Turpaz Industries Ltd.

Periodic report for the quarter ended March 31, 2023

This is an English translation of a Hebrew Periodic report that was published on May 21, 2023 (reference no.: 2023-01-053748) (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 March 31, 2023

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 three months ended March 31, 2023, 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 2022 Periodic Report, which was published on March 27, 2023 (Ref. No.: 2023-01-027910) (hereinafter - the "**2022 Periodic Report**") is available to the reader. Unless otherwise stated, terms included in this report shall have the meaning assigned to them in the 2022 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 fragrances, used in the production of cosmetics, toiletries, personal care, air care & odor neutralizers products; natural and synthetic sweet and savory taste extracts, seasonings, unique functional solutions for the field of banking, and gluten free flours, which are used mainly in the production of food and beverages, specialty fine ingredients for the pharma and the agro and fine chemicals industries, and citrus products and aromatic chemicals for the flavor and fragrance industry.

The Turpaz Group has an extensive and diversified range of products, which are developed and produced in the Group's plants across the world. As of the report's publication date, the Group develops, produces, markets and sells products to more than 2,000 customers in more than 40 countries across the world, and operates approx. 13 manufacturing facilities, including R&D centers, laboratories and sales, marketing and regulation offices in Israel, the USA, Poland, Belgium, Vietnam, Latvia and Romania, which employ 425 employees.

Key operating results of Turpaz and the business environment

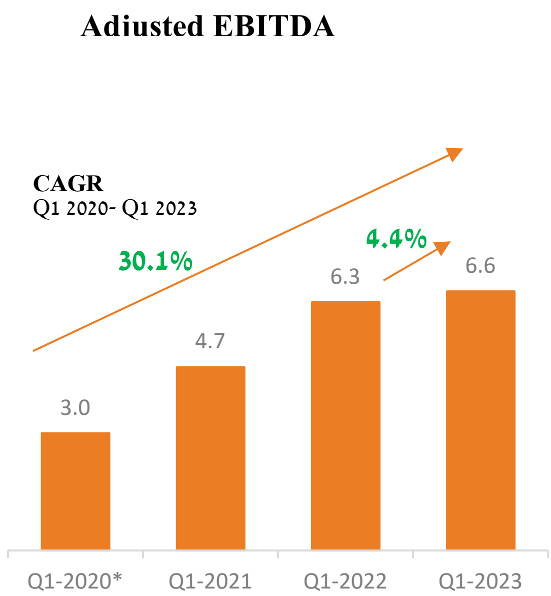
- Turpaz Group continues to present record results for the first quarter in terms of sales, gross profit, and adjusted EBITDA.
- In the first quarter of 2023, Turpaz' **sales** increased by approx. 12.8% and amounted to USD 30.9 million, compared with a total of USD 27.4 million in the corresponding quarter last year. The

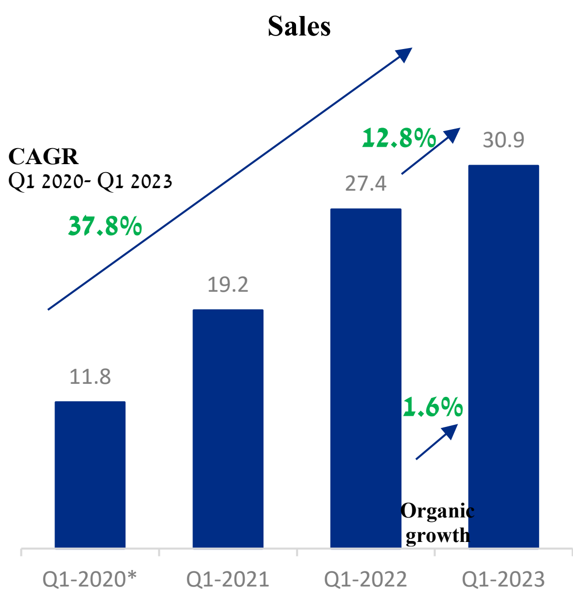
increase stems from organic growth[1], net of the effects of exchange rates of 1.6%, and from growth through the acquisition of companies and operations that were completed since 2022 through the date of this report.

