



Turpaz Industries Ltd.

Periodic report for the quarter ended June 30, 2022

This is an English translation of a Hebrew Periodic report that was published on August 24, 2022 (reference no.: 2022-01-107518) (hereafter: the “**Hebrew Version**”). This English version is only for convenience purposes. This is not an official translation and has no binding force. Whilst reasonable care and skill have been exercised in the preparation hereof, no translation can ever perfectly reflect the Hebrew Version. In the event of any discrepancy between the Hebrew Version and this translation, the Hebrew Version shall prevail.

Table of Contents

<u>Chapter</u>	<u>Page</u>
A. Board of Directors' Report on the State of the Corporation's Affairs.....	A-1
B. Financial Statements as of June 30, 2022.....	B-1
E. Managers' statements.....	C-1

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

For the period ended June 30, 2022

The Company's Board of Directors is pleased to submit the Board of Directors' Report on the state of affairs of Turpaz Industries Ltd. (hereinafter - the "**Company**"), for the six and three months ended June 30 2022, all in accordance with the Securities Regulations (Periodic and Immediate Reports), 1970.

This report was drawn out assuming that the Description of the Corporation's Business chapter as included in Chapter A to the 2021 Periodic Report, which was published on March 14 2022 (Ref. No.: 2022-01-029359) (hereinafter - the "**2021 Periodic Report**") is available to the reader. Unless otherwise stated, terms included in this report shall have the meaning assigned to them in the 2021 Periodic Report.

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

1. General

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

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

The Company operates, independently and through its subsidiaries ("**Turpaz**" or the "**Group**"), in the development, production, marketing and sale of fragrance extracts, used in the production of cosmetics, toiletries, personal care, air care & odor neutralizers products; sweet and savory taste extracts used in the production of food and beverages, intermediates for the pharma industry, and specialty ingredients for the agrochemical and the fine chemicals industry, and citrus products and aromatic chemicals for the flavor and fragrance industry.

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

Set forth below are the key operating results of Turpaz for the second quarter and first half of 2022:

- Turpaz Group presents record results for the second quarter and first half of 2022: record sales, gross profit, operating income and adjusted EBITDA.
- **In the second quarter of 2022, Turpaz's sales increased by 50.0%** and amounted to USD 30.3 million, compared with a total of USD 20.2 million in the corresponding quarter last year. The increase stems from the acquisition of operations and companies completed in 2021 and 2022 and

from **organic growth**¹, net of the effects of exchange rates of approx. **11.0%**. **In the first half of 2022, Turpaz's sales increased by approx. 46.3%** and amounted to USD 57.7 million, compared with a total of USD 39.4 million in the corresponding half last year. The increase also stems from the acquisition of operations and companies completed in 2021 and 2022 and from **organic growth**², net of the effects of exchange rates of approx. **10.3%**.

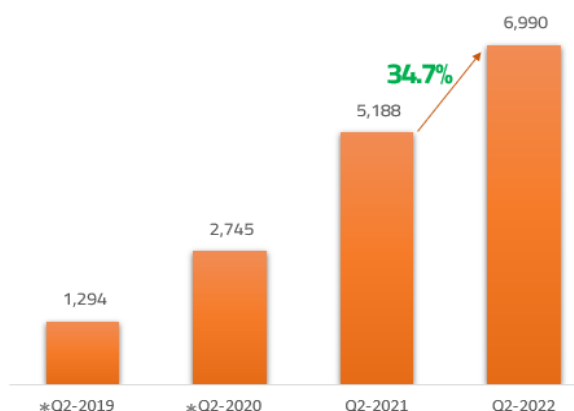
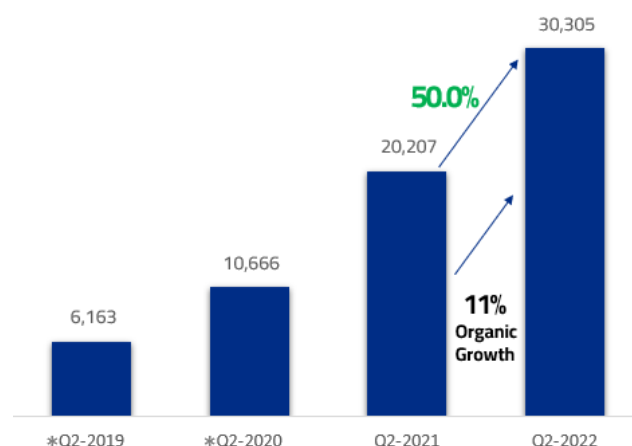
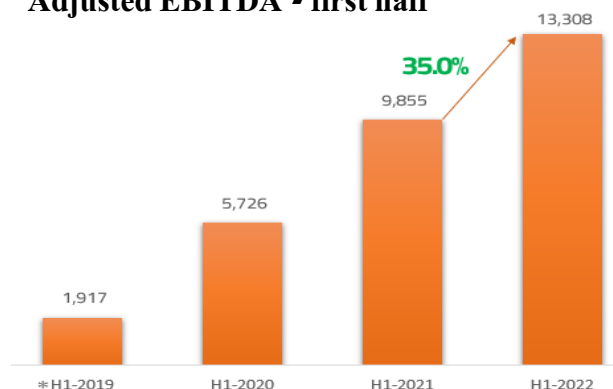
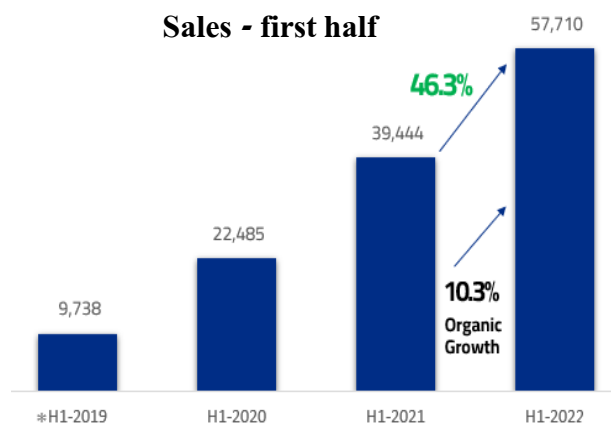
The said results were achieved despite the changes in the exchange rates against the dollar of the currencies used in the Group's activities; those changes reduced sales by 7.7% in the second quarter of 2022, and by 5% in the first half of 2022.

- **Gross profit** increased by approx. **40.7%** and amounted in the **second quarter of 2022** to USD 11.7 million compared with USD 8.3 million in the corresponding period last year. **Gross profit** increased by approx. **41.7%** and amounted in the **first half of 2022** to approx. USD 22.4 million compared with USD 15.8 million in the corresponding period last year, despite the increase in raw materials and freight prices across the world during the reporting period.
- **Operating profit** increased by approx. **19.8%** and amounted in the **second quarter of 2022** to approx. USD 5.0 million compared with USD 4.1 million in the corresponding period last year. **Operating profit** increased by approx. **18.8%** and amounted in the **first half of 2022** to approx. 9.5 million compared with USD 8.0 million in the corresponding period last year.
- **Net income** increased by approx. **32.7%** and amounted in the **second quarter of 2022** to approx. USD 4.2 million compared with USD 3.2 million in the corresponding period last year. **Net income** increased by approx. **29.8%** and amounted in the **first half of 2022** to USD 8.2 million compared with USD 6.3 million in the corresponding period last year.
- **Adjusted EBITDA**³ increased by approx. **34.7%** and amounted in the **second quarter of 2022** to USD 7.0 million compared with USD 5.2 million in the corresponding period last year. **Adjusted EBITDA** increased by approx. **35.0%** and amounted in the **first half of 2022** to USD 13.3 million compared with USD 9.9 million in the corresponding period last year.
- Turpaz Group's equity structure, low leverage levels, cash flow from operating activities, and the enhancement of management and managerial infrastructures enable the implementation of the Group's combined growth strategy.
- Turpaz completed **three acquisitions** since the beginning of 2022 and **six acquisitions** since the issuance of its securities on the Stock Exchange in May 2021; two of those acquisitions - Balirom and Pentaor - were reflected in the Company's results for the first time in the second quarter of 2022. The Turpaz Group intends to continue the implementation of the Company's growth strategy, and make acquisitions which are synergetic to its areas of activity.

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

² See footnote 1 above.

³ **Adjusted EBITDA** means - earnings before interest, taxes, depreciation and amortization, net of non-recurring expenses in respect of acquisition of companies.

Adjusted EBITDA - second quarter**Second quarter sales****Adjusted EBITDA - first half****Sales - first half**

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

Turpaz Group is engaged in the following four segments:

- 1.1 **The fragrances segment** - in this segment, Turpaz Group is engaged in the development, production, marketing and sale of natural and synthesized fragrance extracts for customers in the cosmetics, toiletries, detergents, wet wipes, scented candles, hair care, air care & odor neutralizers industries for hotels and households. Furthermore, Turpaz Group operates to manufacture specialty ingredients of high added value, whose purpose is to conceal bad odors, and give and enhance desired scents in consumer or industrial products. The fragrance extracts developed by the perfumers are tailored to customers' requirements while creating long-term relationships between Turpaz Group and its customers across the world. When they select a supplier, customers focus on the suppliers' innovation capabilities, uniqueness, reliability, the quality and excellence of their services and their knowledge of the needs of the customers for whom the specialty extracts were developed.
- 1.2 **The tastes segment** - as part of the tastes segment, Turpaz Group is engaged in the development, production, sale and marketing of natural and synthesized, sweet and savory flavor extracts, seasonings and gluten free flours, which are used mainly in the production of food, including meat and egg substitutes, plant-based solutions, snacks, ready-made meals, dairy products, ice creams,

pharmaceuticals, food and organic colorings for the animal food, beverages and food supplements industries, all tailored to meet customers' needs.

