approach to sustainability and corporate responsibility. We encourage all stakeholders to share their ideas and concerns with us regarding these issues and hope to continue our efforts over time to further enhance sustainability in our business.

Daniel Benjamin Glinert  
Executive Chairman



## ABOUT THIS REPORT

This is Sarine Technologies Ltd.'s (the "Company" or "Sarine") and our subsidiaries' (the "Sarine Group") second year of issuing a sustainability report. This report is in compliance with the requirements of the Singapore Exchange Limited ("SGX") Listing Rules 711A and 711B, and in accordance with the Global Reporting Initiative ("GRI") Standards: Core option.

In defining the scope of the data disclosed in this report, we focus on the sustainability performance for properties and entities on which we have financial and operational control. Therefore, all data included in this report, unless specifically stated otherwise, such as that which relates to corporate, financial, environmental and human resources, refers to the Sarine Group, including operations at Sarine's sites in Israel, India, Hong-Kong and North America, but does not include any authorised service or sales representative locations outside the Sarine Group.

This report reflects Sarine's performance for the period from 1 January to 31 December 2018, and the data is updated as of its reference date, 31 December 2018 (note: as for financial information included in this report, the complete and binding information is as published in Sarine's Annual Report for 2018).

Relevant targets and goals have been addressed providing status of these achievements.

The material issues in this report are the result of the final matrix presented herein. The effect of each material issue is subject to its significance to the Company's various stakeholders, both internal and external to Sarine.

We welcome all feedback to help us improve our sustainability practices.

Please send your comments or feedback by e-mail to [sustainability@sarine.com](mailto:sustainability@sarine.com)

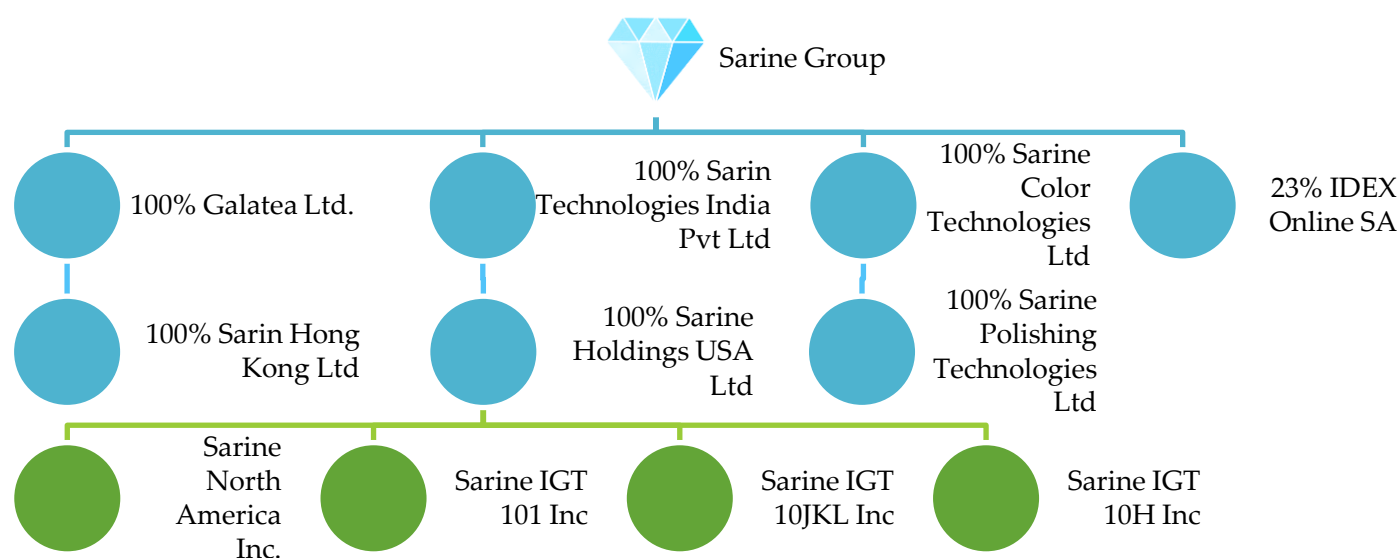


## ABOUT SARINE

Sarine is a world leader in developing technologies for the diamond industry. Incorporated thirty years ago, the Company was formed when a group of passionate industrialists joined forces with technological innovators to seek technological solutions for the gemstone and diamond industries. This unique fusion of gemmology, actual cutting and trading experience and technology has been the catalyst for Sarine's sweeping changes in the global diamond industry, revolutionising the way diamonds are assessed, planned, manufactured, graded and sold. For over a generation, Sarine has developed breakthrough technologies and provided products and services that are used today in every aspect of the diamond value-chain encompassing mining, manufacturing, gem labs and wholesale and retail diamond and jewellery sales.

## GROUP STRUCTURE

With our headquarters in Hod Hasharon Israel, below is Sarine's structure as of December 31, 2018:

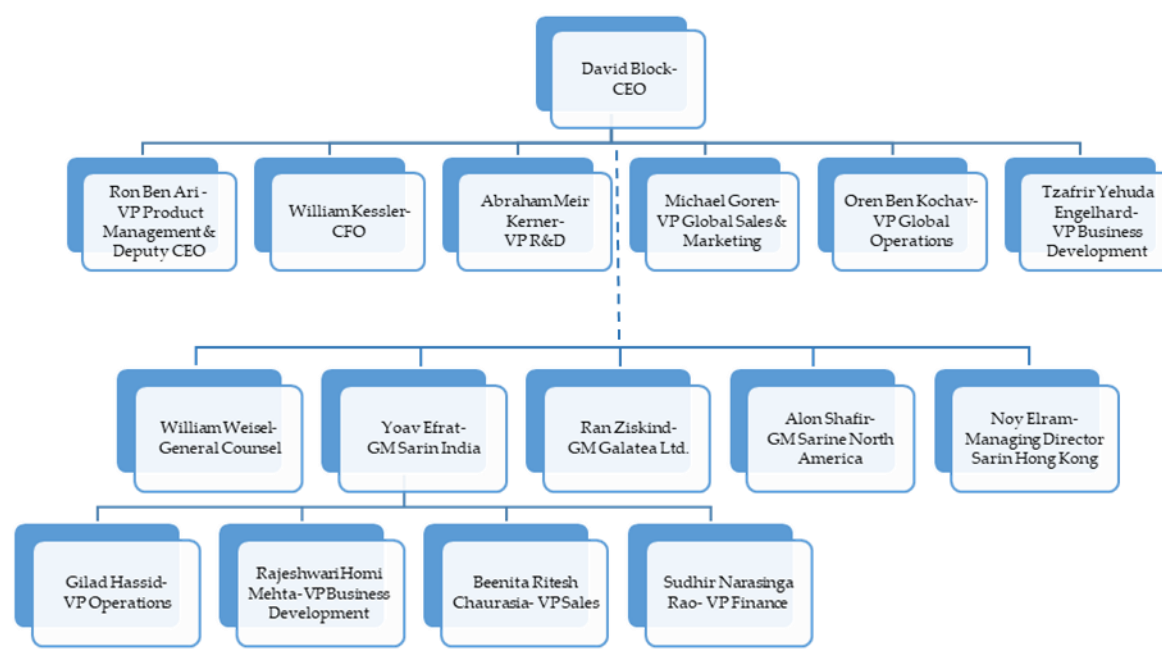


For further details regarding Sarine group entities and operations, we invite readers to see our 2018 Annual Report- Group Structure, page 32.



## KEY MANAGEMENT

Below is a diagram of Sarine Group's key management as of December 31<sup>st</sup> 2018.



Further information about key management and remuneration is detailed in the "Corporate Governance" section of the 2018 Annual Report.

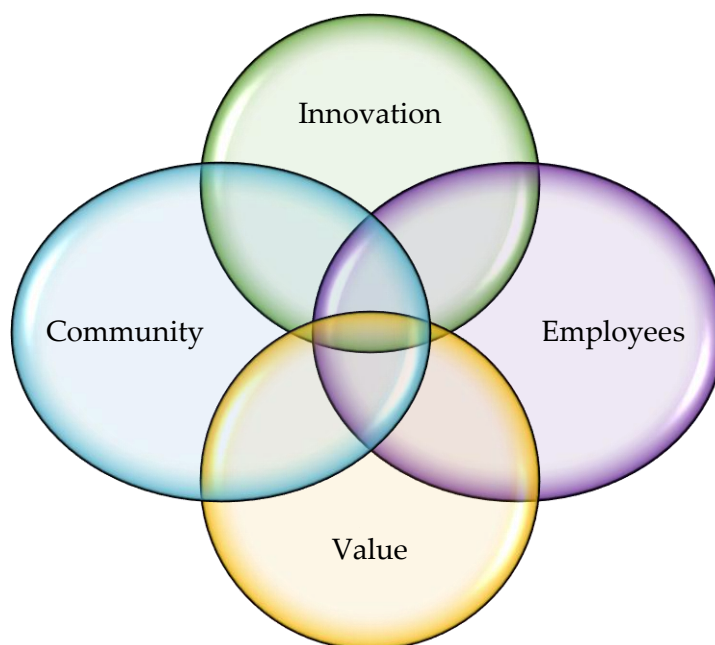
\*As of 1 August 2018, Mr. Michael Goren has been appointed as the Sarine Group's VP of Sales and Marketing and has relocated to headquarters in Israel, having been replaced by Mr. Noy Elram as Managing Director of Sarin Hong Kong.

