



Turpaz Industries Ltd.

Periodic report for the quarter ended September 30, 2022

This is an English translation of a Hebrew Periodic report that was published on November 20, 2022 (reference no.: 2022-01-111063) (hereafter: the “**Hebrew Version**”). This English version is only for convenience purposes. This is not an official translation and has no binding force. Whilst reasonable care and skill have been exercised in the preparation hereof, no translation can ever perfectly reflect the Hebrew Version. In the event of any discrepancy between the Hebrew Version and this translation, the Hebrew Version shall prevail.

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

For the Period Ended September 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 nine and three months ended September 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 self-developed products, which are produced in its factories across the world. 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, which employ approx. 382 employees.

Set forth below are the key operating results of Turpaz for the third quarter of 2022:

- Turpaz Group continues to present record results for the third quarter of 2022 in terms of sales, gross profit and operating income.
- **In the third quarter of 2022, Turpaz' sales increased by 70.1%** and amounted to USD 30.3 million, compared with a total of USD 17.8 million in the corresponding quarter last year. The

increase stems from **organic growth**¹, net of the effects of exchange rates of approx. **24.2%**, acquisitions of activities and companies that were completed in 2021 and 2022, the increase of inventory levels at Turpaz' customers and bringing deliveries forward accordingly. **In the first nine months of 2022, Turpaz' sales** increased by approx. 53.7% and amounted to USD 88.1 million, compared with a total of USD 57.3 million in the corresponding period last year. The increase also stems from **organic growth**², net of the effects of exchange rates of approx. **14.7%**, acquisitions of activities and companies that were completed in 2021 and 2022, the increase of inventory levels at Turpaz' customers and bringing deliveries forward accordingly.

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 6.2% in the third quarter of 2022, and by 5.4% in the first nine months of 2022.

- **Gross profit** increased by approx. **64.7%** and amounted in the **third quarter of 2022** to USD 12.0 million compared with USD 7.3 million in the corresponding period last year. **Gross profit** increased by approx. **49.0%** and amounted to approx. USD 34.3 million in the **first nine months of 2022** compared with USD 23.0 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. **46.1%** and amounted to approx. USD 5.0 million **in the third quarter of 2022** compared with USD 3.4 million in the corresponding period last year. **Operating profit** increased by approx. **27.0%** and amounted to approx. USD 14.5 million **in the first nine months of 2022** compared with USD 11.4 million in the corresponding period last year.
- **The net income** increased by approx. **42.4%** and amounted to approx. USD 3.6 million **in the third quarter of 2022** compared with USD 2.5 million in the corresponding period last year. **Net income** increased by approx. **33.4%** and amounted to approx. USD 11.8 million **in the first nine months of 2022** compared with USD 8.8 million in the corresponding period last year.
- **Adjusted EBITDA**³ increased by approx. **60.1%** and amounted to approx. USD 7.0 million **in the third quarter of 2022** compared with USD 4.4 million in the corresponding period last year. **Adjusted EBITDA** increased by approx. **42.7%** and amounted to approx. USD 20.3 million **in the first nine months of 2022** compared with USD 14.2 million in the corresponding period last year.
- Turpaz Group's strong equity structure, low leverage levels, cash flow from operating activities, backing from leading financial institutions in Israel and across the world, and the enhancement of management and managerial infrastructures enable the implementation of the Group's combined growth strategy.
- Turpaz acquired **five companies** since the beginning of 2022 **and eight** companies since its issuance on the Stock Exchange in May 2021. The results of operations of KLABIN will be reflected for the first time in Turpaz's results for the fourth quarter of 2022, and the results of operations of

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.

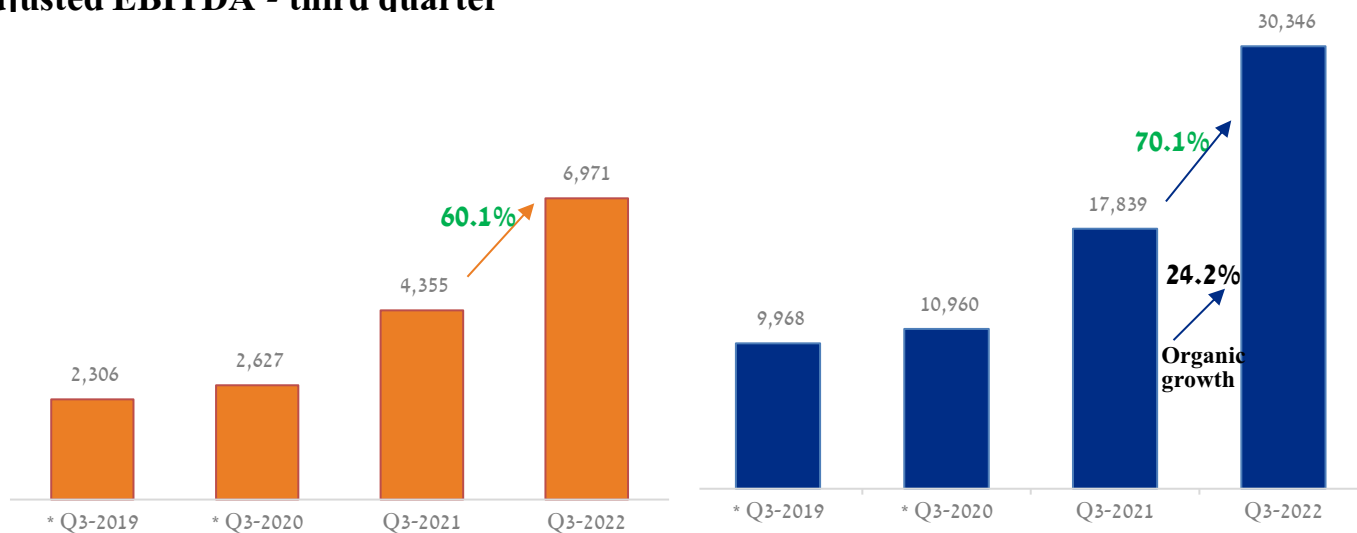
² See footnote 1 above.

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

Aromatique Food shall be reflected in Turpaz's results after the completion of the transaction, subject to receipt of regulatory approvals in Romania. 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.