- The sales of the **fragrance** segment increased by approx. 33%, of which organic growth net of the effects of exchange rates of approx. 15.0%; the sales of the **tastes** segment increased by approx. 22.3%, of which organic growth net of the effects of exchange rates of approx. 5.1%; at the same time, the sales of the **specialty fine ingredients segment** decreased by approx. 17.2%, of which organic growth net of the effects of exchange rates of approx. 16.4%, which mainly stems from destocking among segment's customers due to interest rate hikes across the world, and the economic uncertainty in the markets, a trend which is predicted to end in the second half of 2023.
- **Gross profit** increased by approx. 10.4% and amounted in the first quarter of 2023 to approx. USD 11.8 million compared with USD 10.7 million in the corresponding period last year, despite the increase in inflationary pressures due to increase in raw materials and energy prices and workforce costs.
- Turpaz enhanced and expanded its global management in order to support the Group's global growth strategy and leverage the synergy between the companies.
- **Operating profit** amounted in the first quarter of 2023 to approx. USD 4.2 million compared with approx. USD 4.6 million in the corresponding period last year; **net income** amounted to approx. USD 3.0 million, compared with approx. USD 4.0 million in the corresponding period last year.
- **Adjusted EBITDA**[2] increased by approx. 4.4% and amounted to approx. USD 6.6 million in the first quarter of 2023 compared with USD 6.3 million in the corresponding period last year.
- The Group's strong equity structure, low leverage levels, its USD 16.8 million cash balance, cash flow from operating activities, backing from leading financial institutions in Israel and across the world, the enhancement of management and the implementation of managerial infrastructures are expected to enable the continued implementation of the Group's combined growth strategy, which is based on organic growth and mergers and acquisitions, which are synergistic to the Group's activity.
- Turpaz completed eight acquisitions since its securities were listed on the stock exchange in May 2021.

[1] **Organic growth** - on a pro-forma basis, assuming that the acquisitions that were carried out in 2022 and in the first quarter of 2023 were consolidated in the financial statements as from January 1 2022.

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





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

Turpaz Group is engaged in the following three[3] segments:

1.1 **<u>The fragrance segment</u>** - 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 relationship 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 **<u>The taste segment</u>** - 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" products[4], reducing quantities of fat, salt and sugar in snacks, food products and beverages, while retaining the desired taste and texture of those products.

1.3 **<u>Specialty fine ingredients segment</u>** - in this segment, Turpaz Group is engaged in the development, production, marketing and sale of specialty fine ingredients used as intermediates and raw materials

[3] For more information about changes in segments, see Note 5 to the financial statements.
[4] Products whose list of components does not include products which are not natural products.

in the pharma industry, fine specialties ingredients used in various manufacturing processes to be used in a range of industries, mainly flavors and fragrances, agrochemicals, polymers and catalysts, and citrus products and aromatic chemicals for the flavor and fragrance industry. Turpaz Group's activity in this field focuses on the production of high-quality products of high added value.

Furthermore, the Turpaz Group has the capability to develop and produce custom-made products to its customers in this segment, 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.

As from the first quarter of 2023, the activity of specialty intermediates for the pharma industry segment is reported as a single segment together with the specialty fine ingredients segment. For more information about changes in segment, see Note 5 to the financial statements.

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.

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 and fragrances segments in order to improve the profits and profitability of the tastes segment in the following quarters. For information about the business environment and its effect on the Company's activity, see Chapter A to this report, which is attached to the 2022 Periodic Report.

Company's assessments as to the Group's growth rate, the demand trends among customers, 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 1.30 to Chapter A to the 2022 Periodic Report.

Acquisitions completed in the first quarter of 2023:

Acquisition of Aromatique Food

On January 9, 2023, the Company completed - through a wholly-owned subsidiary - 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 3.6 million). The acquisition 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 Aromatiue'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. Aromatique's results are consolidated with the Group's results as from this report.

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

2.1. On April 18 2023, the Company distributed a dividend at the total amount of NIS 18 million (approx. USD 5 million) to all its shareholders. For more information, see immediate report regarding dividend distribution of March 27, 2023 (Ref. No.: 2023-01-027916).

2.2. For information regarding an amendment to the agreement for the purchase of Klabin Fragrance Inc., see immediate report of March 27, 2023 (Ref. No.: 2023-01-027922), which is incorporated herein by way of reference.

2.3. For information regarding material events during and subsequent to the reporting period, see Note 4 to the financial statements.

3. Financial position

The strengthening of the dollar against the shekel as of March 31, 2023 ($1=NIS 3.615), compared with the dollar/shekel exchange rate as of December 31, 2022 ($1=NIS 3.519) caused a decrease in assets and liabilities as of March 31, 2023 compared to December 31, 2022.