\*As at 31 December 2018, the percentage of senior management hired from the local community is as follows: 100% in Israel and 75% in India.



## OUR VISION

Sarine's company vision is aligned with our sustainability efforts and strives to bring success through long term sustainable growth.



- 1. Innovation** — Most diamonds, at different stages of their processing, are touched by our innovative technologies. Sarine sees its mission as participating in setting the industry standards, optimising the utilisation of rough diamond material, enhancing the beauty and value of polished diamonds and providing confidence building 21st century solutions for polished diamond grading and trade, to benefit our customers and the public. We are committed to leadership through an ongoing passion for innovation and excellence.
- 2. Employees** — We view our employees as the major contributor to our success. We strive to nurture our employees and provide them with a supportive working environment that will motivate them to excel individually and as a team. We enable our employees to share in the Company's success.
- 3. Value** — We endeavour to generate and maintain long term revenue and profit growth that will increase the Sarine Group's value.
- 4. Community** — We are involved in and contribute to the communities in which we operate.

These four key values are the basis of our sustainability efforts as is discussed throughout this report. Sarine's vision served as the basis for our Materiality Analysis reflected herein as described in the next chapter.



## MATERIALITY ANALYSIS

For the purpose of our sustainability activities Sarine conducted a systematic assessment of issues material to our business and operations. Our aim was to identify the sustainability issues material to our business and stakeholders. These issues are those we consider to be relevant to our communities, the economy and the environment. We have taken into account issues that we believe our stakeholders would consider to be most relevant, such as:

- sustainability practices and processes throughout our organisation;
- regulatory requirements;
- sector comparables;
- our industry partnerships; and
- the diamond trade in general.

The outcome of this assessment enabled us to define the report's content in alignment with the GRI Sustainability Reporting Standards (GRI-SRS). As we further develop our dialogue with our stakeholders in the coming years, Sarine will conduct an annual review to re-assess and re-validate these issues for materiality.

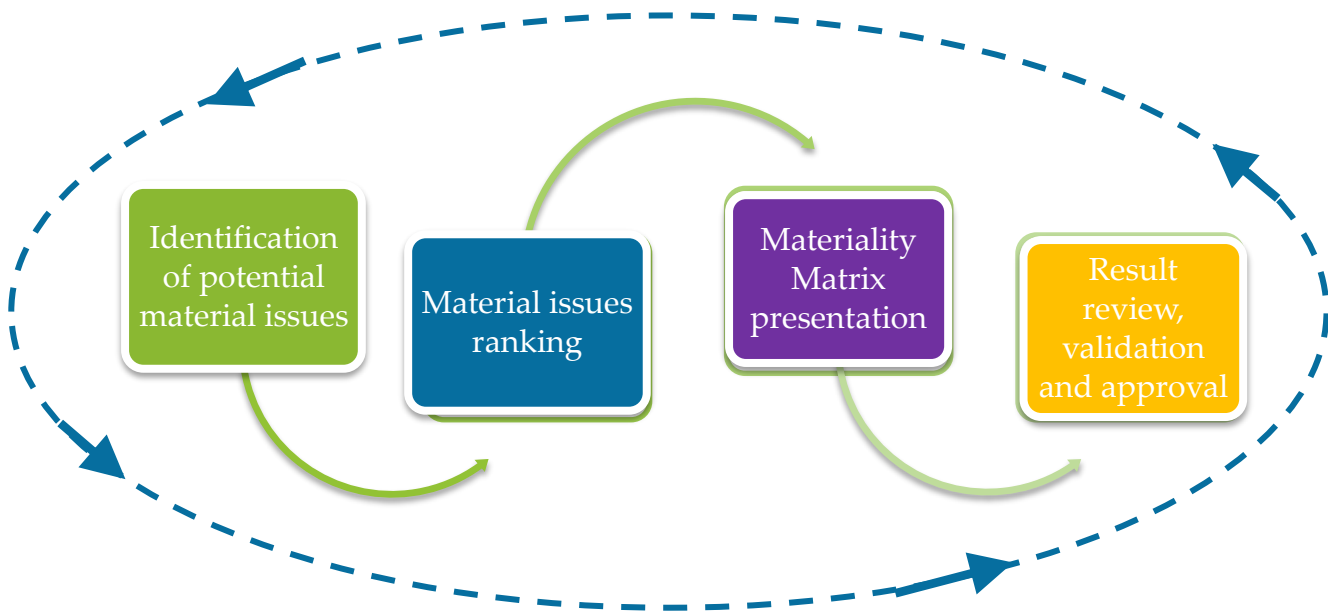
No material issues previously reported in Sarine's 2017 sustainability report were found to require changes for this year's report.



## THE PROCESS

As detailed at length in our first sustainability report, our materiality analysis was conducted by key management using a methodological four-step process. Each step was conducted in accordance with the uniqueness of Sarine's business and its environment. Further review, evaluation and approval were executed in consultation with our Board of Directors.

Below is a presentation of the four steps we conducted:



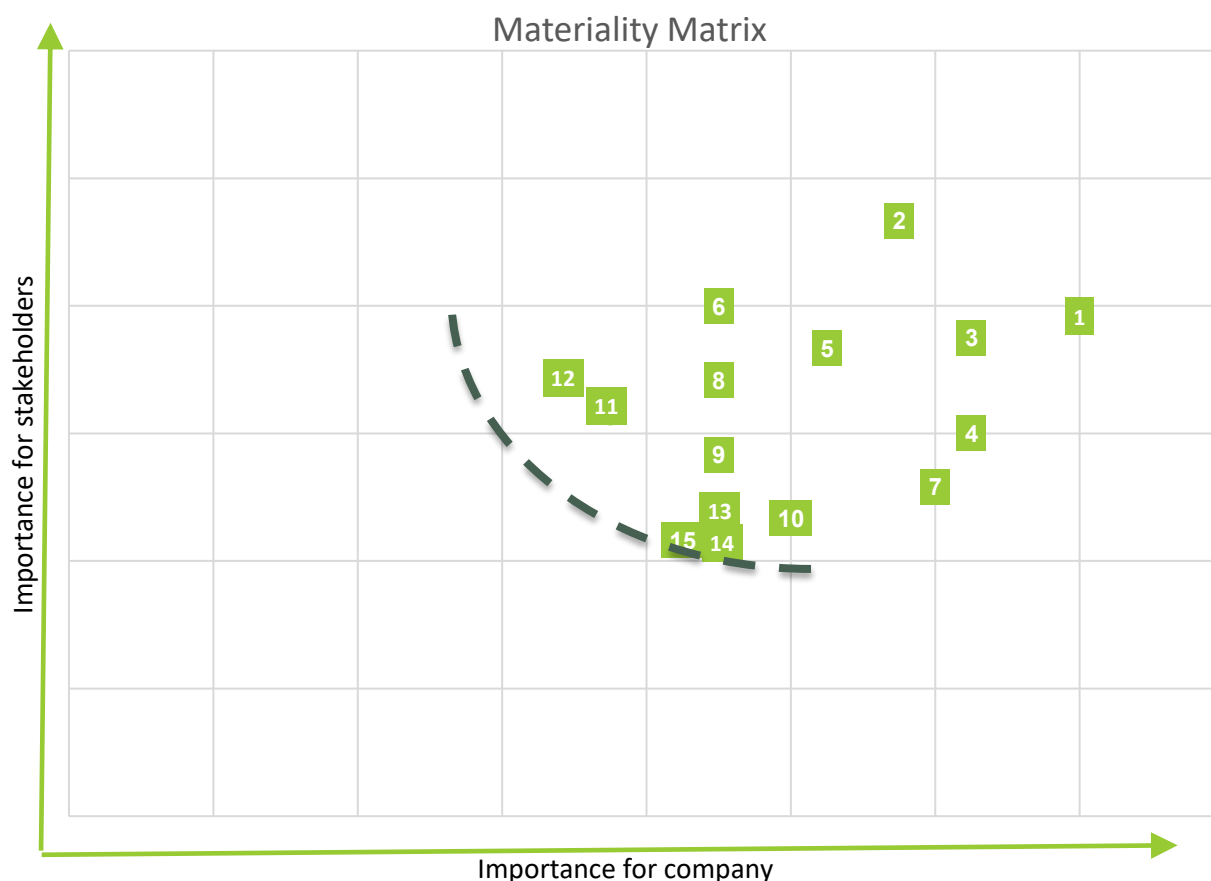
For further information regarding our four-step materiality analysis, please see our 2017 sustainability report pages 12-13.