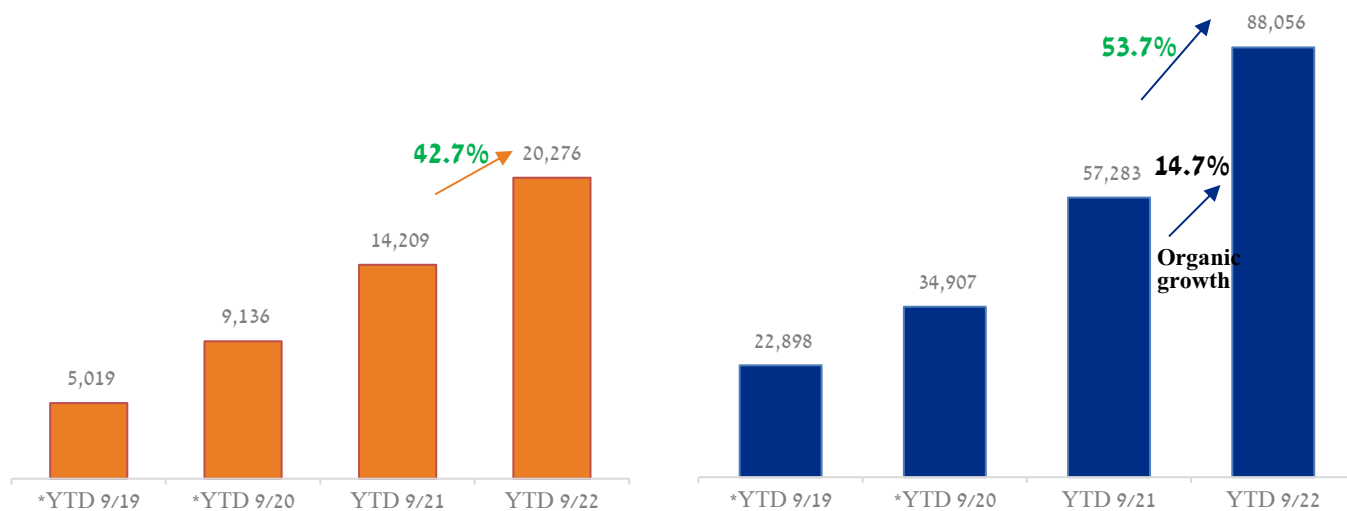
Third quarter sales

Adjusted EBITDA - third quarter



YTD /2022 Adjusted EBITDA

YTD /2022 sales



(*) 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 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

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

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 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.

Information regarding acquisitions in the first nine months of 2022 and through the publication date of the report:

Acquisition of Aromatique Food

On October 11, 2022, the Company signed - through a wholly-owned subsidiary - an agreement for the acquisition of 65% of the issued and paid up share capital and voting rights in Aromatique Food SRL, a privately-owned company incorporated in Romania (hereinafter - "Aromatique"), from its only shareholder (hereinafter - the "Seller") in consideration for RON 17 million (approx. USD 3.35 million), and a future consideration based on Aromatique's business performance during the second half of 2022. The agreement includes a (call/put) option to purchase Aromatique's remaining shares by Turpaz; the

option is exercisable as from January 1, 2025, at a price based on Aromatique's business performance during the period from January 1, 2023 through the option's exercise date. Aromatique, which was founded in 2013, is engaged in research, development, production, marketing, sale and supply of raw materials and savory flavor functional ingredients for the food industry; Aromatique's sales are mainly made to the Romanian market. The transaction is expected to be completed in the next few weeks, subject to receipt of regulatory approvals in Romania. For more information about the acquisition of Aromatique, see immediate report published on October 12, 2022 (Ref. No.: 2022-01-125770).

Acquisition of Klabin

On October 3 2022, the Company completed - through a wholly-owned subsidiary - a transaction for the purchase of 81% of the issued and paid-up share capital and voting rights of Klabin Fragrances Inc. (hereinafter - the "**Klabin**"), a privately-owned company incorporated in the USA from its shareholders, in consideration for NIS USD 24.3 million. As stated above, the consideration is subject to adjustments in accordance with Klabin's business performance in 2022. The purchase agreement includes a call/put option for the acquisition of Klabin's remaining shares by the Company; the option is exercisable as from January 1, 2026, over a period of one year, through December 31, 2026. The option's exercise price is based on the consolidated business performance of Klabin and Turpaz USA⁵ in the field of fragrance extracts in the USA, during the period from January 1 2023, through the option's exercise date. Klabin, which was founded in 1994, and started its activity in 1998, is engaged in the research, development, production, marketing, sale and supply of bespoke fragrances, natural oil blends and extracts, natural and synthetic fragrances, applications and functional solutions for the cosmetics, toiletries, scented candles, hair care, air care & odor neutralizers, detergents and fine fragrances industries. The acquisition of Klabin is a strategic acquisition for Turpaz in the USA; it allows the expansion of the Group's customer and products portfolio in the field of fragrances, while leveraging the synergies between Group companies in terms of development, procurement, marketing and sales. Turpaz works to combine Klabin's activity with Turpaz's US activity in order to enhance Turpaz's position as a key player in the field of fragrances in the USA. For more information about the acquisition of Klabin, see immediate reports of September 18, 2022 and October 3, 2022 (Ref. Numbers: 2022-01-118207 and 2022-01-100530, respectively).

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.

⁵ Turpaz Fragrances and Flavors Aroma Inc.

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.

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

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' 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.

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 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).

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

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

- 2.1. For information regarding events subsequent to the reporting period, see Note 4 to the financial statements.
- 2.2. In a Board of Directors meeting of September 21, 2022, the Company’s Board of Directors approved a private allocation (which is not material or extraordinary) of 105,000 (non-listed) options to an employee, who is a Company officer; the approval was given in accordance with the recommendation of the Compensation Committee and in accordance with the Company’s compensation policy and equity compensation plan. For more information about the allocation of options, see immediate reports of the Company of September 22, 2022 and October 19, 2022 (Ref Numbers: 2022-01-120391 and 2022-01-127822, respectively) and Note 4B to the financial statements.