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

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

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

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

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

Combined growth strategy -

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

Turpaz Group operates in accordance with an orderly plan it developed to achieve the swift integration of the acquired company into the Group and the enhancement of the global management; this includes, among other things, retaining the existing managements of the acquired companies and integrating those managements into Turpaz's management, enhancing the product offering and customer base and

⁴ Products whose list of ingredients includes natural ingredients, which the consumer is familiar with.

integrating Turpaz Group's command and control systems in the cross-selling, R&D, procurement, and finance functions of the acquired companies, in order to achieve swift utilization of synergies. In the opinion of the Company, as of the date of this report, it has not yet utilized the entire potential of the acquisitions it made in the last two years; such full utilization is expected to take place a number of quarters subsequent to the completion of the acquisition.

Company's assessments as to the Group's growth rate, the periods during which the potential embodied in the acquisitions will be fulfilled, and as to the integration of the acquired companies into the Group constitutes forward-looking information, as defined in the Securities Law, which is based on Group management's assessments, and may not materialize or materialize in a manner different than expected, as a result of incorrect assessments, changes to the work plan, changes in the market, or the materialization of all or some of the risk factors listed in Section 1.31 to Chapter A to the 2021 Periodic Report.

Acquisitions completed in the first half of 2022:

Acquisition of LORI

On January 17 2022, the Company completed - through a wholly-owned company - a transaction for the purchase of the entire share capital of LORI RKF (hereinafter - "**LORI**") - a private company incorporated in Latvia - which operates in the field of fragrance extracts - from its shareholders. The Company purchased LORI's shares in consideration for approx. EUR 3.14 million (approx. USD 3.5 million), plus net cash balances.

LORI is engaged in the manufacturing of fragrance extracts and their marketing in Eastern Europe; it has diverse R&D and application capabilities. The acquisition of LORI is expected to increase the Group's sales in the field of fragrances, expand the Group's development and marketing of fragrances in central and eastern Europe, as well as the Group's customer base in territories in which LORI operates, while leveraging the synergies between Group companies in Israel and abroad. Turpaz takes steps to streamline the operations of LORI by leveraging the synergy between the latter and Group companies in terms of procurement of raw materials, development activities and cross-selling to Group customers.

For more information about the acquisition of LORI, see immediate reports of December 12 2021 and January 17 2022 (Ref. Numbers: 2021-01-178428 and 2022-01-007753, respectively).

Acquisition of Balirom

On March 31 2022, the Company completed a transaction for the purchase of 60% of the share capital of Balirom Ltd., a privately-owned company incorporated in Israel (hereinafter - the "**Balirom Acquisition Agreement**" and "**Balirom**", respectively) from its shareholders, in consideration for NIS 16.2 million (approx. USD 5.1 million), less net debt, based on company value of NIS 27 million (approx. USD 8.5 million). The Balirom Acquisition Agreement includes a (call/put) option conferred upon the Company to purchase the remaining shares of Balirom; the option may be exercised over a 12-month period starting 4 years after the transaction completion date, that is to say, through March 31 2027, at a price based on the business performance of the Company's consolidated activity in the field of sweet flavor extracts, and the activity in Balirom during the eight (8) quarterly calendars prior to the exercise of the option.

Balirom, which was established in 2001, is engaged in the research, development, production, marketing, sale and supply of natural and synthetic flavor extracts, functional savory flavor mixtures, and ingredients for the food industry. Balirom's plant is located in Be'er Tuvia.

The acquisition of Balirom allows the Company to expand its products portfolio in the fields of sweet and savory extracts, while leveraging the synergies between the Group companies in the areas of development, procurement, marketing and sales. Balirom's acquisition has expanded significantly Turpaz's activities in the flavor extracts segment in Israel, and strengthened its position as a leading player in this field. Balirom takes steps to expand its manufacturing function and improve customer services and support, alongside the promotion of operational streamlining activities by leveraging the synergy between Balirom and Group companies, including by combining manufacturing sites and cross-selling.

Balirom's results of operations were included in Turpaz Group's operating results as from the second quarter of 2022.

For more information about the Balirom Acquisition Agreement, see the Company's immediate report of April 3 2022 (Ref. No.: 2022-01-034953).

Acquisition of Pentaor

On April 12 2022, the Company completed a transaction for the purchase of the entire issued and paid up share capital and voting rights in Pentaor Ltd., a privately-owned company incorporated in Israel (hereinafter - the "**Pentaor Acquisition Agreement**" and "**Pentaor**", respectively) from its shareholders, in consideration for NIS 10 million (approx. USD 3.1 million). In accordance with the terms set out in the Pentaor Acquisition Agreement, the seller shall be entitled to receive additional consideration of up to NIS 1.5 million (approx. USD 0.5 million), subject to compliance with business targets defined in the Pentaor Acquisition agreement in respect of 2022 and 2023.

Established in 1997, Pentaor is engaged in the development, production, marketing and sale of specialized functional solutions in the field of baking ingredients, which are based on advanced technologies; the products are marketed under the PentaCake brand, which allow the integration of benefits such as softness, moisture, volume, texture and long shelf life. Pentaor operates in the Zarzir Industrial Zone adjacent to the Company's development center and exports the vast majority of its products to emerging markets, such as Vietnam, India and Southeast Asia.

Pentaor's activity in the Vietnamese market and in South East Asia expands the Group's activity in Vietnam, which is conducted through the subsidiary WFF; this will allow the Group to further expand its activity in one of fastest developing markets in the world. Furthermore, the acquisition of Pentaor shall allow the leveraging of synergies between Group companies in the areas of procurement and customers, expand the Group's portfolio and diversify the product range it offers to its customers in Israel and across the world. Turpaz takes steps to leverage the synergy between Pentaor's products and customers, and the products and customers of Group companies across the world.

Pentaor's results of operations were included in Turpaz Group's operating results as from the second quarter of 2022.

For more information about the Pentaor Acquisition Agreement, see the Company's immediate report of April 13 2022 (Ref. No. 2022-01-047560).

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

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

- 2.1. For information regarding material events subsequent to the reporting period, see Notes 6 and Note 4A to the financial statements.
- 2.2. Further to immediate reports of December 18 2021, December 19 2021, and August 11 2022 (Ref. Nos.: 2021-01-181422, 2021-01-11131 and 2022-01-082773, respectively) regarding the Company's signing a merger agreement with a wholly-owned and controlled subsidiary - Turpaz Perfume and Flavor Extracts Ltd. (hereinafter - the "**Target Company**"), on August 10 2022, the merger was completed, such that effective December 31 2021, the Target Company merged with and into the Company.

3. Financial position

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

	June 30 2022	June 30 2021	December 31 2021	Company's explanations compared to the corresponding period last year
Current assets	91,769	99,368	106,082	The decrease in the current assets balance stems from a decrease in cash and cash equivalents, due to the completion of the acquisition of companies and activities in 2021 and in the first half of 2022, which was partially offset against the increase in trade receivables, other receivables and inventory balances as a result of the increase in Turpaz's activity, and to the integration of the current assets of companies whose acquisition was completed in 2021 and in the first half of 2022.
Non-current assets	79,913	34,790	66,587	The increase stems mainly from an increase in property, plant and equipment, intangible assets and goodwill in respect of acquisitions completed in 2021 and in the first half of 2022.
Total assets	171,682	134,158	172,669	
Current liabilities	35,437	26,594	37,032	The increase stems mainly from an increase in trade payables due to the increase in Turpaz's activity, and from the integration of current liabilities of companies, whose acquisition was completed in 2021 and in the first half of 2022, which were fully consolidated into Turpaz's balance sheets.
Non-current liabilities	47,096	26,582	42,521	The increase stems mainly from a recognition of a liability in respect of the put option for the purchase of the remaining shares of FIT in 2021 and the put option for the purchase of the remaining shares of Balirom in 2022.
Total equity	89,149	80,982	93,116	The increase is mainly due to an increase in equity due to the allocation of shares at the total amount of USD 12.5 million as part of the consideration paid in the transaction for the purchase of FIT out of the comprehensive income for the period amounting to USD 7.7 million (net income of USD 14.7 million offset against translation differences of USD 7 million ^(*)), which were offset against the USD 3.97 million dividend distributed to Company's shareholders, and the USD 8.7 million consideration paid to non-controlling interests in the transaction for the purchase of the remaining rights in SDA.
Total liabilities and equity	171,682	134,158	172,669	

(*) Exposure to change in exchange rates may also arise in the process of consolidating the financial statements of consolidated companies presented in foreign currencies. Since the effect of balance sheet exposure does not involve cash flows, Turpaz does not hedge the said exposure. Translation differences as stated above are not recognized within finance expenses in the financial statements; rather, they are recognized directly in capital reserve from translation differences.

Subsequent to balance sheet date, the exchange rates of foreign currencies changes, and the Shekel strengthened against the USD Dollar and the Euro. Had the financial statements been translated using the exchange rate immediately before the report's publication date (that is to say, NIS 3.282 per 1 USD as of August 22 2022), the capital reserve from translation differences would have increased by USD 5.3 million, and equity would have amounted to USD 94.5 million.