The results of the materiality analysis will be used as a basis for future activities and procedures that will be put in place. We will continue to evaluate our material issues while taking into consideration global developments.



## MATERIAL ISSUES

The material issues identified in this matrix below form the basis of the Company's sustainability activities, targets and this report.



	Material Issues	GRI Standard Topic	Pages
1	Cyber and Data Security	Customer Privacy	24-25, 36
2	Product and Process Innovation	Customer Health and Safety Marketing and Labelling	32
3	Intellectual Property	Governance, Ethics and Integrity	21-24
4	Customer Trust and Reputation	Customer Health and Safety Marketing and Labelling Customer Privacy	32-35
5	External Market Impact on The Company	Economic Performance Market Presence	25-26
6	Business Ethics and Governance	Anti-Corruption Anti-Competitive	21-23
7	Economic Performance	Economic Performance	25
8	Product Quality Management	Customer Health and Safety	34-36
9	Recruitment and Retention of Skilled Employees	Employment Market Presence	27-31
10	New Business Development, Challenges and Opportunities	Indirect Economic Impacts	26, 32
11	Lifecycle Impacts of Products and Services	Customer Health and Safety Marketing and Labelling	31-36
12	Risk Management	Governance	19-20



13	External Economic Impact from Company Activities	Indirect Economic Impacts	26
14	Employees Compensation and Benefits	Employment Market Presence	5, 27-31
15	Customer Health and Safety	Customer Health and Safety Marketing and Labelling Customer Privacy	34-36

After completing the materiality matrix, due to their importance to sustainability issues, we included in our reporting specific references to community relations and environmental footprint. These issues were addressed in the report, although they were not found to be material.

## TRANSPARENCY AND STAKEHOLDER DIALOGUE

As a leading company in its sphere of operations, Sarine has a wide range of stakeholders that include investors, employees, business partners (e.g. suppliers and distributors) and customers, as well as consumers and governmental authorities.

Although many of the topics pertaining to sustainability are global by nature, each category of stakeholder is characterised by its specific interests relating to Sarine. The Company recognises the importance of its stakeholders and their interests, and therefore, we invest significant resources to maintain transparent and open communication with them.

Below is a list of methods and the frequency in which we communicate with our stakeholders:



## Investors

- Immediate publication of any material news relating to our business on the SGX network (SGXNet).
- Company publication of quarterly financial reports on the SGX network
- Publication on our website and on the SGX network (SGXNet) of information related to investor relations
- Regularly scheduled trips to Singapore for meetings with investors
- Ongoing communications with investors who have queries concerning various aspects of the Company
- Company publication of an Annual Report
- Holding of Annual General and Extraordinary Meetings of Shareholders

## Employees

- Open door policy for employees with frank employee dialogue
- Recreational and wellness activities
- Career development and annual performance reviews
- Anonymous complaints box and upkeep for our employees' working environment

## Business Partners

(Suppliers, Vendors, Sales Partners, etc.)

- Ongoing regular dialogue with key vendors and suppliers, including meetings with suppliers
- Continuing relationship and ongoing communication with authorised sales representatives worldwide

## Customers

(Manufacturers, Retailers, Wholesalers, Laboratories, etc.)

- Conducting customer satisfaction surveys
- Keeping an open customer service platform
- Advertisements
- Marketing and sales promotion activities
- Participation in key trade shows in our various markets
- Regular communication with customers

## Local Communities

- Charitable and donation activities
- Taking part in community projects and charity work
- Open feedback channels for the communities in which we operate

## Government

- Regular communication with governmental authorities
- Meeting mandatory reporting and compliance requirements



## United Nations Sustainability Development Goals (SDGs)

Sarine recognises the SDGs and understands the impact they are making on a global scale. With operations in various countries, we realise our activities might have impact on multiple goals. We plan on taking the SDGs into consideration and adjust our sustainability performance in the future as we continue to develop our sustainability strategy.



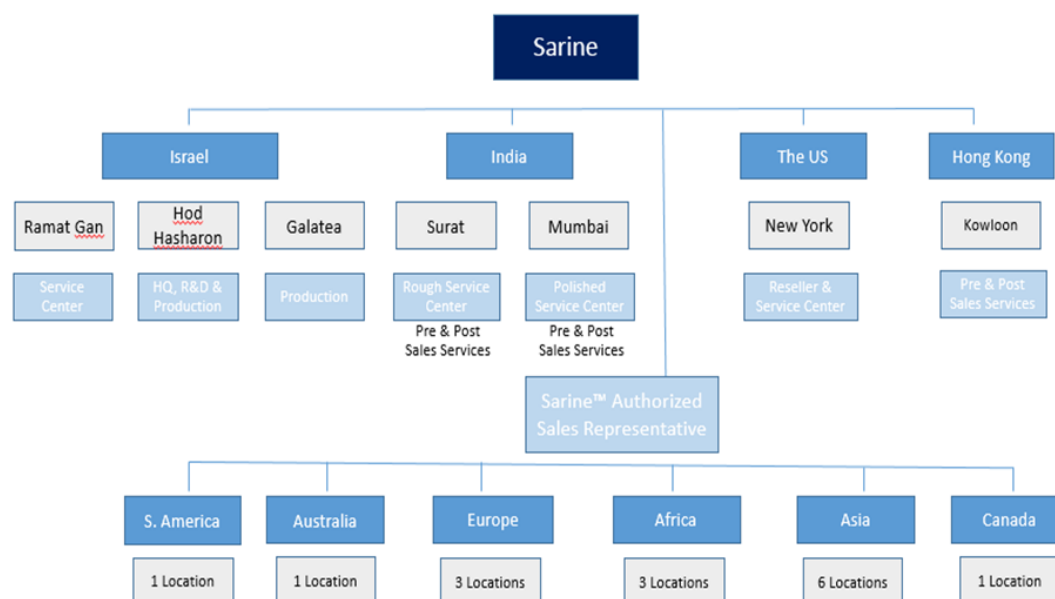
### SARINE AT A GLANCE

No significant changes to the organisation were conducted throughout 2018 in regards to group structure, ownership, supply chain, locations or operations. As detailed in our Business Line chapter, Sarine opened its first AI Technology Laboratories in Ramat Gan, Israel and in Mumbai, India for 4C's diamond grading. All other relevant changes in regards to employee base, financial performance and sustainability figures are detailed elsewhere throughout the report. A full detail of our financial changes can be found in our 2018 Annual Report.



## OUR NUMBERS

### Description of Operations:



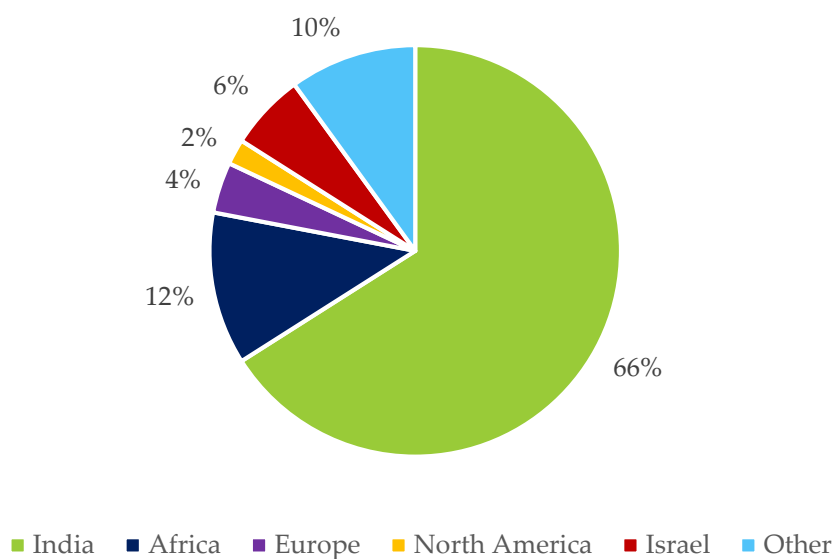
### Revenue and Gross Profit:

*For the year ended 31 December 2017 and 2018*

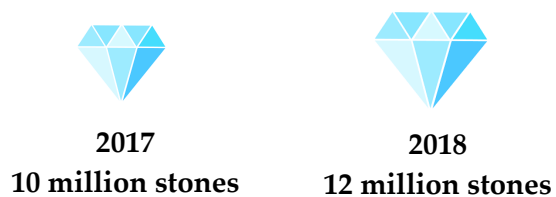
	2018	2017
	US\$ thousands	
<b>Revenues</b>	58,504	58,644
<b>Gross Profit</b>	38,568	39,346