3. Financial position

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

	September 30, 2022	September 30, 2021	December 31, 2021 ⁶	Company's explanations compared to the corresponding period last year
Current assets	92,944	99,110	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' activity, and to the integration of the current assets of companies whose acquisition was completed in 2021 and in the first nine months of 2022.
Non-current assets	93,124	34,834	84,063	The increase stems mainly from an increase in property, plant and equipment and intangible assets in respect of acquisitions completed in 2021 and in the first nine months of 2022.
Total assets	186,068	133,944	190,145	
Current liabilities	35,140	24,119	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 nine months of 2022, which were fully consolidated into Turpaz's balance sheets.
Non-current liabilities	60,061	25,821	59,997	The increase stems mainly from a recognition of a liability in respect of the put option for the acquisition of the remaining shares of FIT that was acquired in the fourth quarter of 2021, and the put options for the acquisition of the remaining shares of Balirom in 2022. For more information see Note 4 to the financial statements.
Total equity	90,867	84,004	93,116	The increase is mainly due to an increase in equity due to the allocation of shares as part of the consideration paid in the transaction for the acquisition of FIT out of the net income for the period, which were offset against translation differences ^(*) , dividend distributed to Company's shareholders, and the consideration paid to non-controlling interest in the transaction for the acquisition of the remaining rights in SDA.
Total liabilities and equity	186,068	133,944	190,145	

(*) 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 this 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.

⁶ For details regarding the update of balance sheet data as of December 31, 2021, in relation to the data presented in section 4 of the board of directors' report attached to 2021 Periodic Report, see Note 4 to the financial statements.

4. Operating results

4.1. Set forth below is an analysis of the operating results for the three months ended September 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-month period ended September 30, 2022	For the three-month period ended September 30, 2021	Company's explanations compared to the corresponding period last year
Revenues from sales	30,346	17,839	Revenues from sales increased by 70.1% , as a result of organic growth ⁷ (net of the effects of exchange rates of 24.2%), as a result of acquisitions of companies and other operations completed in 2021 and the first nine months of 2022, and as a result from the increase in inventory levels at Company's customers and bringing deliveries forward, accordingly. Changes in the exchange rates of the currencies used in Turpaz's activities against the US Dollar reduced sales by 6.2% compared with the corresponding quarter last year.
Cost of sales	18,396	10,583	Gross profit increased by approx. 64.7%, amounting to USD 12.0 million. 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.
Gross profit	11,950	7,256	
Gross profit rate	39.4%	40.7%	
Research and development expenses	827	432	The increase in research and development expenses stems from continued investment in the development of new products, the improvement of existing products, the acquisition of companies and activities completed in 2021 and the first nine months of 2022 and depreciation of other assets arising in respect thereof.
Selling and marketing expenses	2,496	1,143	The increase in selling and marketing expenses stems mainly from acquisition of companies and activities completed in 2021 and in the first nine months of 2022, and depreciation of other assets arising in respect thereof.
General and administrative expenses	3,632	2,318	The rate of general and administrative expenses out of sales in the third quarter of 2022 decreased from 13.0% in the corresponding period last year to 12.0%. The increase in general and administrative expenses arises from acquisition of companies and activities completed in 2021 and the first nine months of 2022, from continued recruitment of management teams and strengthening of the Company's headquarters, in order to support Turpaz Group's combined growth strategy, from an 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)	3	(54)	
Income from ordinary operations	4,992	3,417	The income from ordinary operations increased by 46.1% compared with the corresponding period last year.
Rate of income from ordinary operations	16.5%	19.2%	The decrease in the rate of income from ordinary operations stemmed from the reasons listed above in this table, and from an increase in the sales rate of the tastes segment, that has lower profitability rate than that of the other segments.
Finance expenses, net	326	338	
Taxes on income	1,075	557	
Net income for the period	3,591	2,522	
Rate of profit for the period	11.8%	14.1%	
EBITDA ⁸	6,691	4,355	Adjusted EBITDA increased by 60.1% compared with the corresponding period last year. The decrease in the rate of adjusted EBITDA stems from the reasons listed above in this table.
Adj. EBITDA ⁹	6,971	4,355	
Rate of Adj. EBITDA of sales	23.0%	24.4%	

⁷ See footnote 1 above.

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

⁹ Non-recurring expenses in the third quarter of 2022 included legal expenses and other expenses in respect of acquisitions of activities during the reporting period and restructuring, amounting to USD 280 thousand.

4.2. Set forth below is an analysis of the operating results for the nine months ended September 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 nine-month period ended September 30, 2022	For the nine-month period ended September 30, 2021	For the year ended December 31 2021	Company's explanations compared to the corresponding period last year
Revenues from sales	88,056	57,283	85,334	Revenues from sales increased by 53.7%, as a result of organic growth ¹⁰ (net of the effects of exchange rates of 14.7%), as a result of acquisitions of companies and other operations completed in 2021 and the first nine months of 2022, and as a result from the increase in inventory levels at Company's customers and bringing deliveries forward, accordingly. Changes in the exchange rates of the currencies used in Turpaz's activities against the US Dollar reduced sales by 5.4% compared with the first nine months of 2021.
Cost of sales	53,742	34,247	50,606	Gross profit increased by 49.0% compared with the corresponding period last year. 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	34,314	23,036	34,728	
Gross profit rate	39.0%	40.2%	40.7%	
Research and development expenses	2,329	1,321	1,949	The increase in research and development expenses stems from continued investment in the development of new products, the improvement of existing products, acquisitions completed in 2021 and the first nine months of 2022 and depreciation of other assets arising in respect thereof.
Selling and marketing expenses	7,010	3,831	6,274	The increase in selling and marketing expenses stems mainly from acquisitions completed in 2021 and in the first nine months of 2022, and depreciation of other assets arising in respect thereof.
General and administrative expenses	10,496	6,350	10,257	In the first nine months of 2022, general and administrative expenses amounted to 11.9% of sales compared with 11.1% 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 nine months of 2022, from continued recruitment of management teams and strengthening of the Company's headquarters, in order to support Turpaz Group's combined growth strategy, from an 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)	(24)	113	208	
Income from ordinary operations	14,053	11,421	16,040	The income from ordinary operations increased by 27.0% compared with the corresponding period last year.
Rate of income from ordinary operations	16.5%	19.9%	18.8%	The decrease in the rate of income from ordinary operations stemmed from the reasons listed above in this table, and from an increase in the sales rate of the tastes segment, that has lower profitability rate than that of the other segments.
Finance expenses, net	784	930	1,109	
Taxes on income	1,929	1,652	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	11,790	8,839	12,812	
Rate of profit for the period	13.4%	15.4%	15.0%	
EBITDA ¹¹	19,783	14,014	20,021	Adjusted EBITDA increased by 42.7% compared with the corresponding period last year. The decrease in the rate of adjusted EBITDA stems from the reasons listed above in this table.
Adj. EBITDA ¹²	20,276	14,209	20,475	
Rate of Adj. EBITDA of sales	23.0%	24.8%	24.0%	