4. Operating results

4.1. Set forth below is an analysis of the operating results for the three months ended June 30 2021 and 2022, in accordance with the financial statements, and the explanations for the key changes in those data (in USD thousand):

Item	For the three months period ended June 30 2022	For the three months period ended June 30 2021	Company's explanations compared to the corresponding period last year
Revenues from sales	30,305	20,207	Revenues from sales increased by 50.0% , as a result of organic growth ⁵ (net of the effects of exchange rates of 11.0%), and as a result of acquisitions of other companies and operations completed in 2021 and the first half of 2022. Changes in the exchange rates of the currencies used in Turpaz's activities against the US Dollar reduced sales by 7.7% compared with the corresponding quarter last year.
Cost of sales	18,465	11,917	Gross profits increased by USD 3.4 million, amounting to USD 11.7 million.
Gross profit	11,660	8,290	
Gross profit rate	38.5%	41.0%	Most of the decrease in gross profitability rate stemmed from the increase in the rate of sales of the tastes segment and its percentage out of total Group sales; in the reporting period, the profitability of this segment is lower than that of other segments despite the continued improvement in the tastes segment's gross and operating profit.
Research and development expenses	717	502	The increase in research and development expenses stems from continued investment in the development of new products, the improvement of existing products, and the acquisition of companies and activities completed in 2021 and the first half of 2022.
Selling and marketing expenses	2,171	1,488	The increase in selling and marketing expenses stems mainly from acquisition of companies and activities completed in 2021 and in the first half of 2022, and from a USD 400 thousand increase in depreciation expenses in respect of excess of cost attributed to customer relations in respect of those acquisitions.
General and administrative expenses	3,837	2,050	In the second quarter of 2022, general and administrative expenses constituted approx. 11.0% of the turnover compared with 10.3% in the corresponding period last year. The increase in general and administrative expenses arises from acquisition of companies and activities completed in 2021 and the first half of 2022, from continued recruitment of management teams and strengthening of the Company's headquarters (at a total cost of USD 300 thousand), in order to support Turpaz Group's combined growth strategy, from a USD 490 thousand accounting effect of the option plan, and an increase in professional fees as a result of the Company's becoming a publicly-traded company.
Other expenses (income)	(19)	114	
Income from ordinary operations	4,954	4,136	Income from ordinary operations increased by USD 0.8 million, and amounted to USD 5.0 million. The decrease in the rate of profit from ordinary operations stemmed from an increase in selling and marketing expenses and general and administrative expenses as described above.
Rate of income from ordinary operations	16.3%	20.5%	
Finance expenses, net	136	346	The increase in the rate of sales of the tastes segment contributed to a decrease in the profitability rate, despite continued the improvement in the results of the tastes segment, the profitability of which in the reporting period is lower than that of the other segments.
Taxes on income	579	595	
Net income for the period	4,239	3,195	

Item	For the three months period ended June 30 2022	For the three months period ended June 30 2021	Company's explanations compared to the corresponding period last year
Rate of profit for the period	14.0%	15.8%	
EBITDA ⁶	6,879	4,993	The Adj. EBITDA increased by USD 1.9 million, and amounted to USD 7.0 million. The decrease in the rate of adjusted EBITDA stems from the increase in general and administrative expenses and from an increase in the rate of sales of the tastes segment.
Adj. EBITDA ⁷	6,990	5,188	
Rate of Adj. EBITDA of sales	23.1%	25.7%	

4.2. Set forth below is an analysis of the operating results for the six months ended June 30 2021 and 2022 in accordance with the financial statements, and the explanations for the key changes in those data (in USD thousand):

⁵ See footnote 1 above.

⁶ EBITDA means - earnings before interest, taxes, depreciation and amortization. This is a data normally used to measure the operational efficiency of companies.

⁷ Non-recurring expenses in the second quarter of 2022 included legal expenses and other expenses in respect of acquisitions of activities during the reporting period, amounting to USD 111 thousand.

Item	For the six months ended June 30 2022	For the six months ended June 30 2021	For the year ended December 31 2021	Company's explanations compared to the corresponding period last year
Revenues from sales	57,710	39,444	85,334	Revenues from sales increased by 46.3% , as a result of organic growth ⁸ (net of the effects of exchange rates of 10.3%), and as a result of acquisitions completed in 2021 and the first half of 2022. The changes in the exchange rates of the currencies used in Turpaz's activities against the USD Dollar reduced sales by 5% compared with the first half of 2021.
Cost of sales	35,346	23,664	50,606	Gross profit increased by USD 6.6 million, amounting to USD 22.4 million. Most of the decrease in gross profitability rate stemmed from a sharp increase in the sales of the tastes segment and its percentage out of total sales, despite the improvement in the tastes segment's gross and operating profit.
Gross profit	22,364	15,780	34,728	
Gross profit rate	38.6%	40.0%	40.7%	
Research and development expenses	1,502	889	1,949	The increase in research and development expenses stems from continued investment in the development of new products, the improvement of existing products, the acquisitions completed in 2021 and the half quarter of 2022, and the USD 190 thousand increase in amortization expenses in respect of excess of cost allocated to product formulae in respect of those acquisitions.
Selling and marketing expenses	4,514	2,688	6,274	The increase in selling and marketing expenses stems mainly from acquisitions completed in 2021 and in the first half of 2022, and from a USD 750 thousand increase in amortization expenses in respect of excess of cost allocated to customer relations in respect of those acquisitions.
General and administrative expenses	6,864	4,032	10,257	In the first half of 2022, general and administrative expenses constituted approx. 11.9% of the turnover compared with 10.2% in the corresponding period last year. The increase in general and administrative expenses arises from acquisitions completed in 2021 and the first half of 2022, from continued recruitment of management teams and strengthening of the Company's headquarters (at a total cost of USD 700 thousand), in order to support Turpaz Group's combined growth strategy, from a USD 640 thousand accounting effect of the option plan, and an increase in professional fees as a result of the Company's becoming a publicly-traded company.
Other expenses (income)	(27)	167	208	
Income from ordinary operations	9,511	8,004	16,040	Income from ordinary operations increased by USD 1.5 million, and amounted to USD 9.5 million.
Rate of income from ordinary operations	16.5%	20.3%	18.8%	The decrease in the rate of profit from ordinary operations stemmed from an increase in selling and marketing expenses and general and administrative expenses as described above. The increase in the rate of sales of the tastes segment contributed to a decrease in the profitability rate, despite

Item	For the six months ended June 30 2022	For the six months ended June 30 2021	For the year ended December 31 2021	Company's explanations compared to the corresponding period last year
				continued the improvement in the results of the tastes segment, the profitability of which in the reporting period is lower than that of the other segments.
Finance expenses, net	458	592	1,109	
Taxes on income	854	1,095	2,119	In the reporting period, the Company created deferred taxes in respect of Company losses, whose utilization is expected in the foreseeable future.
Net income for the period	8,199	6,317	12,812	
Rate of profit for the period	14.2%	16.0%	15.0%	
EBITDA ⁹	13,092	9,660	20,021	The Adj. EBITDA increased by USD 3.4 million, and amounted to USD 13.0 million. The decrease in the rate of adjusted EBITDA stems from the increase in general and administrative expenses and from an increase in the rate of sales of the tastes segment.
Adj. EBITDA ¹⁰	13,308	9,885	20,475	
Rate of Adj. EBITDA of sales	23.1%	25.1%	24.0%	

4.3. Set forth below is an analysis of the operating results for the three months ended June 30 2021 and 2022, by segments (in USD thousand):

Segment		For the three months period ended June 30 2022	For the three months period ended June 30 2021	Company's explanations
Fragrances segment	Revenues	7,074	5,251	The USD 1.8 million increase in revenues (34.7%) stems mainly from organic growth, net of the effects of exchange rates (11.3%), and from the acquisition of LORI, which was completed in the first quarter of 2022. The effect of exchange rates of foreign currencies reduced sales by 8.1%. Segment's profits increased by USD 0.1 million, and amounted to USD 2.1 million. The fragrances segment's profitability was affected mainly by first time consolidation of the results of LORI, whose profitability is lower than that of the segment as of the date of this report. Turpaz started taking steps in order to streamline LORI's operations; the aforesaid steps are expected to improve the operational profitability in the next few quarters ¹¹ .
	Operating profit	2,143	2,057	
	(%)	30.3%	39.2%	
Tastes segment	Revenues	16,222	7,099	The USD 9.1 million (128.5%) increase in revenues stems from organic growth net of the effects of exchange rates of approx.
	Operating profit	2,657	522	

⁸ See footnote 1 above.

⁹ See footnote 6 above.

¹⁰ Non-recurring expenses in the first half of 2022 included legal expenses and other expenses in respect of acquisitions of activities during the reporting period, amounting to USD 216 thousand.

¹¹ Company's assessments as to the improvement in profits and profitability constitutes forward-looking information as defined in the Securities Law, 1969, whose materialization depends, among other things, on factors outside the Company's control, and which may materialize in a manner different than that described in this report.