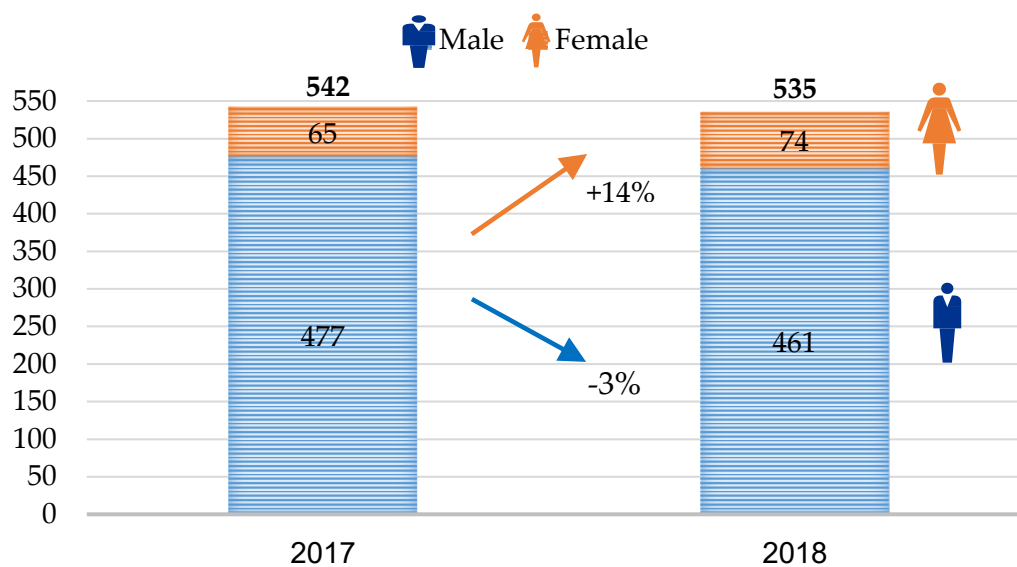
### Revenue by Geographic Segment



Over 12 million stones were scanned through Sarine's inclusion mapping products worldwide in 2018, surpassing last year's record by 20%.



### Total Number Of Employees By Gender





## OUR VALUES

Our Core Values have guided and shaped our company over the years. We stand by these values every day and endeavour to implement them in our work and our relationships with our colleagues, customers and suppliers.



### **Innovation and Creativity**

We consistently strive to be at the forefront of technology and creativity, to produce cutting edge products and solutions with the highest standards of quality and workmanship.



### **Teamwork**

We share ideas, and support and respect each other, with a strong team ethos and a commitment to common goals.



### **Customer Orientation**

We believe that things should be made simple, but not simplistic. We produce technologically advanced products and solutions which are customer-oriented.



### **Honesty and Fairness**

We are honest and fair in our work and in our treatment of employees, suppliers and customers.



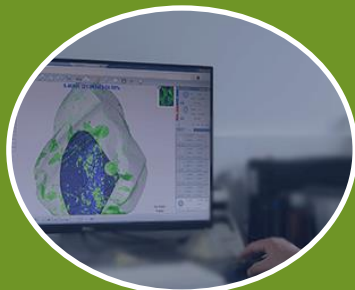
### **Commitment and Integrity**

We are committed to our stakeholders' continuous satisfaction and provide worldwide support to ensure optimal usage of our products.



## BUSINESS

Sarine's business can be primarily categorised in three separate market segments of the diamond industry:



### Rough Stone Polishing (The "Midstream")

Sarine has revolutionised this segment of the industry, by introducing computer-based technologies to automate internal inspection, planning, sawing/cutting, shaping, polishing (faceting), and fine polishing in order to turn diamonds into retail-ready polished gems.



### Polished Diamond Trade (The "Downstream")

A strategic decision taken in 2010 was to expand our product and service offerings into the wholesale and retail trade of polished diamonds, referred to as the "downstream".



### Diamond Grading

Starting in 2018, Sarine now offers comprehensive polished diamond 4Cs grading (Carat, Cut, Colour, and Clarity), utilising artificial-intelligence (AI) based technology.

During 2018, Sarine opened its first Sarine Technology Laboratories in Ramat Gan, Israel, and in Mumbai, India, utilising Sarine's breakthrough artificial intelligence based technological solutions for the automated, consistent and objective grading of a polished diamond's Clarity and Color.

Further information about the Sarine Group's products is detailed in the "Management's Business, Operation & Financial Review" section of the 2018 Annual Report, page 21-29.



## CORPORATE GOVERNANCE

Sarine is committed to practicing proper corporate governance. This commitment includes the oversight of various aspects of our business such as company strategy, fiscal accountability, ethical corporate behaviour, sustainability and fairness to our stakeholders.

We recognise and place strong emphasis on our corporate responsibility to our stakeholders and are committed to managing our business in ways that lead to sustainable growth, while balancing current needs with those of the future. We are committed to doing this by fulfilling all regulatory and moral dictates and adopting all relevant guidelines.

Sarine is incorporated in Israel. Therefore, we comply with various corporate governance requirements under the Israeli Companies Law, 1999. Furthermore, the Company has adopted, and will continue to adopt as necessary, voluntary rules to ensure transparency towards all our stakeholders, as well as enforcement procedures that ensures strict compliance with both the law and internal control processes. We have internal controls, legal advisors, internal and external auditors and we consult with independent experts to evaluate economic, social and environmental issues to ensure compliance.

To read more about the ongoing measures taken by the Board of Directors, please see the Corporate Governance section in our 2018 Annual Report.

### **Targets and Goals for 2019**

- We are set to formalise a code of conduct and anti-corruption policy.

## SUSTAINABILITY MANAGEMENT

Sarine is aware of the ongoing need to properly address and manage sustainability issues in our business. Therefore, the Company's Board of Directors appointed our CEO, CFO and General Counsel to manage our strategy for all sustainability matters, and they report periodically to the Board of Directors on these issues. We have developed procedures, targets and goals and plan on continuing our efforts to properly manage our sustainability efforts.

Our sustainability reports together with our materiality analysis are led by our appointed sustainability management individuals and have been reviewed and authorised by the board accordingly.

## RISK MANAGEMENT

Sarine has conducted an organisational enterprise risk management activity that addresses strategic, financial and operational risks. This risk management system relates to strategic, operational, statutory and economic risks in all aspects of the organisation's operations, including potential impacts from the Company's activities. Through this structured process which identifies risks and opportunities, Sarine applies precautionary principles to relevant



sustainability issues. We continually evaluate our risk management procedures and are in the process of conducting updates in order to reflect our evolving business.

## BOARD OF DIRECTORS

As of December 31, 2018, the Board of Directors of the Company (the “Board”) comprises seven directors, the majority of who are independent (two of those directors, namely Ms. Valerie Ong Choo Lin and Mr. Yehezkel Pinhas Blum also qualify as “External Directors” under Israeli law). Thus the Board is able to exercise independent and objective judgment, and no individual or small group of individuals can dominate the decisions of the Board.

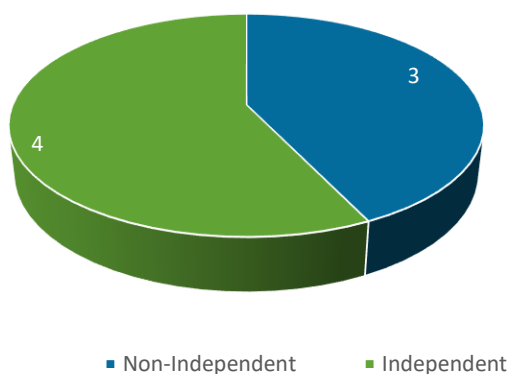
Mr. Daniel Benjamin Glinert is Sarine’s Executive Director and Chairman of the Board.  
Mr. Chan Kam Loon is the Lead Independent Director.

Further key information about our directors and remuneration is detailed in the “Board of Directors” and “Corporate Governance” sections of the 2018 Annual Report.

The breakdown of our directors holding office as of the date of this report are:

Men	Women
5	2

Director Breakdown



The Board meets regularly, and in any event no less frequently than five times each calendar year. The Board members have been instructed and undergo periodic training with regard to their roles, responsibilities, powers and duties. Such orientation includes dissemination of written materials prepared by the Company and its counsels, periodic updates with regard to legal and corporate governance developments affecting the Board and the directors, and personal communication with the Company Secretary and ongoing discussions at Board meetings.



Details of the Board committees and number of meetings held, are shown below:

Board of Directors	Audit Committee	Remuneration Committee	Nominating Committee
5 Meetings	5 Meetings	2 Meetings	1 Meeting

The Board members are informed periodically (either at Board meetings or otherwise) of any developments and updates concerning their powers and duties under applicable laws. Directors also consult with the Company Secretary and Company's General Counsel on an ongoing basis with regard to the performance of their duties.