¹⁰ See footnote 1 above.

¹¹ See footnote 6 above.

¹² Non-recurring expenses in the first nine months of 2022 included legal expenses and other expenses in respect of acquisition of activities during the reporting period and restructuring, amounting to USD 493 thousand.

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

Segment		For the three-month period ended September 30, 2022	For the three-month period ended September 30, 2021	Company's explanations
Fragrances segment	Revenues	6,687	5,134	<p>Revenues from sales increased by 30.2% compared with the corresponding period last year. The increase stems mainly from organic growth, net of the effects of exchange rates (13.8%), and from the acquisition of LORI, which was completed in the first quarter of 2022.</p> <p>The effect of exchange rates of foreign currencies reduced sales by 11.4%.</p> <p>Segment's profits increased by USD 0.2 million and amounted to USD 2.1 million.</p> <p>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 quarters¹³.</p>
	Operating profit	2,128	1,907	
	(%)	31.8%	37.1%	
Tastes segment	Revenues	15,114	5,129	<p>Revenues from sales increased by 194.7% compared with the corresponding period last year. The increase in revenues stems from organic growth net of the effects of exchange rates of approx. 32.8% and from acquisitions completed in 2021 and in the first nine months of 2022. The effect of exchange rates of foreign currencies reduced sales by 2.5%.</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	2,164	244	
	(%)	14.3%	4.8%	
Intermediates for the pharma industry	Revenues	5,335	5,965	<p>Revenues from sales decreased by approx. 10.6% compared with the corresponding period last year. The decrease in revenues stems from an organic growth net of the effects of exchange rates of approx. 4.7%.</p> <p>The effect of exchange rates of foreign currencies reduced sales by 5.8%.</p> <p>The change in profitability stems mainly from the impact of the Euro/USD exchange rate.</p>
	Operating profit	1,375	1,979	
	(%)	25.8%	33.2%	
Specialty ingredients segment	Revenues	3,210	1,611	<p>Revenues from sales increased by 99.3% compared with the corresponding period last year. The increase in revenues stems from an organic growth net of the effects of exchange rates of approx. 111.8%. The effect of exchange rates of foreign currencies reduced sales by 12.6%.</p>
	Operating profit	940	525	
	(%)	29.3%	32.6%	
Unallocated joint expenses	Revenues	-	-	
	Operating profit	(1,615)	(1,237)	
Total	Revenues	30,346	17,839	
	Operating profit	4,992	3,417	
	(%)	16.5%	19.2%	

¹³ 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.

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

Segment		For the nine-month period ended September 30, 2022	For the nine-month period ended September 30, 2021	For the 12 months period ended December 31, 2021	Company's explanations to the change between the first nine months of 2021 and 2022
Fragrances segment	Revenues	19,753	14,707	19,436	<p>Revenues from sales increased by 34.3% compared with the corresponding period last year. The increase stems mainly from organic growth, net of the effects of exchange rates (12.8%), and from the acquisition of LORI, which was completed in the first quarter of 2022.</p> <p>The effect of exchange rates of foreign currencies reduced sales by 7.8%.</p> <p>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 quarters¹⁴.</p>
	Operating profit	6,064	5,497	6,804	
	(%)	30.7%	37.4%	35.0%	
Tastes segment	Revenues	44,534	18,374	33,292	<p>Revenues increased by 142.4% compared with the corresponding period last year. The increase in revenues stems from organic growth net of the effects of exchange rates of approx. 22.9% and from acquisitions completed in 2021 and in the first nine months of 2022. The effect of exchange rates of foreign currencies reduced sales by 4.1%.</p> <p>Furthermore, the 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	6,564	1,040	2,533	
	(%)	14.7%	5.7%	7.6%	
Intermediates for the pharma industry	Revenues	12,390	15,448	20,873	<p>Revenues decreased by 19.8% compared with the corresponding period last year. The decrease stems from organic decrease net of exchange rate effects of approx. 15.5%.</p> <p>The effect of exchange rates of foreign currencies reduced sales by 4.3%.</p> <p>The change in profitability stems mainly from the impact of the Euro/USD exchange rate.</p>
	Operating profit	3,411	4,932	6,615	
	(%)	27.5%	31.9%	31.7%	
Specialty ingredients segment	Revenues	11,379	8,754	11,733	<p>Revenues increased by 30% compared with the corresponding period last year. The increase stems from an organic growth net of the effects of exchange rates of approx. 37.4%.</p> <p>The effect of exchange rates of foreign currencies reduced sales by 7.4%.</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	3,112	2,510	3,317	
	(%)	27.3%	28.7%	28.3%	
Unallocated joint expenses	Revenues		-	-	<p>In the first nine months of 2022, expenses accounted for 5.3% of the turnover compared with 4.5% 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	(4,648)	(2,556)	(3,229)	
Total	Revenues	88,056	57,283	85,334	
	Operating profit	14,503	11,421	16,040	
	(%)	16.5%	19.9%	18.8%	

5. Liquidity

¹⁴ See footnote 13 above.