Segment		For the three months period ended June 30 2022	For the three months period ended June 30 2021	Company's explanations
	(%)	16.4%	7.4%	18.8%, and from acquisitions completed in 2021 and the first half of 2022. The effect of exchange rates of foreign currencies reduced sales by 7.9%. Furthermore, segment's profitability improved as a result of the implementation - in SDA - of a plan to improve its product lines, and steps to increase operational efficiency.
Intermediates for the pharma industry	Revenues	3,770	4,196	The USD 0.4 million (10.1%) decrease in revenues stems from a decrease net of the effects of exchange rates of 5.7%. The effect of exchange rates of foreign currencies reduced sales by 4.5%. The change in profitability stems mainly from the impact of the Euro/USD exchange rate.
	Operating profit	1,113	1,341	
	(%)	29.5%	32.0%	
Specialty ingredients segment	Revenues	3,239	3,661	The USD 0.4 million (11.5%) decrease in revenues stems mainly from the effects of exchange rates that reduced sales by 9.8%. The increase in profitability stems mainly from change to the product mix sold in the reporting period.
	Operating profit	897	975	
	(%)	27.7%	26.6%	
Unallocated joint expenses	Revenues	-	-	
	Operating profit	(1,856)	(759)	
Total	Revenues	30,305	20,207	
	Operating profit	4,945	4,136	
	(%)	16.3%	20.5%	

4.4. Set forth below is an analysis of the operating results for the six months ended June 30 2021 and 2022, by segments (in USD thousand):

Segment		For the six months ended June 30 2022	For the six months ended June 30 2021	For the 12 months period ended December 31 2021	Company's explanations to changes between H1 2021 and H1 2022
Fragrances segment	Revenues	13,066	9,573	19,436	The USD 3.5 million increase in revenues (36.5%) stems mainly from organic growth, net of the effects of exchange rates (12.3%), and from the acquisition of LORI, which was completed in the first quarter of 2022. The effect of exchange rates of foreign currencies reduced sales by 5.9%. Segment's profits increased by USD 0.35 million, and amounted to USD 3.9 million. The fragrances segment's profitability was affected mainly by first time consolidation of the results of LORI, whose profitability is lower than that of the segment as of the date of this report. Turpaz started taking steps in order to streamline LORI's operations; the aforesaid steps are
	Operating profit	3,936	3,590	6,804	
	(%)	30.1%	37.5%	35.0%	

Segment		For the six months ended June 30 2022	For the six months ended June 30 2021	For the 12 months period ended December 31 2021	Company's explanations to changes between H1 2021 and H1 2022
					expected to improve the operational profitability in the next few quarters ¹² .
Tastes segment	Revenues	29,420	13,245	33,292	<p>The USD 16.2 million (122.1%) increase in revenues stems from organic growth net of the effects of exchange rates of approx. 18.4%, and from acquisitions completed in 2021 and the first half of 2022.</p> <p>The effect of exchange rates of foreign currencies reduced sales by 4.8%.</p> <p>Furthermore, segment's profitability improved as a result of the implementation - in SDA - of a plan to improve its product lines, and steps to increase operational efficiency.</p>
	Operating profit	4,400	796	2,533	
	(%)	15.0%	6.0%	7.6%	
Intermediates for the pharma industry	Revenues	7,055	9,483	20,873	<p>The USD 2.4 million decrease in revenues (approx. 25.6%) stems from organic decrease net of exchange rate effects of approx. 22.3%. The decrease in revenues stems mainly from the timing of the placing of orders by some of the Company's customers in North America.</p> <p>The effect of exchange rates of foreign currencies reduced sales by 3.3%.</p> <p>The change in profitability stems mainly from the impact of the Euro/USD exchange rate.</p>
	Operating profit	2,036	2,953	6,615	
	(%)	28.9%	31.1%	31.7%	
Specialty ingredients segment	Revenues	8,169	7,143	11,733	<p>The USD 1.0 million (14.4%) increase in revenues stems from organic growth net of the effects of exchange rates of approx. 20.6%.</p> <p>The effect of exchange rates of foreign currencies reduced sales by 6.2%.</p> <p>The change in profitability stems mainly from the impact of the Euro/USD exchange rate, which was partially offset by the change in the sales mix.</p>
	Operating profit	2,172	1,985	3,317	
	(%)	26.6%	27.8%	28.3%	
Unallocated joint expenses	Revenues	-	-	-	<p>In the first half of 2022, general and administrative expenses constituted approx. 5.2% of the turnover compared with 3.3% in the corresponding period last year.</p> <p>The Company expanded its management team in order to enhance the Company's headquarters and support the Company's growth strategy; the Company also started to set up procurement and development functions that support global management.</p> <p>Furthermore, the increase in expenses stems from accounting effects in respect of option plan and an increase in the cost of various professional services incurred in the process of the Company's becoming a publicly-traded company.</p>
	Operating profit	(3,033)	(1,320)	(3,229)	
Total	Revenues	57,710	39,444	85,334	
	Operating profit	9,511	8,004	16,040	
	(%)	16.5%	20.3%	18.8%	

¹² See footnote 11 above.

5. Liquidity

As of June 30 2022, the Company has a cash balance of USD 31,476 thousand.

Set forth below are the key components of the cash flows and the way they were utilized (in USD thousand):

Item		For the three months period ended June 30 2022	For the three months period ended June 30 2021	Company's explanations
Net cash provided by operating activities		(4,260)	3,031	The decrease in cash flow from operating activities stems mainly from supplementing inventories that were burnt in the fire that took place in SDA, an increase in working capital due to an increase in the Group's activity, and the timing of receipt of insurance proceeds totaling NIS 9 million (approx. USD 2.6 million) subsequent to balance sheet date.
Net cash used in investing activities	Proceeds from sale (purchase) of property, plant and equipment, net	(914)	(515)	
	Purchase of companies consolidated for the first time and activities	(3,070)	-	
	Total	(3,985)	(515)	
Net cash provided by (used in) financing activities		(1,067)	60,347	The net cash flow used in financing activities was mainly used to repay long-term credit at the total amount of USD 1.0 million. In the corresponding period last year, the cash flows provided in financing activities stemmed mainly from net proceeds from the issuance of shares to the public - totaling USD 62 million.
Exchange differences in respect of cash and cash equivalents		(3,171)	55	The exchange differences stem from the erosion of cash and cash equivalent balances, which were mainly linked to the Shekel; this is due to the Shekel's devaluation against the US Dollar as of balance sheet date. This amount was recognized in the Company's balance sheets to capital reserve in respect of translation differences. As of the publication date of this report, this trend has changed as a result of the strengthening of the Shekel against the US Dollar.
Total change in cash and cash equivalents		(12,483)	62,918	

Item	For the six months ended June 30 2022	For the six months ended June 30 2021	For the 12 months period ended December 31 2021	Company's explanations to changes between H1 2021 and H1 2022
Net cash provided by operating activities	1,108	4,907	12,283	The decrease in cash flow from operating activities stems mainly from supplementing inventories that were burnt in the fire that took place in SDA, an increase in working capital

Item		For the six months ended June 30 2022	For the six months ended June 30 2021	For the 12 months period ended December 31 2021	Company's explanations to changes between H1 2021 and H1 2022
					due to an increase in the Group's activity, and the timing of receipt of insurance proceeds totaling NIS 9 million (approx. USD 2.6 million) subsequent to balance sheet date.
Net cash used in investing activities	Proceeds from sale (purchase) of property, plant and equipment, net	(2,664)	(1,240)	(2,826)	
	Purchase of companies consolidated for the first time and activities	(11,517)	-	(3,647)	
	Total	(14,181)	(1,240)	(6,473)	
Net cash provided by (used in) financing activities		(7,170)	59,408	45,572	<p>The net cash flow used in financing activities stems mainly from a USD 3.97 million dividend paid to Company's shareholders, and USD 2.0 million in repayment of long-term credit.</p> <p>In the corresponding period last year, the cash flows provided by financing activities stemmed mainly from net proceeds of the issuance of shares to the public - totaling USD 62 million.</p>
Exchange differences in respect of cash and cash equivalents		(4,182)	(23)	1,716	<p>The exchange differences stem from the erosion of cash and cash equivalent balances, which were mainly linked to the Shekel; this is due to the Shekel's devaluation against the US Dollar as of balance sheet date. This amount was recognized in the Company's balance sheets to capital reserve in respect of translation differences. As of the publication date of this report, this trend has changed as a result of the strengthening of the Shekel against the US Dollar.</p>
Total change in cash and cash equivalents		(24,425)	63,052	53,098	

6. Financing sources

The Company funds its activity mainly from its equity, IPO proceeds, cash flows from operating activities and long-term loans. For information about the Company's main financing sources, see Section 1.21 to Chapter A (Description of the Company's Business), and Note 16 to the financial statements attached to the 2021 Periodic Report.

Item	Data as of June 30 2022	
	USD thousand	% of total balance sheet
Equity	89,149	51.8%
Other long-term liabilities	41,669	24.3%
Long-term liabilities from banks, net of current maturities	5,427	3.2%
Short-term credit	9,026	5.3%
Suppliers credit	16,984	9.9%
Other long-term payables	9,397	5.5%
Total	171,682	100%

The average amount of the long-term loans in the first half of 2022 was USD 9,240 thousand.

The average amount of the short-term credit in the first half of 2022 was USD 6,745 thousand.

As of June 30 2022, the Company's working capital is USD 56,332 thousand, compared with working capital of USD 72,804 thousand as of June 30 2021.

As of June 30 2022, the Company's operating working capital¹³ is USD 29,828 thousand (25.8% of the sales), compared with working capital of USD 21,392 thousand (27.1% of sales) as of June 30 2021.

Furthermore, as of June 30 2022, the Company's ¹⁴net cash balance is USD 17,023 thousands.

¹³ Operating working capital means - trade receivable plus the balance of inventory and net of trade payables.

¹⁴ Net cash balance means - balance of cash and cash equivalents, net of short and long-term credit from banks.