The Non-Executive Directors actively participate in developing strategy and in reviewing the performance of the Company.

The Independent Directors may meet outside the presence of the Executive Directors and/or Company management to the extent necessary or advisable.

The Board is involved and oversees the sustainability activities as described in this report including sustainability strategy, annual review and approval of the materiality analysis process and Board sustainability statement, and it provides comments to and approval of our sustainability report.

Relevant market and company developments pertaining to sustainability issues are shared with Board members and, based upon the materiality of the matter, discussed in board meetings.

Further key information about the Directors, including compensation details is detailed in the "Board of Directors" and "Corporate Governance" sections of the 2018 Annual Report.

## BUSINESS CULTURE

Sarine's corporate culture rests on our core values that include innovation, integrity in conducting our business honestly and fairly, commitment to our customers and Teamwork in all markets in which the Sarine Group operates.

These values, together with the Company's commitment to comply with all laws, regulations, compliance programs and procedures, are vital for our sustainable growth and success.

As a responsible member of the modern business environment, Sarine maintains a Code of Ethics in order to guarantee that we create and maintain appropriate relationships with our business partners, customers and employees, based on all relevant legal statutes, mutual respect, fair play, transparency and sustainable long-term business practises.



## CODE OF ETHICS

Sarine's Code of Ethics is authorised by the Board, and is implemented in our orientation process for new employees. When necessary, we conduct formal follow-up training on these matters. Below, are the key tenets of our Code of Ethics on which we base the execution of our business:

- ❖ We treat our business partners, customers and employees with fairness and dignity.
- ❖ To the best of our ability, we create a safe and protective work environment for our employees, and we offer our customers safe products, with which to similarly create a safe work environment for their employees.
- ❖ In order to ensure operator safety, our products and services undergo strict inspections, which are constantly revisited by our own engineers and by third-party experts. Operating instructions and/or training are provided, as applicable, with regard to the proper and safe use of our products and, where necessary, built-in safeguards are provided to prevent inadvertent unsafe operation.
- ❖ Wherever applicable, we ourselves employ, and we instruct our customers as to how to similarly take, all necessary measures for the safe and environmentally friendly use and disposal of even marginally hazardous materials, as per directions from appropriately authorised expert consultants.
- ❖ We believe our business does not impact the ecological balance of our environment and does not have any influence on the sustainability of the industry or the human/natural fabric in which we operate.

Additional aspects of our code of ethics relating to Sarine group approach to our employees, can be seen in the "Our People" chapter.

## PROFESSIONAL AND INDUSTRY-RELATED INVOLVEMENT

As of 2018, we are members of or have an ongoing discourse with a number of industry associations, such as:

- Israel Emerald Cutters Association
- ASEAN Committee of the Singapore International Chamber of Commerce
- India's Gem Jewellery Export Promotion Council
- Jewellers Vigilance Committee
- American Gem Society (AGS)
- Jewellers of America
- Shenzhen Rough Diamond Exchange (SRDE)
- Guangzhou Diamond Exchange



- Responsible Jewellery Council
- The Belt and Road Jewellery Extended Fashion Industry Alliance

## **PREVENTING BRIBERY, CORRUPTION AND FRAUD**

Diamonds possess a number of characteristics which make them vulnerable to corruption, fraud and bribery such as:

- High Value
- Low weight/mass and small size
- High durability with stable pricing and an ability to retain value over long periods of time
- Ability to go undetected (non-metallic and odourless)
- Untraceable and unmarked
- Easily bought and sold outside the formal banking system

Due to these characteristics, Sarine is committed to running its business with integrity, fairness, reliability, and professionalism. We maintain a zero tolerance approach to all forms of corruption including bribery, conflicts of interest, theft, extortion, embezzlement, fraud and misuse of company assets. Consequently, Sarine has effective controls in place at every stage of its business.

No claims or allegations of corruptive practices or actions arose against any member of the Sarine Group or its employees during 2018.

Measures to prevent corruption within its organisation have been put in place, such as;

- The policy that all payments are conducted through traceable transactions. Cash payments are strictly prohibited in this regard.
- We have a formal whistle blower policy that encourages employees and business partners to report on any illegal, improper or unfair practices that they encounter in their dealings with Sarine.

No fines or non-monetary sanctions were imposed on the Sarine Group in 2018 in relation to non-compliance with anti-corruption legislation and regulations.

## **LEGAL, ANTI-COMPETITIVE ACTIONS, AND INTELLECTUAL PROPERTY INFRINGEMENT**

The Sarine Group maintains a zero tolerance policy towards the infringement of our intellectual property. We take proactive and aggressive actions aimed at protecting such rights, including taking legal action against those who are engaged in the offering and/or use of infringing products and services or any other fraudulent use of our technologies.



As a leading technology company in our field, Sarine invests substantial resources to maintain such leadership and to patent, copyright, trademark and otherwise protect our proprietary assets. Nonetheless, Sarine is exposed to ongoing attempts to steal and otherwise misappropriate its technology and products and to violations of our intellectual property rights.

Most illicit IP infringements continue to be centred on our industry-leading inclusion mapping and rough planning systems.

Examples of such activity in 2018 were as follows:

- a) Sarine and Galatea continued to aggressively prosecute their lawsuits in India against an Indian company who is manufacturing, selling and providing services with a duplicate of Galatea's Galaxy® products, and who has infringed Sarine's Advisor® software. We are requesting the courts to order that such company be prohibited from utilising Sarine and Galatea technology and to award substantial damages for such violations. The cases are ongoing.
- b) While auditing various customers' usage of its Galaxy® systems, Galatea found significant contractual discrepancies with certain customers' usage. Galatea issued cease and desist letters to a number of customers demanding that such breaching activities be halted and that appropriate compensation be tendered. After being confronted, the customers admitted to the behaviour and thus far those matters have been resolved. Such auditing and enforcement activities continue on an ongoing basis.
- c) Very importantly, major U.S. retailers have gone on record publicly that they will not tolerate IP infringement in their supply chain.

### **Targets and Goals for 2019**

- Increase our patent and trade mark portfolio including on Color, Clarity, Tension, Journey and Fingerprinting

To read more about the ongoing efforts taken by us, please see our 2018 Annual Report Management's Business Operation and Financial Review.

## **DATA SECURITY AND CYBER**

Sarine protects its data and systems with the highest levels of security. As a leading technology company in our market, we continuously verify our information is secure. We invest extensively in cyber security and in creating our own proprietary in-house cyber protection. This creates a higher level of defence than that provided by using off-the-shelf commercially available protection, which is targeted per se by professional hackers.

We have taken a number of additional actions throughout 2018 in order to uphold the necessary level of security of our systems, such as:



- Enhancing our email protection system to continue the ongoing efforts Sarine takes against email based piracy such as phishing attempts, viruses, etc.
- We have improved our backup systems to increase Sarine's ability to bounce back and secure its data in the case of a system failure.
- We have upgraded our server operating systems to increase data security and keep our systems at the highest level of security, in line with continuous ongoing threats.
- We have implemented an audit system for our sensitive information directories, and exercise an ongoing evaluation processes by internal and external parties.

<u>2018 Targets and Goals Status</u>	
<u>Target/Goal</u>	<u>Status</u>
• We intended to further enhance and improve our Advisor® and Galaxy® product security on the cloud.	Completed
• We intended to establish distributed denial of service (DDoS) prevention on our Galaxy Products.	Completed
• We intended to restrict access to sensitive code internally in our source control system to only authorised personnel and to compartmentalise same according to work teams.	Completed

#### Targets and Goals for 2019

- Create and publish an internal permission policy for employee access to documents
- Create DDOS prevention on rough planning products
- Adding yet further security layers to Advisor and Galaxy products

### ECONOMIC PERFORMANCE

		2017	2018
		<i>US\$ thousands</i>	
<b>Direct economic value generated</b>	<b>Revenues</b>	58,644	58,504
<b>Economic value distributed</b>	<b>Operating expenses*</b>	30,138	28,754
	<b>Income tax expense</b>	3,669	2,547
	<b>Dividends paid</b>	15,797	12,281
<b>Economic value retained</b>		9,040	14,922

\* Includes research and development, sales and marketing and general and administrative expenses (including wages and benefits and other direct and indirect costs).

The Sarine Group is in compliance with all relevant taxation rules and regulations. As detailed in the annual report, the Company's basic export-oriented tax rate is a preferential 12%. Our



key subsidiary, Galatea Ltd., pays 7.5%, being also in a national preferred development zone. Sarine does not receive any additional financial assistance from the government.