As of September 30 2022, the Company has a cash balance of USD 29,166 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-month period ended September 30, 2022	For the three-month period ended September 30, 2021	Company's explanations
Net cash provided by operating activities	(182)	4,924	The decrease in cash flow from operating activities stems mainly from an increase in working capital due to an increase in the Group's activity, and from supplementing inventories that were burnt in the fire ^(*) that took place in SDA.
Net cash used in investing activities	(1,166)	(657)	The change in net cash used in investing activities stems mainly from investment in property, plant and equipment.
Net cash provided by (used in) financing activities	(235)	(2,870)	The change in cash flow compared with the corresponding period last year stems mainly from short-term credit received, compared with repayment of short-term credit in the corresponding period last year.
Exchange differences in respect of cash and cash equivalents	(727)	597	The exchange rate differences stem from the weakening of Group companies' functional currencies against the dollar.
Total change in cash and cash equivalents	(2,310)	1,994	

Item	For the nine-month period ended September 30, 2022	For the nine-month period ended September 30, 2021	For the 12 months period ended December 31 2021	Company's explanations to the change between the first nine months of 2021 and 2022
Net cash provided by operating activities	926	9,831	12,283	The decrease in cash flow from operating activities stems mainly from an increase in working capital due to an increase in the Group's activity, and from supplementing inventories that were burnt in the fire ^(*) that took place in SDA.
Net cash used in investing activities	(15,336)	(1,897)	(6,473)	The change in net cash used in investing activities stems mainly from acquisition of companies, and investment in property, plant and equipment.
Net cash provided by (used in) financing activities	(7,405)	56,538	45,572	The change in cash flow compared with the corresponding period last year stems mainly from the issuance of shares capital to the public in May 2021.
Exchange differences in respect of cash and cash equivalents	(4,920)	574	1,716	The exchange rate differences stem from the weakening of Group companies' functional currencies against the dollar.
Total change in cash and cash equivalents	(26,735)	65,046	53,098	

(*) As of the date of this report, the Company is in the process of advanced negotiations with the insurance company for receipt of the remaining insurance benefits. To date, the Company is unable to estimate the timing of receipt of the remaining insurance benefits from the insurer; however, the Group believes that it is not expected to face cash flow issues in respect of the fire. For more information, see Note 4B to the financial statements.

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 September 30, 2022	
	USD thousand	% of total balance sheet
Equity	90,867	48.9%
Other long-term liabilities	55,375	29.8%
Long-term liabilities from banks, net of current maturities	4,686	2.5%
Short-term credit	10,125	5.4%
Suppliers credit	15,439	8.3%
Other long-term payables	9,576	5.1%
Total	186,068	100.0%

The average amount of the long-term loans in the third quarter of 2022 was USD 7,994 thousand.

The average amount of the short-term credit in the third quarter of 2022 was USD 6,638 thousand.

As of September 30 2022, the Company's working capital is USD 57,804 thousand, compared with working capital of USD 74,991 thousand as of September 30 2021.

As of September 30 2022, the Company's operating working capital¹⁵ is USD 37,039 thousand (30.5% of the sales), compared with working capital of USD 21,408 thousand (30.0% of sales) as of September 30 2021.

Furthermore, as of September 30 2022, the Company's net cash balance is USD 13,258 thousands.

¹⁵ Operating working capital means - trade receivable plus the balance of inventory and net of trade payables.

Disclosure in accordance with the reportable credit directive:

Original loan amount (NIS thousand)	Loan balance as of 30.9.2022 (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	7,895	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 September 30 2022, the equity amounts to 49% of total assets.
10,000	5,263	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 September 30 2022, the said ratio is 0.62.
4,000	2,600	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	1,950	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. 24%) are at fixed interest (a total of approx. NIS 13 million (which are not impacted from the changes in interest rates in Israel), and some of the Company's financing sources (approx. 76%) are at variable interest based on Prime interest (approx. NIS 43 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.
11. For information regarding the fire, see Note 4E to the financial statements as of September 30 2022. As of the date of this report, advances of NIS 60 million 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 third quarter of 2022.

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

Dr. Israel Leshem, Director¹⁶

Date: November 17 2022

¹⁶ Director authorized by the Board of Directors to sign.



Chapter B

Financial Statements as of September 30, 2022



TURPAZ INDUSTRIES LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 2022

UNAUDITED

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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 Company" and "the Group", respectively), which comprises the condensed consolidated statement of financial position as of September 30, 2022 and the related condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the periods of nine 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 3.7% of total consolidated assets as of September 30, 2022, and whose revenues included in consolidation constitute approximately 4.9% and 9.8% of total consolidated revenues for the periods of nine and three months then ended, respectively. The condensed interim financial information of those companies was reviewed by other auditors, whose review reports have been furnished to us, and our conclusion, insofar as it relates to the financial information in respect of those companies, is based on the review reports of other auditors.

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

	September 30,		December 31,
	2022	2021	2021
	Unaudited		Audited
	U.S. dollars in thousands		
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	29,166	67,849	55,901
Trade receivables	28,710	13,569	20,861
Other accounts receivable	11,300	2,049	13,660
Inventories	23,768	15,643	15,660
	92,944	99,110	106,082
NON-CURRENT ASSETS:			
Deferred taxes	423	106	542
Property, plant and equipment	19,671	16,539	17,918
Right-of-use assets, net	15,372	11,397	12,395
Intangible assets, net	57,658	6,792	53,208*
	93,124	34,834	84,063*
	186,068	133,944	190,145*

* Reclassified see Note 4f

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	September 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	10,125	9,125	11,113
Trade payables	15,439	7,804	15,860
Other accounts payable	7,256	5,133	7,050
Liabilities in respect of acquisition of activity	571	469	1,198
Current maturities of lease liabilities	1,749	1,588	1,811
	35,140	24,119	37,032
NON-CURRENT LIABILITIES:			
Long-term loans from banks, less current maturities	4,686	7,256	7,101
Long-term loans from others, less current maturities	1,097	1,269	1,056
Provision for waste removal	5,129	5,199	5,174
Leases liabilities	13,667	9,799	31,998*
Liabilities in respect of acquisition of activity	31,874	1,539	14,522
Deferred taxes	3,383	300	3,750
Employee benefit liabilities	147	324	362
Government grants	78	135	112
	60,061	25,821	59,997*
EQUITY:			
Equity attributable to equity holders of the Company:			
Share capital *)	1	1	1
Share premium	74,449	62,654	74,449
Other capital reserves	(5,303)	105	(6,228)
Reserve in respect of translation differences	(9,210)	(172)	1,783
Retained earnings	30,110	18,463	22,430
	90,047	81,051	92,435
Non-controlling interests	820	2,953	681
Total equity	90,867	84,004	93,116
	186,068	133,944	190,145

* Reclassified see Note 4f

*) Less than \$ 1 thousand.