Disclosure in accordance with the reportable credit directive:

Original loan amount (NIS thousand)	Loan balance as of 30.6.2022 (NIS thousand)	Date on which the loan was actually taken out	Amortization schedule (loan principal)	Interest	Collaterals provided in respect of the loan	Financial covenants in relation to loan
Credit from an Israeli bank						
15,000	8,485	May 2019	Once a quarter starting in November 2019; the first to the 18th payments will amount to approx. NIS 592 thousand, and the remaining loan amount shall be paid in the last payment in May 2024.	Fixed (2.5%-3.5%)	-	Equity to assets - the Company's equity shall not be lower than 25% of total assets at any given time. As of June 30 2022, the equity amounts to 51% of total assets.
10,000	5,655	May 2019	Once a quarter starting in November 2019; the first to the 18th payments will amount to approx. NIS 395 thousand, and the remaining loan amount shall be paid in the last payment in May 2024.	Prime + 0.2%-1.2%	-	Debt coverage ratio - shall not exceed 3.5 at any given time. As of June 30 2022, the said ratio is 1.24.
4,000	2,800	February 2021	20 equal quarterly payments starting in February 2021.	Fixed (1.5%-2.5%)	See Note 20C1 to the Company's consolidated financial statements as of December 31 2021.	
3,000	2,100	February 2021	20 equal quarterly payments starting in February 2021.	Prime + 0.5%-1%		

7. The effect of inflation and interest rates

In recent months there has been an increase in inflation rates across the world. As of the report date, the Company has no CPI-linked loans or bonds. Therefore, the increase in the CPI is not expected to have a direct impact on the Company's financing costs. Furthermore, in the opinion of Company's management, in view of the fact that some of the Group's financing sources (approx. 26%) are at fixed interest (a total of approx. NIS 14 million (which are not impacted from the changes in interest rates in Israel), and some of the Company's financing sources (approx. 74%) are at variable interest based on Prime interest (approx. NIS 40 million), changes in the interest rates as stated above did not have a material impact on the Company's business results. Further increase in interest rates might trigger an increase in the Company's financing costs, both due to increase in interest rates in existing financing agreements based on variable interest as stated above, and due to increase in interest rates upon engaging in new financing agreements, and therefore have an adverse effect on the Company's financial results.

The Company is unable to assess the future impact of all of the above-mentioned factors, if any, on the Israeli economy in general and on the Company's activity in particular. However, at this stage, the Company believes that those factors will not have a material effect on its results of operations.

The Company's assessments regarding the potential effects of the above-mentioned factors on its activity, as stated above in this section, constitute forward-looking information as defined in the Securities Law, 1968, which is based, among other things, on the Company's assessments, as of the publication date of this report, of factors outside its control.

8. The war between Russia and Ukraine

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

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

the instability of our customers' economic system in the said countries and from restrictions on trade and financial restrictions.

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

9. For information about the effects of the Covid-19 pandemic on the Company's activity, see Section 1.8.3 to Chapter A - Description of the Corporation's Business, which is attached to the 2021 Periodic Report.
10. As of the report date, the Company is of the opinion that the outbreak of the Covid-19 pandemic and the war in Ukraine do not have a material effect on the Group's results of operations. However, their consequences pose challenges to the markets in which the Company operates, including disruption of supply chains and availability of raw materials, which triggered - together with the increase in inflation - hikes in raw material prices.

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

Further to Section 1.24.1 to the 2021 Periodic Report, and in view of the increase in raw material prices, in the second quarter of 2022, the subsidiary Chemada Industries Ltd. entered into commercial agreements with the Bromine Companies for the purchase of Bromine compounds at prices that reflect an increase in raw material prices, but are still competitive compared to prevailing market prices; those agreements are in effect through the end of 2023.

11. For information regarding the fire, see Note 4D to the financial statements as of June 30 2022. As of the date of this report, advances of NIS 60 million (NIS 9 million of which were received subsequent to balance sheet date) were received from the insurance company.

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

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

Dr. Israel Leshem, Director¹⁵

Date: August 23 2022

¹⁵ Director authorized by the Board of Directors to sign.



Chapter B

Financial Statements as of June 30, 2022



TURPAZ INDUSTRIES LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2022

UNAUDITED

INDEX

	Page
Review of Interim Consolidated Financial Statements	2
Consolidated Statements of Financial Position	3 - 4
Consolidated Statements of Profit or Loss	5
Consolidated Statements of Comprehensive Income	6
Consolidated Statements of Changes in Equity	7 – 9
Consolidated Statements of Cash Flows	10 – 12
Notes to Interim Consolidated Financial Statements	13 - 23

Auditors' review report to the shareholders of Turpaz Industries Ltd.

Introduction

We have reviewed the accompanying financial information of Turpaz Industries Ltd. and its subsidiaries ("the Group"), which comprises the condensed consolidated statement of financial position as of June 30, 2022 and the related condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the periods of six and three months then ended. The Company's board of directors and management are responsible for the preparation and presentation of interim financial information for these periods in accordance with IAS 34, "Interim Financial Reporting" and are responsible for the preparation of this interim financial information in accordance with Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express a conclusion on this interim financial information based on our review.

We did not review the condensed interim financial information of certain subsidiaries, whose assets included in consolidation constitute approximately 2.3% of total consolidated assets as of June 30, 2022, and whose revenues included in consolidation constitute approximately 2.3% and 2.6% of total consolidated revenues for the periods of six and three months then ended, respectively.

Scope of review

We conducted our review in accordance with Standard on Review Engagements (Israel) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" of the Institute of Certified Public Accounts in Israel. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review and the review reports of other auditors, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34.

In addition to the abovementioned, based on our review and the review reports of other auditors, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not comply, in all material respects, with the disclosure requirements of Chapter D to the Securities Regulations (Periodic and Immediate Reports), 1970.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	June 30,		December 31,
	2022	2021	2021
	Unaudited		Audited
	U.S. dollars in thousands		
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	31,476	65,855	55,901
Trade receivables	24,329	14,703	20,861
Other accounts receivable	13,481	2,426	13,660
Inventories	22,483	16,384	15,660
	91,769	99,368	106,082
NON-CURRENT ASSETS:			
Deferred taxes	1,270	116	542
Property, plant and equipment	19,024	16,334	17,918
Right-of-use assets, net	15,933	11,379	12,395
Intangible assets, net	16,241	2,736	16,943
Goodwill	27,445	4,225	18,789
	79,913	34,790	66,587
	171,682	134,158	172,669

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	June 30,		December 31,
	2022	2021	2021
	Unaudited		Audited
	U.S. dollars in thousands		
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Credit from banks and current maturities of long-term loans from banks and others	9,026	9,909	11,113
Trade payables	16,984	9,695	15,860
Other accounts payable	6,864	4,614	7,050
Liabilities in respect of acquisition of activity	524	883	1,198
Current maturities of lease liabilities	2,039	1,493	1,811
	35,437	26,594	37,032
NON-CURRENT LIABILITIES:			
Long-term loans from banks, less current maturities	5,427	7,843	7,101
Long-term loans from others, less current maturities	984	1,256	1,056
Provision for waste removal	5,185	5,311	5,174
Leases liabilities	13,870	9,837	10,444
Liabilities in respect of acquisition of activity	17,413	1,587	14,522
Deferred taxes	3,568	297	3,750
Employee benefit liabilities	433	317	362
Government grants	216	134	112
	47,096	26,582	42,521
EQUITY:			
Equity attributable to equity holders of the Company:			
Share capital *)	1	1	1
Share premium	74,449	62,055	74,449
Other capital reserves	(5,590)	26	(6,228)
Reserve in respect of translation differences	(7,050)	6	1,783
Retained earnings	26,580	15,918	22,430
	88,390	78,006	92,435
Non-controlling interests	759	2,976	681
Total equity	89,149	80,982	93,116
	171,682	134,158	172,669

*) Less than \$ 1 thousand.

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

August 23, 2022			
Date of approval of the financial statements	Karen Cohen Khazon Chairman of the Board and CEO	Dr. Israel Leshem Director Authorized by the Board to sign the financial statements on August 23, 2022	Ohad Blustein CFO

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2022	2021	2022	2021	2021
	Unaudited				Audited
	U.S. dollars in thousands (except per share data)				
Revenues from sales	57,710	39,444	30,305	20,207	85,334
Cost of sales	35,346	23,664	18,645	11,917	50,606
Gross profit	22,364	15,780	11,660	8,290	34,728
Research and development expenses	1502	889	717	502	1,949
Selling and marketing expenses	4,514	2,688	2,171	1,488	6,274
General and administrative expenses	6,864	4,032	3,837	2,050	10,257
Other expenses (income)	(27)	167	(19)	114	208
Operating income	9,511	8,004	4,954	4,136	16,040
Finance income	150	83	77	--	762
Finance expenses	(608)	(675)	(213)	(346)	(1,871)
Income before taxes on income	9,053	7,412	4,818	3,790	14,931
Taxes on income	854	1,095	579	595	2,119
Net income for the period	8,199	6,317	4,239	3,195	12,812
Total net income attributable to:					
Equity holders of the Company	8,121	6,095	4,197	3,063	12,607
Non-controlling interests	78	222	42	132	205
	8,199	6,317	4,239	3,195	12,812
Net earnings per share attributable to equity holders of the Company (in U.S. dollars):					
Basic net earnings per share	0.081	0.079	0.042	0.036	0.141