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

	31.3.2023	31.3.2022	31.12.2022	Company's explanations compared with December 31 2022
Current assets	76,159	99,208	89,913	The change stems mainly from a USD 18.9 million decrease in cash as a result of USD 5.5 million in supplier payments in the first quarter of 2023 (including in respect of expenses relating to the fire), following receipt of insurance proceeds at the end of the fourth quarter of 2022, USD 8.3 million from credit repayment, USD 3.6 million from the completion of an acquisition of a company in the first quarter of 2023, and USD 1.5 million in respect of the acquisition of property, plant and equipment. The decrease in cash was partially offset against an increase in the trade receivable balance (approx. USD 3.1 million), and an increase in inventory (approx. USD 1.4 million) in view of the replenishment of inventories due to the fire.
Non-current assets	132,926	96,274	124,267	The increase stems mainly from the acquisition of Aromatique, which was completed in the first quarter of 2023, and from an increase in right-of-use assets.
Total assets	**209,085**	**195,482**	**214,180**	
Current liabilities	38,400	38,176	46,674	The decrease stems mainly from repayment of short-term credit at the total amount of USD 7.5 million.
Non-current liabilities	68,717	66,222	63,981	The increase stems mainly from a recognition of a liability in respect of the put option for the purchase of the remaining shares of Aromatique, whose acquisition was completed in the first quarter of 2023, and from an increase in the lease liability.
Total equity	**101,968**	**91,084**	**103,525**	The decrease arises mainly from a USD 5 million dividend to the shareholders in respect of 2022, which is offset against the net income for the period - USD 3 million - and translation differences due to changes in exchange rates of currencies.
Total liabilities and equity	**209,085**	**195,482**	**214,180**	

4. Operating results

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

Line item	For the three-month period ended March 31, 2023	For the three-month period ended March 31, 2022	For the year ended December 31, 2022	Company's explanations compared to the corresponding period last year
Revenues from sales	**30,914**	**27,405**	**118,556**	Revenues from sales increased by 12.8%, as a result of organic growth[5] (net of the effects of exchange rates of 1.6%), and as a result of acquisitions completed in 2022 and the first quarter of 2023. The effect of exchange rates of foreign currencies reduced sales by 4.6%.
Cost of sales	19,095	16,701	70,897	Gross profit increased by approx. 10.4% despite inflationary pressures due to increase in raw materials and energy prices and workforce costs.
Gross profit (% of sales)	11,819 38.2%	10,704 39.1%	47,659 40.2%	
Research and development expenses (% of sales)	1,094 3.5%	785 2.9%	3,607 3.0%	The increase in development expenses stems from continued investment in the development of new products, the improvement of existing products, the acquisitions completed in 2022 and the first quarter of 2023, and the amortization of intangible assets in respect of these acquisitions.
Selling and marketing expenses (% of sales)	2,526 8.2%	2,343 8.5%	10,016 8.4%	Selling and marketing expenses at a similar level as in the corresponding period last year.
General and administrative expenses (% of sales)	3,863 12.5%	3,027 11.0%	15,055 12.7%	The increase in general and administrative expenses arises from and increase in personnel due to acquisitions completed in 2022 and in the first quarter of 2023, and from recruitment of management teams and strengthening of the Company's headquarters, in order to support Turpaz Group's global growth strategy; the increase also stems from the effect of the amortization of the options.
Other expenses (income)	176	(8)	(8,349)	These expenses mainly include expenses in respect of acquisition of companies.
Income from ordinary operations (% of sales)	**4,160** 13.5%	**4,557** 16.6%	**27,330** 23.1%	The change stems mainly from an increase in amortization of options and intangible assets in respect of acquisitions completed in 2022 and in the first quarter of 2023, amounting to USD 0.6 million.
Income from ordinary operations, net of one-off profit arising from the fire.	4,160 13.5%	4,557 16.6%	19,153 16.2%	
Finance expenses, net	575	322	1,513	
Taxes on income	578	275	4,486	The increase is attributed to one-off tax income in the corresponding quarter amounting to USD 0.6 million, in respect of creation of deferred taxes for past losses.
Net income for the period (% of sales)	**3,007** 9.7%	**3,960** 14.4%	21,331 18.0%	The change stems mainly from an increase in amortization of options and intangible assets, and from one-off tax income as stated above.

EBITDA[6]	6,422	6,213	35,039	Adjusted EBITDA increased by 4.4% compared with the corresponding period last year. The increase in the rate of adjusted EBITDA stems from the reasons listed above in this table.
Adj. EBITDA[7] (% of sales)	6,594 21.3%	6,318 23.1%	26,862 22.7%	

[5] See footnote 1 above.
[6] EBITDA means - earnings before interest, taxes, depreciation and amortization. This is a data normally used to measure the operational efficiency of companies.
[7] Non-recurring expenses in the first quarter of 2023 included legal expenses and other expenses in respect of acquisition of activities and closing of a site during the reporting period, amounting to USD 172 thousand.