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

November 17, 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 November 17, 2022	Guy Gill CFO

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2022	2021	2022	2021	2021
	Unaudited				Audited
	U.S. dollars in thousands (except per share data)				
Revenues from sales	88,056	57,283	30,346	17,839	85,334
Cost of sales	53,742	34,247	18,396	10,583	50,606
Gross profit	34,314	23,036	11,950	7,256	34,728
Research and development expenses	2,329	1,321	827	432	1,949
Selling and marketing expenses	7,010	3,831	2,496	1,143	6,274
General and administrative expenses	10,496	6,350	3,632	2,318	10,257
Other expenses (income)	(24)	113	3	(54)	208
Operating income	14,503	11,421	4,992	3,417	16,040
Finance income	491	122	341	39	762
Finance expenses	(1,275)	(1,052)	(667)	(377)	(1,871)
Income before taxes on income	13,719	10,491	4,666	3,079	14,931
Taxes on income	1,929	1,652	1,075	557	2,119
Net income for the period	11,790	8,839	3,591	2,522	12,812
Total net income attributable to:					
Equity holders of the Company	11,651	8,640	3,530	2,545	12,607
Non-controlling interests	139	199	61	(23)	205
	11,790	8,839	3,591	2,522	12,812
Net earnings per share attributable to equity holders of the Company (in U.S. dollars):					
Basic net earnings per share	0.116	0.101	0.035	0.024	0.141

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2022	2021	2022	2021	2021
	Unaudited				Audited
	U.S. dollars in thousands				
Net income for the period	11,790	8,839	3,591	2,522	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	(12,254)	615	(1,280)	795	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	1,261	(386)	(880)	(372)	(2,717)
Total comprehensive income	797	9,068	1,431	2,945	14,395
Total comprehensive income attributable to:					
Equity holders of the Company	658	8,869	1,370	2,968	14,190
Non-controlling interests	139	199	61	(23)	205
	797	9,068	1,431	2,945	14,395

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	-	-	-	-	11,651	11,651	139	11,790
Total other comprehensive loss	-	-	-	(10,993)	-	(10,993)	-	(10,993)
Total comprehensive income (loss)	-	-	-	(10,993)	11,651	658	139	797
Share-based payment	-	-	925	-	-	925	-	925
Dividends to equity holders of the Company	-	-	-	-	(3,971)	(3,971)	-	(3,971)
Balance as of September 30, 2022	1	74,449	(5,308)	(9,210)	30,110	90,047	820	90,867

	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	-	-	-	-	8,640	8,640	199	8,839
Total other comprehensive income	-	-	-	229	-	229	-	229
Total comprehensive income	-	-	-	229	8,640	8,869	199	9,068
Share-based payment	-	-	105	-	-	105	-	105
Issue of share capital net	-	62,055	-	-	-	62,055	-	62,055
Balance as of September 30, 2021	1	62,055	105	429	18,463	81,053	2,953	84,006

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 July 1, 2022	1	74,449	(5,590)	(7,050)	26,580	88,390	759	89,146
Net income	-	-	-	-	3,530	3,530	61	3,591
Total other comprehensive loss	-	-	-	(2,160)	-	(2,160)	-	(2,160)
Total comprehensive income (loss)	-	-	-	(2,160)	3,530	1,370	61	1,431
Share-based payment	-	-	287	-	-	287	-	287
Balance as of September 30, 2022	1	74,449	(5,303)	(9,210)	30,110	90,047	820	90,867

	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 July 1, 2021	1	62,055	26	6	15,918	78,006	2,976	80,982
Net income	-	-	-	-	2,545	2,545	(23)	2,522
Total other comprehensive income	-	-	-	423	-	423	-	423
Total comprehensive income (loss)	-	-	-	423	2,545	2,968	(23)	2,945
Share-based payment	-	-	79	-	-	79	-	79
Balance as of September 30, 2021	1	62,055	105	429	18,463	81,053	2,953	84,006

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	-	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

	Nine months ended September 30,		Three months ended September 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	11,790	8,839	3,591	2,522	12,812
Adjustments to reconcile net income to net cash provided by (used in) operating activities (a)	(10,864)	992	(3,773)	2,402	(529)
Net cash provided by (used in) operating activities	926	9,831	(182)	4,924	12,283
<u>Cash flows from investing activities</u>					
Purchase of property, plant and equipment	(3,830)	(2,004)	(1,166)	(732)	(2,934)
Proceeds from sale of property, plant and equipment	-	107	-	75	108
Acquisition of activities (b)	-	-	-	-	(3,331)
Repayment of liability in respect of acquisition of activity	(950)	-	-	-	-
Acquisition of initially consolidated subsidiaries (c)	(10,556)	-	-	-	(316)
Net cash used in investing activities	(15,336)	(1,897)	(1,166)	(657)	(6,473)
<u>Cash flows from financing activities</u>					
Receipt (repayment) of short-term credit	616	(806)	954	(1,303)	(847)
Issue of share capital (net of issue expenses)	-	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	(1,519)	(1,240)	(614)	(425)	(1,847)
Repayment of long-term loans	(2,531)	(2,278)	(575)	(728)	(2,667)
Repayment of liability in respect of acquisition of activity	-	(1,193)	-	(414)	(1,600)
Net cash provided by (used in) financing activities	(7,405)	56,538	(235)	(2,870)	45,572
Exchange rate differences on balances of cash and cash equivalents	(4,920)	574	(727)	597	1,716
Increase (decrease) in cash and cash equivalents	(26,735)	65,046	(2,310)	1,994	53,098
Cash and cash equivalents at the beginning of the period	55,901	2,803	31,476	65,855	2,803
Cash and cash equivalents at the end of the period	29,166	67,849	29,166	67,849	55,901