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2022	2021	2022	2021	2021
	Unaudited				Audited
	U.S. dollars in thousands				
Net income for the period	8,199	6,317	4,239	3,195	12,812
Other comprehensive income (loss) (net of tax effect):					
Amounts that will not be reclassified subsequently to profit or loss:					
Adjustments arising from translating financial statements from functional currency to presentation currency	(10,974)	(180)	(9,025)	379	4,300
Amounts that will be or that have been reclassified to profit or loss when specific conditions are met:					
Adjustments arising from translating financial statements of foreign operations	2,141	(14)	2,362	(113)	(2,717)
Total comprehensive income (loss)	<u>(634)</u>	<u>6,123</u>	<u>(2,424)</u>	<u>3,461</u>	<u>14,395</u>
Total comprehensive income (loss) attributable to:					
Equity holders of the Company	(712)	5,901	(2,466)	3,329	14,190
Non-controlling interests	<u>78</u>	<u>222</u>	<u>42</u>	<u>132</u>	<u>205</u>
	<u>(634)</u>	<u>6,123</u>	<u>(2,424)</u>	<u>3,461</u>	<u>14,395</u>

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company							
	Share capital	Share premium	Other capital reserves	Reserve in respect of translation differences	Retained earnings	Total	Non-controlling interests	Total equity
	Unaudited							
	U.S. dollars in thousands							
Balance as of January 1, 2022 (audited)	1	74,449	(6,228)	1,783	22,430	92,435	681	93,116
Net income	-	-	-	-	8,121	8,121	78	8,199
Total other comprehensive loss	-	-	-	(8,833)	-	(8,833)	-	(8,833)
Total comprehensive income (loss)	-	-	-	(8,833)	8,121	(712)	78	(634)
Share-based payment	-	-	638	-	-	638	-	638
Dividends to equity holders of the Company	-	-	-	-	(3,971)	(3,971)	-	(3,971)
Balance as of June 30, 2022	1	74,449	(5,590)	(7,050)	26,580	88,390	759	89,149

	Attributable to equity holders of the Company							
	Share capital	Share premium	Other capital reserves	Reserve in respect of translation differences	Retained earnings	Total	Non-controlling interests	Total equity
	Unaudited							
	U.S. dollars in thousands							
Balance as of January 1, 2021 (audited)	1	-	-	200	9,823	10,024	2,754	12,778
Net income	-	-	-	-	6,095	6,095	222	6,317
Total other comprehensive loss	-	-	-	(194)	-	(194)	-	(194)
Total comprehensive income	-	-	-	(194)	6,095	6,311	222	6,123
Share-based payment	-	-	26	-	-	26	-	26
Issue of share capital net of issue expenses	-	62,055	-	-	-	62,055	-	62,055
Balance as of June 30, 2021	1	62,055	26	6	15,918	78,006	2,976	80,982

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company							
	Share capital	Share premium	Other capital reserves	Reserve in respect of translation differences	Retained earnings	Total	Non-controlling interests	Total equity
	Unaudited							
	U.S. dollars in thousands							
Balance as of April 1, 2022	1	74,449	(6,078)	(388)	22,383	90,367	717	91,084
Net income	-	-	-	-	4,197	4,197	42	4,239
Total other comprehensive loss	-	-	-	(6,663)	-	(6,663)	-	(6,663)
Total comprehensive income (loss)	-	-	-	(6,663)	4,197	(2,466)	42	(2,424)
Share-based payment	-	-	488	-	-	488	-	488
Balance as of June 30, 2022	1	74,449	(5,590)	(7,050)	26,580	88,390	759	89,149

	Attributable to equity holders of the Company							
	Share capital	Share premium	Other capital reserves	Reserve in respect of translation differences	Retained earnings	Total	Non-controlling interests	Total equity
	Unaudited							
	U.S. dollars in thousands							
Balance as of April 1, 2021	1	-	-	260	12,855	12,596	2,844	15,440
Net income	-	-	-	-	3,063	3,063	132	3,195
Total other comprehensive income	-	-	-	266	-	266	-	266
Total comprehensive income	-	-	-	266	3,063	3,329	132	3,461
Share-based payment	-	-	26	-	-	26	-	26
Issue of share capital net of issue expenses	-	62,055	-	-	-	62,055	-	62,055
Balance as of June 30, 2021	1	62,055	26	6	15,918	78,006	2,976	80,982

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

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

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2022	2021	2022	2021	2021
	Unaudited				Audited
	U.S. dollars in thousands				
<u>Cash flows from operating activities:</u>					
Net income for the period	8,199	6,317	4,239	3,195	12,812
Adjustments to reconcile net income to net cash provided by (used in) operating activities (a)	(7,091)	(1,410)	(8,499)	(164)	(529)
Net cash provided by (used in) operating activities	1,108	4,907	(4,260)	3,031	12,283
<u>Cash flows from investing activities</u>					
Purchase of property, plant and equipment	(2,664)	(1,272)	(914)	(547)	(2,934)
Proceeds from sale of property, plant and equipment	-	32	-	32	108
Acquisition of activities (b)	-	-	-	-	(3,331)
Repayment of liability in respect of acquisition of activity	(966)	-	-	-	-
Acquisition of initially consolidated subsidiaries (c)	(10,551)	-	(3,070)	-	(316)
Net cash used in investing activities	(14,181)	(1,240)	(3,985)	(515)	(6,473)
<u>Cash flows from financing activities</u>					
Receipt (repayment) of short-term credit	(338)	497	476	119	(847)
Issue of share capital (net of issue expenses)	-	62,055	-	62,055	62,055
Acquisition of shares from non- controlling interests in subsidiary	-	-	-	-	(9,522)
Dividend paid to equity holders of the Company	(3,971)	-	-	-	-
Repayment of lease liabilities	(906)	(815)	(424)	(409)	(1,847)
Repayment of long-term loans	(1,956)	(1,550)	(1,119)	(1,035)	(2,667)
Repayment of liability in respect of acquisition of activity	-	(779)	-	(383)	(1,600)
Net cash provided by (used in) financing activities	(7,170)	59,408	(1,067)	60,347	45,572
Exchange differences on balances of cash and cash equivalents	(4,182)	(23)	(3,171)	55	1,716
Increase (decrease) in cash and cash equivalents	(24,425)	63,052	(12,483)	62,918	53,098
Cash and cash equivalents at the beginning of the period	55,901	2,803	43,959	2,937	2,803
Cash and cash equivalents at the end of the period	31,476	65,855	31,476	65,855	55,901

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2022	2021	2022	2021	2021
	Unaudited				Audited
	NIS in thousands				
(a) <u>Adjustments to reconcile net income to net cash provided by (used in) operating activities:</u>					
Adjustments to profit and loss items:					
Depreciation and amortization	2,903	1,630	1,397	831	3,797
Capital gain from sale of property, plant and equipment	-	(14)	-	(14)	(61)
Change in employee benefit liabilities, net	(31)	38	(147)	40	51
Cost of share-based payment	638	-	488	-	184
Finance expenses, net	458	592	136	346	1,109
Taxes on income	854	1,095	579	558	1,518
	<u>4,821</u>	<u>3,341</u>	<u>2,452</u>	<u>1,761</u>	<u>6,598</u>
Changes in asset and liability items:					
Decrease (increase) in trade receivable	(3,209)	669	(4,235)	2,743	(3,580)
Decrease (increase) in other accounts receivable	(1,215)	(565)	(557)	(714)	406
Increase in inventories	(5,690)	(1,464)	(4,623)	(1,362)	(5,226)
Increase (decrease) in trade payables	945	(505)	2,123	(1,421)	4,151
Decrease in other accounts payable	(1,240)	(1,388)	(3,063)	(540)	(16)
	<u>(10,409)</u>	<u>(3,380)</u>	<u>(10,355)</u>	<u>(1,294)</u>	<u>(4,265)</u>
	<u>5,588</u>	<u>(39)</u>	<u>(7,903)</u>	<u>467</u>	<u>2,333</u>
Cash paid and received during the period for:					
Taxes paid	<u>(1,309)</u>	<u>(1,127)</u>	<u>(509)</u>	<u>(508)</u>	<u>(2,404)</u>
Interest paid, net	<u>(194)</u>	<u>(244)</u>	<u>(88)</u>	<u>(123)</u>	<u>(458)</u>
	<u>(7,091)</u>	<u>(1,410)</u>	<u>(8,499)</u>	<u>(164)</u>	<u>(529)</u>

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2022	2021	2022	2021	2021
	Unaudited				Audited
	NIS in thousands				
(b) <u>Acquisition of activities:</u>					
Inventories	-	-	-	-	984
Property, plant and equipment	-	-	-	-	1,444
Intangible assets	-	-	-	-	903
Payment for acquisition of activities	-	-	-	-	3,331
(c) <u>Acquisition of initially consolidated subsidiaries:</u>					
The subsidiaries' assets and liabilities at date of acquisition:					
Working capital (excluding cash and cash equivalents)	2,626	-	296	-	(1,246)
Property, plant and equipment	1,058	-	40	-	3,697
Right-of-use assets	2,602	-	-	-	145
Identifiable intangible assets	1,811	-	421	-	14,222
Goodwill	11,211	-	2,836	-	14,533
Lease liabilities	(2,602)	-	-	-	(145)
Other non-current liabilities	(957)	-	(72)	-	(1,036)
Payables for acquisition of investments in subsidiaries	(4,888)	-	(420)	-	(13,904)
Deferred taxes	(310)	-	(31)	-	(3,556)
Investment in exchange for issue of shares	-	-	-	-	(12,394)
	(10,551)	-	(3,070)	-	(316)
(d) <u>Significant non-cash transactions:</u>					
Right-of-use asset recognized with corresponding lease liabilities	3,092	381	2,950	223	5,252
Investment in exchange for issue of shares	-	-	-	-	12,394

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

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1:- GENERAL

- a. General description of the Group and its activity:

Turpaz Industries Ltd. ("the Company") is an Israeli-based company. The condensed interim consolidated financial statements of the Company as of June 30, 2022 include those of the Company and its subsidiaries (collectively, "the Group").