<u>2018-19 Targets and Goals Status</u>	
<u>Target/Goal</u>	<u>Status</u>
<ul style="list-style-type: none"> <li>• Increase recurring revenue and profitability by honing competitive edge (against piracy) and increasing Galaxy® penetration and usage in industry midstream (manufacturing).</li> </ul>	Ongoing
<ul style="list-style-type: none"> <li>• Increase recurring revenue and profitability by increasing penetration and adoption of revolutionary services (AI-derived technology based 4Cs grading and provenance tracing (Journey™) for industry retail downstream (Trade).</li> </ul>	Ongoing

For further information about our economic performance, please see pages 49-88 in our Annual Report.

## ECONOMIC IMPACT

As a leading developer of technologies for the diamond industry, we strive to develop and improve efficiency and productivity in the sector. Over the years, Sarine has managed to revolutionise the diamond polishing/manufacturing industry. We introduced various reliable, efficient, yield-increasing, cost/risk-reducing and time-saving technologies.

The costs of rough diamonds are high and are paid for upon receipt. Yet it typically takes six to twelve months to sell the polished output, often on credit terms. The cost of financing this cycle, along with all the other complexities of the process, and the errors and accidents incurred along the way, drive polishers' margins to normally be low. Hence, any yield increases, cost savings or cycle shortening benefits are critical and have significant impact on the manufacturers' profits.

The global diamond industry has adopted our innovative technologies, many of which have become de-facto industry standards improving the optimally achieved yield of the polished stone(s) weight over time by over 25%.

Our introduction of technology to the industry also contributed to the migration of manufacturing from historic diamond polishing centres in developed countries (e.g., Belgium, Holland, Israel and the United States) to lower cost centres (such as India, South Africa, China and others). Today, the diamond industry midstream is concentrated in India.



## OUR PEOPLE

Our people are our greatest asset and are at the heart of everything we do. We believe and pursue continuous investment in and development of our personnel, so that they can realise their full potential and help the organisation achieve the highest levels of excellence.

Sarine's employees' nurturing is a major priority for the Sarine Group. Sarine encourages and promotes improvements in various fields involving our human resources including: talent attraction and retention, work environment, equal opportunity and health and safety in the workplace.

This commitment has been reflected in our code of ethics, which has been previously addressed in our business culture chapter. Additional commitments stated in the code of ethics regarding our human resources are stated as follows;

- ❖ Our human resources policies protect the rights and interests of the Group's employees, as dictated by all applicable laws in all the jurisdictions in which we have an established presence. Moreover, we go beyond statutory requirements to ensure a beneficial employment environment for our employees. In India, for example, the Group's Indian subsidiary actively ensures that all its employees and their immediate families receive an annual expanded medical checkup, on the company's premises and at its expense, in lieu of working time, with a view to promote their healthcare.
- ❖ We maintain strict policies with regard to equality in the workplace, regardless of sex, age, religion, ethnicity, disability or other personal traits or beliefs, including the strict and swift treatment of any sexual harassment incidents, so as to provide a fair, safe and amicable workplace.
  - We actively seek to employ individuals living with various disabilities in order to promote equal opportunity in the workplace.
  - We strive to offer our employees engaging career paths, advancing them professionally with appropriate training.
  - We maintain open communication lines between all our employees and the various levels of management, encouraging our employees to comment on, improve, and critique the Company's activities. We have put in place a formal whistleblower policy, encouraging employees and business partners to report on any illegal, improper or unfair practices they may encounter in their dealings with Sarine.
  - We reward our employees for their contribution to the Group's success, either with cash bonuses, grants of stock options or otherwise.
  - The Group organises multiple annual sports and leisure activities for the employees and their families, so as to enhance the team spirit of our employees and reward them for their performance.



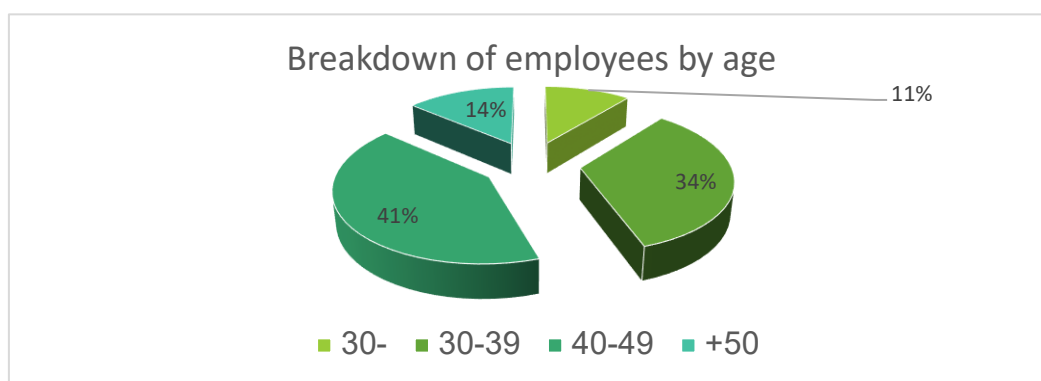
Sarine's employees are all employed under personal employment agreements. No employees are under collective bargaining agreements.

Over 99% of our employees are full-time. Several employees are employed on a part-time basis, including university students. All significant activity of the Company is either conducted by or supervised by employees who are directly employed by the Group.

99% of our company employees are hired with salary agreements above minimum wage compensation. Out of all 535 employees, only six “office assistance employees” in Sarin India, are compensated with minimum wage. These six employees are paid according to the applicable minimum wage laws.

**Breakdown of employees per company:**

	Male	Female	Total
Israel	118	43	161
USA & Hong Kong	10	4	14
India	333	27	360
Total	461	74	535



**Breakdown of employee turnover by region and gender for 2018:**

	Employees Added		Employees Subtracted	
	Male	Female	Male	Female
Israel	13	10	24	10
USA & Hong Kong	2	1	4	2
India	57	16	57	9
Total	72	27	85	21

In a country in which only a quarter of the women participate in the workforce, and in an industry in which women make up only 10% of diamond technologists, Sarin India is proud that 50% of our senior management is female.



We at Sarine strive to recruit our senior management from our local communities. Over 75% of senior key management in Sarin India are from local communities. These employees are fully part of the Company's senior management and are vital to the Company's success.

Senior management relates to the key management personnel stated in the diagram in our 'Key Management' chapter while 'local' refers to employees whose origin is from the local entity. Sarine's significant locations of operations are in Israel and India.

<u>2018-19 Targets and Goals Status</u>	
<u>Target/Goal</u>	<u>Status</u>
• Reduce the percentage of voluntary staff turnover.	Ongoing
• Increase the percentage of internal promotions and recruitments to managerial positions.	Ongoing
• Continue employee development with fair and competitive remuneration based on merit	Ongoing

## EMPLOYEE DEVELOPMENT

We believe that investing in our people and maintaining a skilled and passionate team is key to sustaining our competitive advantage, and it is our goal to provide quality jobs with meaningful work, and a supportive and healthy working environment.

Sarine focuses significant efforts on attracting the best professionals and providing them with unique experiences and the best work environments possible, with the aim of fostering their professional development. The Sarine Group strives to maintain a competitive advantage by strengthening its most important asset – our talented people.

Employees are sent for specialised training as needed. For our Israel employees, throughout 2018 over 28 employees, mainly from the R&D department, were sent for off-site professional courses and training sessions, such as Scrum Master and SDP courses. Furthermore, the R&D department conducts ongoing training through various cutting edge courses, including online courses.

We maintain open communication lines between all our employees and the various levels of management, encouraging our employees to comment on, improve and critique the Sarine Group's activities. Sarine holds various types of functions in order to encourage open communication, including: ongoing personal meetings of employees with the CEO throughout the year, departmental meetings, monthly company-wide gatherings for various occasions, and a general open-door approach to management of all levels.



## REWARDS AND BENEFITS

As employees are the key element to our success, Sarine treats the issues of rewards and benefits with reverence. We take into account various considerations to calculate employee compensation and benefits such as competition in the marketplace, the relative value of each individual's position to the company as well as among similar jobs, the performance of individual employees, and qualifications and relevant work experience.

The company reviews compensation and benefits programs regularly to ensure that we are on par with the market. The company believes in providing targeted incentives and rewards to employees that are consistent with their performance and contribution to business results. We have continuously granted share options to our employees. The Board of Directors has set guidelines concerning, among other things, eligibility to receive share options (based on performance and time of service with the Company), vesting periods (typically over three to four years from the date of grant) and the minimum and maximum amounts of share options to be granted (based on seniority and expertise). Executive Directors, senior officers and key employees are also granted performance-based options, to be vested over multiple years, based upon the achievement of business goals – as discussed in greater detail in the Company's Remuneration Policy appended to the Annual Report for 2018.

Further details with regard to the options granted by the Company are included in the "Directors Report" section of the Annual Report. Sarine employee benefit plans and pensions are reported in the 2018 Annual Report- Financial Statements, Note 20.