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine months ended September 30,		Three months ended September 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	4,355	2,489	1,452	859	3,797
Capital loss (gain) from sale of property, plant and equipment	116	(60)	116	(46)	(61)
Change in employee benefit liabilities, net	(308)	19	(276)	7	51
Cost of share-based payment	925	105	287	79	184
Finance expenses, net	784	930	326	338	1,109
Taxes on income	1,929	1,605	1,075	510	1,518
	<u>7,801</u>	<u>5,088</u>	<u>2,980</u>	<u>1,747</u>	<u>6,598</u>
Changes in asset and liability items:					
Decrease (increase) in trade receivable	(7,624)	1,870	(4,415)	1,201	(3,580)
Decrease (increase) in other accounts receivable	1,119	(173)	2,334	392	406
Decrease (increase) in inventories	(7,669)	(423)	(1,979)	1,041	(5,226)
Increase (decrease) in trade payables	(567)	(2,420)	(1,512)	(1,915)	4,151
Increase (decrease) in other accounts payable	(1,300)	(859)	(60)	656	(16)
	<u>(16,041)</u>	<u>(2,005)</u>	<u>(5,632)</u>	<u>1,375</u>	<u>(4,265)</u>
	<u>(8,240)</u>	<u>3,083</u>	<u>(2,652)</u>	<u>3,122</u>	<u>2,333</u>
Cash paid and received during the period for:					
Taxes paid	<u>(2,255)</u>	<u>(1,590)</u>	<u>(946)</u>	<u>(463)</u>	<u>(2,404)</u>
Interest paid, net	<u>(369)</u>	<u>(501)</u>	<u>(175)</u>	<u>(257)</u>	<u>(458)</u>
	<u>(10,864)</u>	<u>992</u>	<u>(3,773)</u>	<u>2,402</u>	<u>(529)</u>

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine months ended September 30,		Three months ended September 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)	1,534	-	-	-	(1,246)
Property, plant and equipment	1,069	-	-	-	3,697
Right-of-use assets	2,744	-	-	-	145
Identifiable intangible assets	14,142	-	-	-	46,620*
Lease liabilities	(2,744)	-	-	-	(145)
Other non-current liabilities	(957)	-	-	-	(1,036)
Payables for acquisition of investments in subsidiaries	(4,518)	-	-	-	(31,769)*
Deferred taxes	714	-	-	-	(3,556)
Investment in exchange for issue of shares	-	-	-	-	(12,394)
	(10,556)	-	-	-	(316)
(d) <u>Significant non-cash transactions:</u>					
Right-of-use asset recognized with corresponding lease liabilities	3,204	698	112	317	5,252
Investment in exchange for issue of shares	-	-	-	-	12,394

* Reclassified see Note 4f

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 September 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 September 30, 2022 and for the periods of nine 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, except as described below.

- 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 COMBINATIONS

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 purchase price was allocated to tangible assets, intangible assets and liabilities acquired at their fair value on the purchase date. The fair value measurement of the assets and liabilities is subject to a final purchase price allocation (PPA) of the fair value of the assets and liabilities, which has not yet been completed as of the date of approval of these financial statements. The table below summarizes the purchase price and provisional PPA:

	January 17, 2022
	<u>U.S. dollars</u> <u>in thousands</u>
Working capital, net	(189)
Right-of-use asset	375
Property, plant and equipment	<u>563</u>
Net identifiable assets	749
Intangible assets	3,136
Lease liability	(375)
Deferred taxes	(88)
Other non-current liabilities	<u>(151)</u>
Total purchase price	<u><u>3,271</u></u>

From the consolidation date through September 30, 2022, the acquired operation has contributed approximately \$ 5,423 thousand to revenues and approximately \$ 843 thousand to net income.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3:- BUSINESS COMBINATIONS (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.

The purchase price was allocated to tangible assets, intangible assets and liabilities acquired at their fair value on the purchase date. The fair value measurement of the assets and liabilities is subject to a final purchase price allocation (PPA) of the fair value of the assets and liabilities, which has not yet been completed as of the date of approval of these financial statements. The table below summarizes the purchase price and provisional PPA:

	March 31, 2022
	U.S. dollars in thousands
Working capital, net	1,689
Right-of-use asset	2,228
Property, plant and equipment	466
Net identifiable assets	4,383
Intangible assets	7,749
Lease liability	(2,228)
Deferred taxes	(594)
Liability for purchase of operation	(4,361)
Other non-current liabilities	(734)
Total purchase price	4,215

From the consolidation date through September 30, 2022, the acquired operation has contributed approximately \$ 2,783 thousand to revenues and approximately \$ 447 thousand to net income.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3:- BUSINESS COMBINATIONS (Cont.)

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.

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

The purchase price was allocated to tangible assets, intangible assets and liabilities acquired at their fair value on the purchase date. The fair value measurement of the assets and liabilities is subject to a final purchase price allocation (PPA) of the fair value of the assets and liabilities, which has not yet been completed as of the date of approval of these financial statements. The table below summarizes the purchase price and provisional PPA:

	<u>April 12, 2022</u> <u>U.S. dollars</u> <u>in thousands</u>
Working capital, net	34
Right-of-use asset	141
Property, plant and equipment	<u>40</u>
Net identifiable assets	215
Intangible assets	3,257
Deferred taxes	(32)
Lease liability	(141)
Liability for purchase of operation	(157)
Other non-current liabilities	<u>(72)</u>
Total purchase price	<u><u>(3,070)</u></u>

From the consolidation date through September 30, 2022, the acquired operation has contributed approximately \$ 471 thousand to revenues and approximately \$ 85 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 at the grant date.

The Company recognized approximately \$ 740 thousand in salary expenses for the above plan from the allocation date through September 30, 2022.