The Group operates, by itself and through subsidiaries in Israel, the U.S., Southeast Asia and Europe in the development, production and marketing in four operating segments: (1) flavors; (2) fragrances; (3) specialty intermediaries for the pharma industry; (4) specialty raw material ingredients (see Note 5).

These financial statements have been prepared in a condensed format as of June 30, 2022 and for the periods of six and three months then ended ("interim consolidated financial statements"). These financial statements should be read in conjunction with the Company's annual financial statements as of December 31, 2021 and for the year then ended and accompanying notes ("annual consolidated financial statements").

- b. The consequences of the war between Russia and Ukraine:

During February 2022, a war broke out between Russia and Ukraine, which continues as of the date of publication of these financial statements. As a result, several countries (including the U.S., U.K. and the EU) have imposed economic sanctions and various restrictions on trade with entities in Russia (including various financial institutions and corporations, politicians and businessmen), including a ban on trade, investment and economic interactions as well as disconnection of some of the Russian banks from international financial systems. As of the reporting date, the war between Russia and Ukraine has disrupted the world supply chain and led to a rise in the prices of energy and commodities.

The Group's sales in Russia and Ukraine are immaterial and therefore the Company estimates that the war between Russia and Ukraine will have no material impact on the Group's results.

- c. From the financial statements for the first half of 2022, the Company will no longer issue separate financial information, as defined in the Israeli Securities Regulations (Periodic and Immediate Reports), 1970, in accordance with the amendment to these regulations published on May 24, 2022.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

- a. Basis of preparation of the interim consolidated financial statements:

The interim consolidated financial statements have been prepared in accordance with IAS 34, "Interim Financial Reporting", and in accordance with the disclosure requirements of Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970. The accounting policies adopted in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the annual consolidated financial statements as of December 31, 2021.

- b. Initial application of 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 ("PP&E") 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.

The Amendment is effective for annual reporting periods beginning on or after January 1, 2022, with earlier application permitted. The Amendment is to be applied retrospectively, but only to items of PP&E made available for use on or after the beginning of the earliest period presented in the financial statements in which the company first applies the Amendment. The company should recognize the cumulative effect of initially applying the Amendment as an adjustment to the opening balance of retained earnings at the beginning of the earliest period presented.

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

2. Amendment to IAS 37, "Provisions, Contingent Liabilities and Contingent Assets":

In May 2020, the IASB issued an amendment to IAS 37, regarding which costs a company should include when assessing whether a contract is onerous ("the Amendment").

According to the Amendment, costs of fulfilling a contract include both the incremental costs (for example, raw materials and direct labor) and an allocation of other costs that relate directly to fulfilling a contract (for example, depreciation of an item of property, plant and equipment used in fulfilling the contract).

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Amendment is effective for annual reporting periods beginning on January 1, 2022 and applies to contracts for which all obligations in respect thereof have not yet been fulfilled as of January 1, 2022. Upon application, restatement of comparative data is not required. Instead, the cumulative effect of initially applying the Amendment is recognized as an adjustment to the opening balance of retained earnings at the date of initial application.

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

3. Annual improvements to IFRSs 2018-2020:

The IASB issued certain amendments in May 2020 in conjunction with the Annual Improvements to IFRSs 2018-2020 Cycle, which mainly pertain to IFRS 9.

The Amendment to IFRS 9 clarifies which fees a company should include in the "10% test" when assessing whether the terms of a debt instrument that has been modified or exchanged are substantially different from the terms of the original debt instrument.

According to the Amendment, in determining the fees paid less fees received, a borrower includes in the cash flows only fees paid or received between the borrower and the lender, including fees paid or received on the other's behalf.

The Amendment is effective for annual reporting periods beginning on January 1, 2022. The Amendment is applied to financial liabilities that are modified or exchanged beginning in the year in which the Amendment is first applied, namely from January 1, 2022.

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

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3:- BUSINESS COMBINATION

a. Acquisition of LORI:

On January 17, 2022, the Company, through a wholly-owned company, completed a transaction to acquire the entire share capital of LORI RKF ("LORI"), a private company incorporated in Latvia and operating in the fragrances industry from its shareholders.

The Company acquired LORI shares for approximately € 3.14 million (approximately \$ 3.5 million) plus net cash balance.

LORI manufactures fragrances and markets them in Eastern Europe and has a wide range of development and application capabilities. The acquisition of LORI will expand the Group's sales in the field of fragrances, their development and marketing in Central and Eastern Europe and its customer base in the regions where LORI operates, while leveraging synergies between the Group's companies in Israel and around the world.

The Company completed a provisional purchase price allocation (PPA). The table below summarizes the price paid for LORI and the amounts of assets acquired and liabilities assumed on the acquisition date, at the fair value of LORI's identifiable net assets:

	January 17, 2022
	U.S. dollars in thousands
Working capital, net	59
Right-of-use asset	374
Property, plant and equipment	511
Net identifiable assets	944
Customer relationships	1,390
Goodwill arising on acquisition	1,690
Lease liability	(374)
Deferred taxes	(278)
Other non-current liabilities	(111)
Total purchase cost	3,265

From the consolidation date through June 30, 2022, the acquired activity has contributed approximately \$ 3,040 thousand to revenues and approximately \$ 130 thousand to net income.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3:- BUSINESS COMBINATION (Cont.)**b. Acquisition of Balirom:**

On March 1, 2022, the Company completed a transaction to acquire 60% of the issued and outstanding share capital and voting rights in Balirom Ltd., a private company incorporated in Israel ("Balirom acquisition agreement" and "Balirom", respectively) from its shareholders, for approximately NIS 16.2 million (approximately \$ 5.1 million) less net debt, based on a company value of NIS 27 million (approximately \$ 8.5 million). The Balirom acquisition agreement contains a mutual option (Call/Put) to acquire the remaining shares of Balirom which can be exercised over 12 months beginning 4 years from the transaction completion date, namely until March 31, 2027, at a price that will be determined based on the business performance of the Company's activity in the sweet flavor extracts segment in Israel combined with Balirom's activity during eight (8) calendar quarters prior to the exercise of the option.

Based on the option terms that were similar for all parties to the transaction, the Group recorded the acquisition of full control (100%) of Balirom as well as the full liability implied from exercising the option at its discounted value.

Balirom, which was founded in 2001, is engaged in research, development, production, marketing, sales and supply of flavor extracts and non-sweet savory flavor as well as accessories and supplements for the food industry. The facility of Balirom is located in Beer Tuvia.

As of the date of the financial statements, the Company did not allocate excess costs and therefore provisionally attributed all excess costs of approximately \$ 6,680 thousand resulting from the acquisition of Balirom to goodwill.

From the consolidation date through June 30, 2022, the acquired activity has contributed approximately \$ 1,350 thousand to revenues and approximately \$ 255 thousand to net income.

c. Acquisition of Pentaor:

On April 12, 2022, the Company completed the acquisition of all the issued and outstanding share capital and voting rights of Pentaor Ltd., a private company incorporated in Israel ("Pentaor acquisition agreement" and "Pentaor", respectively), from its shareholders, for NIS 10 million (approximately \$ 3.1 million). In accordance with the terms of the Pentaor acquisition agreement, the seller will be entitled to an additional consideration in the total of up to NIS 1.5 million (approximately \$ 0.5 million), upon meeting business objectives outlined in the Pentaor acquisition agreement in 2022 and 2023.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3:- BUSINESS COMBINATION (Cont.)

Pentaor, which was founded in 1997, is engaged in development, production, marketing and sale of unique functional solutions for the baking industry, utilizing state-of-the-art technology, under the PentaCake brand, which combines advantages such as softness, moisture, volume, texture, and long shelf life. Pentaor operates in Zarzir industrial zone near the Company's development center in Zarzir and exports most of its products to emerging markets, such as Vietnam, India and Southeast Asia.

The Company completed a provisional purchase price allocation (PPA). The table below summarizes the price paid for Pentaor and the amounts of assets acquired and liabilities assumed on the acquisition date, at the fair value of Pentaor's identifiable net assets:

	<u>April 12, 2022</u> <u>U.S. dollars</u> <u>in thousands</u>
Working capital, net	296
Property, plant and equipment	<u>40</u>
Net identifiable assets	336
Identifiable intangible assets	421
Goodwill arising on acquisition	2,823
Lease liability	
Deferred taxes	(31)
Other non-current liabilities	<u>(492)</u>
Total purchase cost	<u><u>(3,070)</u></u>

From the consolidation date through June 30, 2022, the acquired activity has contributed approximately \$ 315 thousand to revenues and approximately \$ 20 thousand to net income.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4:- EVENTS DURING AND AFTER THE REPORTING PERIOD

- a. Allocation of options to the Group's employees, officers and consultants:

In March 2022, the Company's Board approved to grant 1,396,000 options (unlisted) to the Group's employees, officers and consultants that can be exercised for the same number of shares. The Company's Board also approved to grant 262,000 options (unlisted) that can be exercised for the same number of shares to Mr. Shai Hazon, COO of Turpaz and Ms. Shir Kesselman, Sales and Development Manager in the field of fragrances, which was approved by the shareholders' meeting of the Company in May 2022. The exercise price of the options is NIS 23.51, which represents the average share price in the 30 trading days before the Board approved the grant of options.

The options were allocated in accordance with the equity compensation plan to employees, consultants, service providers and officers of the Company and related companies, under sections 102 and 3(i) to the Income Tax Ordinance. The options were allocated to a trustee on May 8, 2022.