Sarine is in compliance with relevant pension laws contributing to our employee's pensions under applicable laws and country practice.

## WELFARE AND WELL-BEING

Sarine is committed to creating and sustaining a working environment supportive of work-life balance for all employees. The Company conducts various programs to foster and improve the welfare and well-being of our staff, to support the overall health of employees and to achieve work-life harmony. By so doing, a team of committed, productive and motivated employees is highly energised to realise our corporate vision, mission, values and culture.

Our human resources policies protect the rights and interests of the Sarine Group's employees, as dictated by, and often exceeding all applicable laws and regulations,

## MEDICAL CARE AND COVERAGE

Sarine provides a number of medical insurance options for employees such as supplemental private insurance for employees and their families in Israel (national medical coverage is universal) and medical insurance for employees in North America. Sarin India contributes towards statutory health insurance premiums for non-management employees (approximately 60% of employees).



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## WORKING MOTHERS

Sarine complies with all applicable legal mandates regarding maternity and parental leave as per country of operation. In 2018, five Sarine Group employees took maternity leave. Out of these five, two employees returned in 2018 and the remaining three employees plan to return in 2019. Three additional employees who went on parental leave in 2017 returned to work as well in 2018.

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## EMPLOYEE EQUALITY AND DIVERSITY

We support the employment of employees with various disabilities in order to promote equal opportunity in that regard. Sarine has two employees with disabilities and further supports others with disabled family members.

Sarine actively diversifies the workplace and promotes equal opportunity in employment which is a fundamental principle in the Sarine Group. We maintain strict policies with regard to equality in the workplace, regardless of sex, age, religion, ethnicity, disability or other personal traits or beliefs, as well as strict and swift treatment of any sexual harassment incidents, so as to provide a fair, safe and amicable workplace. All aspects of employment are based upon personal capabilities and qualifications without regard to gender, age, race or religion, as established by law.

To protect employees against sexual harassment or the abuse of power in the workplace, Sarine has implemented a prohibition against harassment in the entire group and established a Sexual Harassment Prevention Policy. Furthermore, the Company conducted training on the prevention of sexual harassment for company employees in 2018.

No complaints or legal accusations were made towards any Sarine Group employee in 2018 in relation to sexual harassment.

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## SOCIAL RESPONSIBILITY

Sarine sees great importance in giving back to the community. Key management and numerous employees are regularly involved in social activity planning and community actions. We continue our efforts and participation in local and national programs which support the disadvantaged and less privileged segments of our society.

In Israel during 2018, we continued our ongoing community activities including;

- Volunteer project to assist *Leket Israel*, the country's largest food bank and food rescue network;
- Participation in the collection of toys and other items for needy children and their families under the auspices of the Hod Hasharon municipality ;



- Enrolment in the Israel nationally-sponsored “Day of Good Deeds” where participants provide painting and maintenance services for needy citizens;
- The purchase by the company of employee holiday gift packages, the proceeds of which were donated to assist children with cancer;
- Sponsorship of a special Winter Olympics team, comprised of participants with disabilities, by way of providing them with suitable warm clothing;
- Purchasing of Hanukkah gift packages and the distribution of said packages at the children’s cardiology department in Tel Hashomer Hospital;
- Cooperation with Amal Sharonim high school for the establishment of a program consisting of lectures and workshops intended to promote active and proactive social involvement among the students.

To demonstrate our commitment to these important functions, Sarine underwrites these activities by permitting staff to participate at the expense of normal working hours.

In India, our most significant market, Sarin India has an active Corporate Social Responsibility (CSR) committee with 10 members. Sarin India’s CSR Committee is devoted to actively focus on different areas which can help students get a better education to make their future brighter. We have also adopted and implemented an active corporate social responsibility policy.

In 2018 we continued our ongoing program in *Lalita Chokadi* and *Katargam* localities, located in Surat, India’s diamond manufacturing centre, where we have ‘adopted’ two government primary schools serving over 3,950 children. This past year, Sarine participated in the upkeep and improvement of the schools by performing electrical work, replacement of ceilings fans, recruitment of a teacher in the field of computer science, purchasing of housekeeping materials, computer tables, chairs, file racks, seating benches and other items. In addition, the company was involved in distributing gifts to the students on Republic Day, providing school bags to top achieving students in grades 1–8, and providing printed birthday cards for all the students. Furthermore, the company painted two kindergarten classrooms with bright acrylic colours to make them colourful and cheerful.

Further details may be found in the Corporate Social Responsibility section of the Annual Report

## MARKETPLACE AND CUSTOMERS

Sarine is attentive to the needs of its customers. We manage this commitment through our operations and sales departments, which address the ongoing challenges of today’s diamond industry. Some of these challenges, we continued to face throughout 2018 include:

- **“Branding”** — a growing trend in retail to create differentiation between otherwise commoditised products. In the diamond industry, this is achieved by either introducing non-standard cuts or by otherwise creating a unique story around the offered stones, sometimes by tracing their origins from mine to the consumer (e.g., our



cooperation with the Canadian producer Dominion Diamond Mines, offering CanadaMark™ diamonds).

- The **“Experience”** — today’s internet-savvy consumers surf the Internet and query social media before buying, though actual sales are still predominantly in stores. By using sophisticated technologies, the retailer can create a more exciting experience both on their website and in their store.
- The **“Sale”** — what a retailer needs to do to actually conclude the sale of a specific stone (jewellery piece) at a specific price. Today, the branding and the experience, and the confidence inspired by these methods, are often no less important than the quality of the goods offered and their pricing.

As market needs change, whether due to social or environmental changes, or technological advances, Sarine must meet these new challenges and opportunities. We constantly search for opportunities throughout our product offerings across markets and the evolution of the products over their useful life cycles, so as to take the next step forward.

## PRODUCT AND PROCESS INNOVATION

Throughout 2018 we continued our focus on the market challenges we have been facing and responded to them by continuing our development of our new products that provide higher levels of transparency and quality. We are leading the next technological evolution with our Sarine Technology Lab, the first ever technology driven, automated, artificial intelligence-based diamond grading lab., Sarine labs provide the world’s most consistent, objective and reliable diamond grading information using an interactive digital paradigm (Sarine Profile™ reports) that is redefining the retail industry and the consumer experience.

Initially, Sarine Profile™ products enabled significantly more informative online searches, both B2B and B2C, with new levels of transparency and creating the confidence necessary to go forward to the next level in the buying experience. Now Sarine Profile™ products enhance the in-store buying experience by empowering the consumer to make a truly informed decision on the prospective diamonds, as each stone is shown with detailed information in a truly intuitive visual format.

With the addition of Sarine Connect™, retail chains can offer any stone from their entire inventory, regardless of its physical presence in the outlet or not, as well as create a virtual inventory by reaching back to suppliers’ inventories of stones and settings, subject to the necessary authorizations.



<b>2018 Targets and Goals Status</b>	
<b><u>Target/Goal</u></b>	<b><u>Status</u></b>
<ul style="list-style-type: none"> <li>Establish an innovation committee for rewarding innovation initiatives in Sarine.</li> </ul>	Completed
<ul style="list-style-type: none"> <li>25% of R&amp;D expenses will be dedicated towards new product research annually.</li> </ul>	Completed

### **Targets and Goals for 2019**

- Conducting a week in which all the R&D team breaks into groups to present a proof of concept/prototype of a new innovation.
- Participate in more than five events in which new technologies are presented.
- Review all new (2018-2019) patents in the gemstone field by selective keywords.

## **CREATING SHARED VALUE WITH CUSTOMERS**

A long-term approach to business has always been part of Sarine's DNA. We believe that the Company will be successful in the long term by creating value for both our shareholders and the industry as a whole. This approach, called Creating Shared Value (CSV), remains a fundamental guiding principle on how we do business. It enables us to express our purpose to our industry and to be a leading innovative force in our marketplace. Through ongoing shared value, we integrate sustainable development into business activities. This is increasingly important to long-term investors. Shared value brings business and society together by generating economic value in a way that also produces value for society.

With the goal of striving for excellent customer satisfaction, Sarine is working towards growth by creating new shared value for our clients. We provide innovative solutions which provide customers with the safety and peace of mind that comes with highly reliable products. Sarine strives to both meet current needs and resolve potential customer challenges.

In 2018, we increased value to our customers in a number of ways, such as:

- setting new standards in rough diamond planning accuracy, efficiency and yield by upgrading existing or new DiaExpert® platforms; and
- launching the Meteorite™ system for the cost-effective inclusion mapping of very small rough stones.

## **PRODUCT STEWARDSHIP AND LIFECYCLE**

To insure proper safety and usage of our products, we hold ourselves to high standards in regards to properly marking any relevant hazardous usage or elements, such as lasers. Furthermore, we go to great lengths to insure that all our customers receive guidance and assistance with the proper usage of the systems, thus ensuring the highest level of safety, value and stability for our products.