In the Board's meeting on September 21, 2022, based on the recommendation of the Remuneration Committee and in accordance with the Company's remuneration policy and share-based payment plan, the Company's Board approved an immaterial and nonirregular private placement of 105,000 (unlisted) options to an employee who is an officer in the Company under the same terms as the grant from March 2022 mentioned above other than the exercise price which is NIS 20.37 per share, representing the average share price in the 30 trading days before the Board's approval for the grant. The fair value of the options was measured at approximately \$ 169 on the grant date.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

b. Distribution of dividend:

In March 2022, a dividend of approximately NIS 12.6 million (approximately \$ 3.97 million), representing approximately NIS 0.126 per ordinary share of the Company, was declared and paid.

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 merged with the transferee company.

d. Merger between the Company and Pentaor Ltd.:

After approval by the boards of both companies, a merger agreement was signed on September 21, 2022, pursuant to the provisions of section 103t to the Ordinance, between the Company ("the surviving company") and Pentaor 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. As of the financial statement date, the Director of the Tax Authority's approval for the merger has not yet been obtained.

e. The fire incident:

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.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

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, which was used to settle the total liability to the property owners and the balance, NIS 13 million, was transferred to SDA.

As of September 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 adverse 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 and the agreement should not cause cash flow difficulties.

- f. In keeping with the matters discussed in Note 5a to the annual consolidated financial statements, in the reporting period, the Company completed a PPA for the acquisition of Food Ingredients Technologies ("FIT") following the Company's acquisition of 60% of FIT's share capital in October 2021. The PPA was completed by adjusting the value of the liabilities in respect of the put option for purchasing FIT's remaining shares in return for € 15,441 thousand.
- g. On October 3, 2022, the Company, through a wholly owned subsidiary, completed a transaction for purchasing 81% of the issued and outstanding share capital and voting rights of Klabin Fragrances, Inc. ("Klabin"), a private company incorporated in the United States, from Klabin's shareholders in return for \$ 24.3 million. The purchase agreement consists of call/put options for purchasing the remaining shares of Klabin by the Company which can be exercised from January 1, 2026 for one year until December 31, 2026. The exercise price of the option is based on the business performances of the joint operation of Klabin and Turpaz USA in the U.S. fragrance market during the period from January 1, 2023 through the option exercise date. Klabin was founded in 1994 and began operating in 1998. It is engaged in research, development, production, marketing, sale and supply of custom fragrances, natural oils, essences, natural and synthetic ingredients, functional solutions and applications for the cosmetic industry, toiletries, candles, body and hair products, ambiance fragrances, detergents and fine fragrances. The acquisition of Klabin represents a strategic acquisition for the Group's U.S. operations by allowing the expansion of the Group's fragrance product portfolio and clientele while leveraging the development, procurement, marketing and sale synergies between the Group companies. The Company is acting to consolidate Klabin's operations with the Company's U.S. operation to reinforce its position as a major player in the local fragrance market.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

- h. On October 11, 2022, the Company, through a wholly owned subsidiary, signed an agreement for the purchase of 65% of the issued and outstanding share capital and voting rights of Aromatique Food Srl, a private company incorporated in Romania ("Aromatique"), from its single shareholder ("the seller"), in return for RON 17 million (approximately \$ 3.35 million) and for a future consideration based on Aromatique's business performances in the second half of 2022. The purchase agreement consists of call/put options for purchasing the remaining shares of Aromatique by the Company which can be exercised from January 1, 2025 for a price based on Aromatique's business performances in the period from January 1, 2023 through the option exercise date. Aromatique was founded in 2013 and is engaged in the research, development, production, marketing, sale and supply of savory functional ingredients and flavor mixtures mainly for the Romanian food industry. Closing of the transaction is pending the receipt of regulatory approvals from the Romanian authorities.
- i. 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.
- j. In keeping with the matters discussed in Note 16c to the annual consolidated financial statements regarding financial covenants, as of September 30, 2022, the Company is in compliance with its entire financial covenants.

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:

	Nine months ended September 30, 2022				
			Specialty intermediaries for the pharma industry	Specialty raw material ingredients	
	Flavors	Fragrances	Unaudited		Total
	U.S. dollars in thousands				
Segment revenue	44,534	19,753	12,390	11,379	88,056
Segment operating income net of unallocated joint expenses	6,564	6,064	3,411	3,112	19,1151
Unallocated joint expenses					4,648
Finance expenses, net					784
Income before taxes on income					13,719
	Nine months ended September 30, 2021				
			Specialty intermediaries for the pharma industry	Specialty raw material ingredients	
	Flavors	Fragrances	Unaudited		Total
	U.S. dollars in thousands				
Segment revenue	18,374	14,707	15,448	8,754	57,283
Segment operating income net of unallocated joint expenses	1,040	5,497	4,932	2,510	13,979
Unallocated joint expenses					2,558
Finance expenses, net					930
Income before taxes on income					10,491

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5:- OPERATING SEGMENTS (Cont.)

	Three months ended September 30, 2022				
			Specialty intermediaries for the pharma industry	Specialty raw material ingredients	
	Flavors	Fragrances			Total
	Unaudited				
	U.S. dollars in thousands				
Segment revenue	15,114	6,687	5,335	3,210	30,346
Segment operating income net of unallocated joint expenses	2,164	2,128	1,375	940	6,607
Unallocated joint expenses					1,615
Finance expenses, net					326
Income before taxes on income					4,666
	Three months ended September 30, 2021				
			Specialty intermediaries for the pharma industry	Specialty raw material ingredients	
	Flavors	Fragrances			Total
	Unaudited				
	U.S. dollars in thousands				
Segment revenue	5,129	5,134	5,965	1,611	17,839
Segment operating income net of unallocated joint expenses	244	1,907	1,979	525	4,655
Unallocated joint expenses					1,238
Finance expenses, net					338
Income before taxes on income					3,079

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:

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2022	2021	2022	2021	2021
	Unaudited				Audited
	U.S. dollars in thousands				
Israel and the Middle East	22,203	13,564	6,910	4,451	20,421
Europe	42,012	20,189	14,916	7,149	25,804
North America	15,525	17,317	6,486	4,835	30,870
Asia and other	8,316	6,213	2,034	1,404	8,239
	88,056	57,283	30,346	17,839	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 third 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.

November 17, 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, Guy Gill, 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 third 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.

November 17, 2022

Guy Gill

Chief Financial Officer