The options vest over 4 years from the allocation date, in equal portions, with the first portion (25% of the options) vesting one year after the allocation date and the remaining options vest in 6 semi-annual portions (12.5% of the options in each portion) starting 18 months after the allocation date. The options can be exercised within two years of vesting using the cashless exercise mechanism. Any option which has not been exercised at the end of said period will expire and its holder will have no rights.

The following table lists the inputs to the Black-Scholes model used for the fair value measurement of equity-settled share options:

Expected volatility of the share prices (%)	27.89%-32.96%
Risk-free interest rate (%)	0.22%-0.69%
Expected life of share options (years)	According to the vesting date
Share price (NIS)	NIS 23.78

Based on the above inputs, the fair value of the options was determined at approximately \$ 3,119 thousand at the grant date.

The Company recognized approximately \$ 496 thousand in salary expenses for the above plan from the allocation date through June 30, 2022.

- b. Distribution of dividend:

In March 2022, a dividend of approximately NIS 12.6 million (approximately \$ 3.97 million) was declared and paid.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4:- EVENTS DURING AND AFTER THE REPORTING PERIOD (Cont.)

- c. Merger between the Company and Turpaz Perfume and Taste Extracts Ltd.:

After approval by the boards of both companies, a merger agreement was signed on November 5, 2021, pursuant to the provisions of section 103t to the Ordinance, between the Company ("the surviving company") and Turpaz Perfume and Taste Extracts Ltd. ("the transferee company") ("the merger agreement"). In accordance with the merger agreement, the companies will be merged through the exchange of shares pursuant to section 103t to the Income Tax Ordinance, so that upon completion of the merger transaction, the Company will hold all of the share capital of the transferee company. On May 2, 2022, the Director of the Tax Authority's approval for the merger was obtained and the Company is acting to fulfill the suspending conditions of the merger agreement.

- d. The fire event:

On November 24, 2021, fire broke out at SDA's spice manufacturing plant in Beit Kama. Heavy damage was caused to the plant. The plant's equipment, inventory and buildings are insured, including loss of profits insurance. SDA's management acted immediately to move production to its other plants and to purchase ingredients in order to minimize the damage caused to its customers and sales and to minimize the damage caused by the fire event and to continue its regular operations.

On January 31, 2022, the Company entered into an agreement with the landlord of the factory buildings burned down in Beit Kama, according to which the owner assigned to SDA all his rights to the insurance benefits for the owner's share of the fire damage in the amount of NIS 47 million. Following the signing of the above agreement and payment, only SDA is entitled to receive all insurance benefits for damage caused by the fire to buildings, equipment, inventory and for lost profits. The payment will be made at the earlier of 12 months after the date of the agreement or at the time the insurance benefits are received. The payment is final and not conditional upon the receipt of insurance benefits for the purchased insurance rights. It should be noted that as of the date of these financial statements, an advance of NIS 60 million was received from the insurance company (of which NIS 9 million was received after the reporting date), which was used to settle the total liability to the property owners and the balance, NIS 13 million, was transferred to SDA.

As of June 30, 2022, SDA recognized an indemnification asset equal to the direct expenses incurred as a result of the fire event as well as derecognized inventory, equipment, right-of-use asset and the associated liability which were completely damaged in the fire.

In the Company's opinion, based on its counsel, the fire is not expected to have any impact on the Group's operating results. Furthermore, at present, the Company cannot predict when it will receive the remaining insurance benefits from the insurer, but it estimates that the fire event should not cause cash flow difficulties.

- e. In the reporting period, the Company measured the fair value of its financial assets and liabilities and concluded that their fair value approximates their carrying amount.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5:- OPERATING SEGMENTS

a. General:

As described in the annual consolidated financial statements, the Group has four operating segments as follows: (1) flavors; (2) fragrances; (3) specialty intermediaries for the pharma industry; (4) specialty raw material ingredients.

Segment performance (segment income) is evaluated based on operating income (income before net finance expenses and unallocated expenses) as presented in the financial statements.

b. Reporting on operating segments:

	Six months ended June 30, 2022				
	Specialty intermediaries for the pharma industry			Specialty raw material ingredients	Total
	Flavors	Fragrances			
	Unaudited				
	U.S. dollars in thousands				
Segment revenue	29,420	13,066	7,055	8,169	57,710
Segment operating income net of unallocated joint expenses	4,400	3,936	2,036	2,172	12,544
Unallocated joint expenses					3,033
Finance expenses, net					458
Income before taxes on income					9,053
	Six months ended June 30, 2021				
	Specialty intermediaries for the pharma industry			Specialty raw material ingredients	Total
	Flavors	Fragrances			
	Unaudited				
	U.S. dollars in thousands				
Segment revenue	13,245	9,573	9,483	7,143	39,444
Segment operating income net of unallocated joint expenses	796	3,590	2,953	1,985	9,324
Unallocated joint expenses					1,320
Finance expenses, net					592
Income before taxes on income					7,412

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5:- OPERATING SEGMENTS (Cont.)

	Three months ended June 30, 2022				
			Specialty intermediaries for the pharma industry	Specialty raw material ingredients	
	Flavors	Fragrances			Total
	Unaudited				
	U.S. dollars in thousands				
Segment revenue	16,222	7,074	3,770	3,239	30,305
Segment operating income net of unallocated joint expenses	2,657	2,143	1,113	897	6,810
Unallocated joint expenses					1,856
Finance expenses, net					136
Income before taxes on income					4,818
	Three months ended June 30, 2021				
			Specialty intermediaries for the pharma industry	Specialty raw material ingredients	
	Flavors	Fragrances			Total
	Unaudited				
	U.S. dollars in thousands				
Segment revenue	7,099	5,251	4,196	3,661	20,207
Segment operating income net of unallocated joint expenses	522	2,057	1,341	975	4,895
Unallocated joint expenses					759
Finance expenses, net					347
Income before taxes on income					3,789

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5:- OPERATING SEGMENTS (Cont.)

	Year ended December 31, 2021				
			Specialty intermediaries for the pharma industry	Specialty raw material ingredients	
	Flavors	Fragrances	Audited		Total
	U.S. dollars in thousands				
Segment revenue	33,292	19,436	20,873	11,733	85,334
Segment operating income net of unallocated joint expenses	2,533	6,804	6,615	3,317	19,269
Unallocated joint expenses					3,229
Finance expenses, net					1,109
Income before taxes on income					14,931

c. Geographic information:

The revenues reported in the financial statements were generated in the Company's country of residence (Israel) and outside Israel, based on the location of the customers, as follows:

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2022	2021	2022	2021	2021
	Unaudited				Audited
	U.S. dollars in thousands				
Israel and the Middle East	15,293	9,113	8,146	4,481	20,421
Europe	27,096	13,040	16,104	8,667	25,804
North America	9,039	12,482	4,256	5,021	30,870
Asia and other	6,282	4,809	1,799	2,038	8,239
	57,710	39,444	30,305	20,207	85,334

Turpaz Industries Ltd.

Chapter C

Managers' Statements



Statement of the Chief Executive Officer in accordance with Regulation 38C(D)(1):

Statement of the Chief Executive Officer

I, Karen Cohen Khazon, hereby declare that:

- (1) I have reviewed the quarterly report of Turpaz Industries Ltd. (hereafter – the “**Corporation**”) for the second quarter of 2022 (hereafter – the “**Reports**”).
- (2) To the best of my knowledge, the Reports do not include any misrepresentation of a material fact, nor do they omit any representation of a material fact so that the representations included therein, in view of the circumstances in which such representations have been included, shall not be misleading with regard to the period covered by the Reports;
- (3) To the best of my knowledge, the financial statements and other financial information included in the reports, reflect fairly, in all material respects, the financial position, results of operations and cash flows of the Corporation as of the dates and periods covered by the Reports;
- (4) I have disclosed to the corporation’s auditor, Board of Directors and the Board of Directors’ Audit Committee any fraud, whether material or immaterial, in which the Chief Executive Officer, or anyone directly reporting to him, or any other employees are involved who have a significant function in the corporation’s financial reporting and in internal control over financial reporting and disclosure thereof.

The aforesaid does not derogate from my responsibility or from the responsibility of any other person, pursuant to any law.

August 23, 2022

Karen Cohen Khazon

CEO and Chairperson of the Board of Directors

Statement of the Most Senior Financial Officer Pursuant to Regulation 38C(D)(2):

Statement of the Most Senior Financial Officer:

I, Ohad Blustein, hereby declare that:

- (1) I have reviewed the interim financial statements and the other financial information included in the interim reports of Turpaz Industries Ltd. for the second quarter of 2022 (hereafter – the “**Interim Reports**”);
- (2) To the best of my knowledge, the interim financial statements and other financial information included in the Interim Reports do not include any misrepresentation of a material fact, nor do they omit any representation of a material fact so that the representations included therein, in view of the circumstances in which such representations have been included, shall not be misleading with regard to the period covered by the Reports;
- (3) To the best of my knowledge, the interim financial statements and other financial information included in the Interim Reports, reflect fairly, in all material respects, the financial position, results of operations and cash flows of the Corporation as of the dates and periods covered by the Reports;
- (4) I have disclosed to the corporation’s auditor, Board of Directors and Audit Committee any fraud, whether material or immaterial, in which the Chief Executive Officer, or anyone directly reporting to him, or any other employees are involved who have a significant function in the corporation’s financial reporting and in internal control over financial reporting and disclosure thereof.

The aforesaid does not derogate from my responsibility or from the responsibility of any other person, pursuant to any law.

August 23, 2022

Ohad Blustein
Chief Financial Officer