We consider the safety of our products from research and development through production and all the way to our customers' installation. We work continuously to ensure that our products pose no risk to people or the environment when they are used responsibly and in the manner intended.

Sarine products are marked to show the company's compliance with the EU directive WEEE. The WEEE directive applies to recycling products and components and provides that no electrical or electronic equipment may be discarded into a city's normal waste disposal system. Sarine accepts requests for assistance from end users on the proper and safe disposal of any of our products or their components or consumable materials. Further to our on-site training and detailed user manuals, customers are encouraged to request help from company technicians and support teams with discarding products.

All Sarine products meet European CE standards, and our initiatives go beyond legal requirements as we monitor the compliance of our guidelines and internal standards through regular audits and check-ups.

Sarine did not have any incidents of non-compliance with regulations resulting in a fine, penalty or warning in 2018.

## **CUSTOMER HEALTH AND SAFETY**

To meet the evolving needs of our customers and the market, Sarine continually seeks to enhance products, incorporating cutting-edge technologies. The company educates employees and clients about quality and safety, while continuously enhancing quality management activities. The aim is to provide customers with products that offer great value without endangering them.

Sarine goes through extensive measures to ensure that our products and services deliver the highest levels of quality and safety. The company believes that this commitment to quality and reliability is a key to sustainable growth.

Such measures taken include third-party safety assessments and audits regarding our products as part of their authorisation and initial production process. An example for such a safety assessment was conducted in 2018 through a customer satisfaction survey. The survey's goal was to identify potential hazards our machines might have to workers, customer property and the environment, including the potential hazard from the consumables utilised during processing. None of our machines were reported to have any discharge of Rutherfordium (RF) radiation in their usage throughout 2018.

Sarine supports laser safety training for all customer employees who work on or around any of our laser systems. We support the understanding of the bio-effects of lasers as well as the facts about laser radiation. Sarine-trained engineers are instructed to comply with all applicable safety requirements regarding the use of laser devices.



To the Company's knowledge there were no injuries to any of Sarine's customers or clients as a result of using our products and no legal actions or complaints were made in this regard throughout 2018.

<u>2018 Targets and Goals Status</u>	
<u>Target/Goal</u>	<u>Status</u>
<ul style="list-style-type: none"> <li>Determine the assignment of work safety department leaders.</li> </ul>	Completed
<ul style="list-style-type: none"> <li>Ensure that every machine installation includes maintenance and safety procedure training for customers.</li> </ul>	Partially Completed; Completed for Galaxy and Quazer machines; Ongoing for all other machines

### Targets and Goals for 2019

- Complete the process that every machine installation includes maintenance and safety procedures training for customers.
- Successful monthly visits by external consultants to evaluate Sarine's work safety procedures and evaluation of facilities \ working procedures

## CUSTOMER PRIVACY

Sarine takes the necessary precautions to protect all types of personal information of customers.

The company established a policy for the proper use of company systems including privacy issues and rules for the protection of personal information. In accordance with this policy, the Company established a system for protecting personal information and properly manages the personal information in our possession that includes procedures in the event a security breach takes place.

In 2018, there were a number of phishing and cyber hacking attempts, but no information was compromised or harm done.

Sarine successfully implemented the principles of the General Data Protection Regulation ("GDPR") standard aimed at protecting all European citizens from privacy and data breaches. Sarine also passed an audit process conducted in 2018 in order to comply with "GDPR".



## RESPONSIBLE SUPPLY CHAIN

Sarine is committed to being a responsible and innovative leader in the diamond industry. Our strategy is also underpinned by embracing responsible business practices across our operations and supply chain. Our entire supply chain consists of over 700 active suppliers with the majority of our operations and business conducted with about 50 of them.

We have developed over the years some long lasting relationships with our suppliers and take pride in our well-run supply chain. Our key suppliers are evaluated annually during which we also request their feedback in order to maintain the strength of our business relationships. Our purchasing terms and conditions require suppliers to commit to all necessary regulatory requirements and make sure that all products provided are of the necessary standards.

## ENVIRONMENTAL RESPONSIBILITY

Sarine aims to be a responsible company that has little or no material negative impact on the environment by complying with industry-wide standards. We operate with a clear commitment to ongoing compliance with corporate standards, applicable laws and regulations.

We believe our business does not significantly impact the ecological balance of our environment and does not have any material influence on the sustainability of the industry or the human/natural fabric in which we operate.

We are pleased to report on a reduction in our environmental metrics. This includes a decrease in energy used, fuel usage and CO<sub>2</sub> emissions as a result.

## ENERGY

As part of our efforts to improve our performance and measure our environmental impact, we measure energy consumed in our activities and are pleased to report that for 2018, we have lowered our energy consumption.

The Sarine Group's total electricity consumption in 2018 was approximately 2,108 MWh, approximately 600 MWh lower than in 2017 and an overall 22% reduction in consumption. This includes all Sarine facilities in Israel, India and the US<sup>1</sup>. Sarine did not sell any energy during 2018.

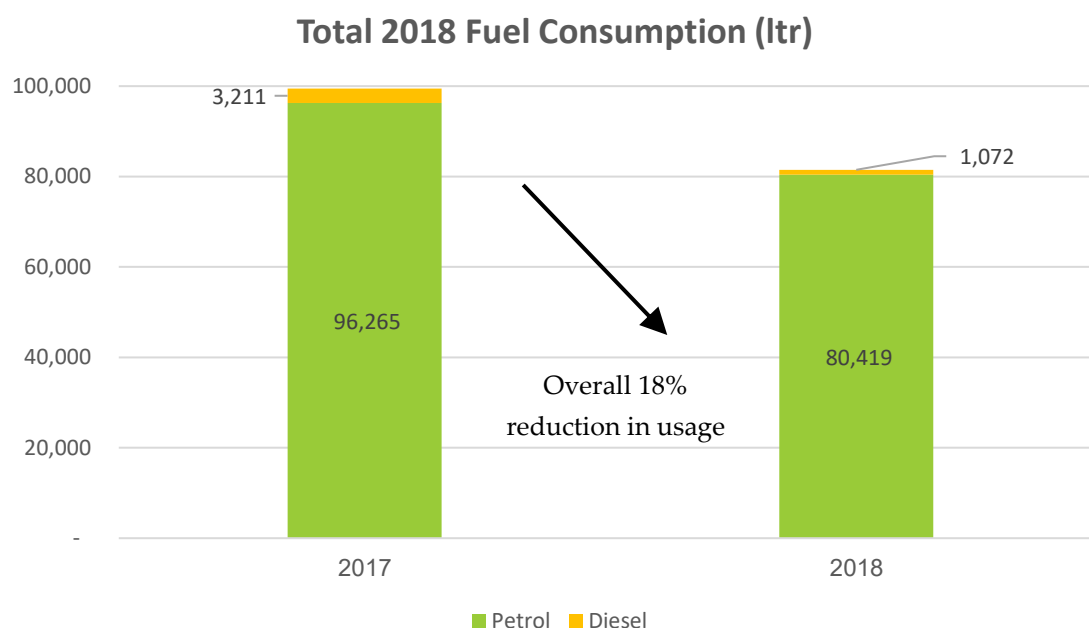
The company's total fuel consumption during year 2018 amounted to 81,491 litres, of which 98% are petrol and 2% are diesel fuel. This too is a reduction in usage as illustrated below. The fuel consumption includes company-issued employee cars and company cars in Israel and

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<sup>1</sup> (Note: environmental data contained herein does not include electricity usage data from our sales office in Hong-Kong, due to its small size).



India. The Company does not have any company cars nor cars for employees in other locations.



## CARBON FOOTPRINT

Sarine is glad to report on an overall 24% reduction in CO<sub>2</sub> emissions as a result of the lower energy consumptions demonstrated above.

Our Scope 1 emissions consists of transportation fuels only, including petrol and diesel, where the data is gathered from the company cars' transport records.

The company's Scope 2 emissions include electricity consumption within facilities and operations of the company.

Source	Company total 2018 ton CO <sub>2</sub> equivalent emissions	Company total 2017 ton CO <sub>2</sub> equivalent emissions	Change %
Scope 1: Direct emissions			
<b>Transportation fuels</b>	388.52	469.14	-17%
Scope 2: Indirect emissions			
<b>Electricity consumption</b>	1,673.89	2,254.06	-26%
<b>Total emissions (scope 1 &amp; 2)</b>	<b>2,062.41</b>	<b>2,723.2</b>	<b>-24%</b>

Source used for data unit conversion:

- Israeli Ministry of Environmental Protection- Israel emissions.
- US Environmental Protection Agency- US emissions.
- GHG Inventory report for Electricity generation and consumption in India- India emissions.
- DEFRA conversion factors for fuels- Transportation fuels.



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