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

Segment		For the three-month period ended March 31, 2023	For the three-month period ended March 31, 2022	For the 12-month period ended December 31, 2022	Company's explanations to the change in the first quarter of 2023 compared with the first quarter of 2022
Fragrance segment	Revenues	7,968	5,992	27,490	Revenues increased by approx. 33%; the increase stems mainly from organic growth, net of the effects of exchange rates of 15.0%, and from the acquisition of Klabin in the fourth quarter of 2022. The effect of exchange rates of foreign currencies reduced sales by approx. 6.8%. The profitability of the fragrances segment was impacted by an operational streamlining plan in the USA, which included non-recurring expenses in respect of the closing of the Turpaz USA site, and the transfer of the manufacturing, development and sales activities to Klabin's state of the art site in New Jersey. The profitability of the segment was also impacted by the consolidation of the results of Klabin, whose profitability is lower than that of the segment as a whole, and by an increase in raw materials prices. Turpaz takes steps to increase the efficiency of Klabin's operations in order to increase the level of the segment's profits to that of the Company as a whole in subsequent quarters.
	Operating profit (% of sales)	1,582 19.9%	1,793 29.9%	7,390 26.9%	
Taste segment	Revenues	16,145	13,198	59,325	Revenues increased by 22.3%, mainly as a result of organic growth ,net of the effects of exchange rates of 5.1%, and as a result of acquisitions completed in 2022 and the first quarter of 2023. The effect of exchange rates of foreign currencies reduced sales by 5.5%. The segment's profitability increased as a result of the implementation of a plan for operational streamlining in the segment's companies.
	Operating profit (% of sales)	2,860 17.7%	1,743 13.2%	17,667 29.8%	
	Operating profit, net of one-off profit from the fire (% of sales)	2,860 17.7%	1,743 13.2%	8,873 15.0%	
Specialty fine ingredients segment	Revenues	6,801	8,215	31,741	Revenues declined by approx. 17.2%; the decrease stems mainly from an organic decrease, net of the effects of exchange rates of 16.4%, which stems mainly from the continued decline in customers' inventory levels due to interest rate hikes across the world and the economic unclarity in the markets. The effect of exchange rates of foreign currencies reduced sales by 1.0%. The change in profitability stems mainly from a decline in sales, an increase in raw materials prices, and an increase in fixed operating costs.
	Operating profit (% of sales)	1,336 19.6%	2,198 26.8%	9,086 28.6%	
Unallocated joint expenses	Revenues	-	-	-	In the first quarter of 2023, the expenses constituted approx. 5.2% of the turnover, compared with 4.3% in the corresponding period last year. 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. Furthermore, the increase in expenses stems from the effect of the amortization of the options.
	Operating profit	(1,618)	(1,177)	(6,813)	
Total	Revenues	30,914	27,405	118,556	
	Operating profit (% of sales)	4,160 13.5%	4,557 16.6%	27,330 23.1%	

5. Liquidity

As of March 31, 2023, the Company has a cash balance of USD 16,806 thousand; set forth below are the key components of the cash flows and the way they were utilized (in USD thousand):

	For the three-month period ended March 31, 2023	For the three-month period ended March 31, 2022	For the 12-month period ended December 31, 2022	Company's explanations to the change in the first quarter of 2023 compared with the first quarter of 2022
Net cash provided by operating activities	(4,735)	5,368	31,938	The change stems from payment to suppliers in the first quarter of 2023 (including in respect of expenses relating to the fire), following receipt of insurance proceeds at the end of the fourth quarter of 2022, a decrease in accounts payable and accruals, and an increase in trade receivable.
Net cash used in investing activities	(5,067)	(10,196)	(39,802)	The change arises mainly from completion of acquisition of companies and repayment of an undertaking in respect thereof (totaling USD 3.6 million) compared with USD 8.4 million in the corresponding period last year, and from a USD 1.5 million investment in property, plant and equipment compared with USD 1.7 million in the corresponding period last year.
Net cash provided by (used in) financing activities	(8,822)	(6,103)	(7,519)	The change stems mainly from USD 8.3 million in repayment of credit compared with USD 1.6 million in the corresponding period last year (after offsetting a USD 4 million dividend that was paid in the corresponding quarter last year).
Exchange differences in respect of cash and cash equivalents	(245)	(1,011)	(4,843)	
Total change in cash and cash equivalents	**(18,869)**	**(11,942)**	**(20,226)**	

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 2022 Periodic Report.

Line item	**Data as of 31.3.2023**		**Data as of 31.3.2022**	
	USD thousand	**% of total balance sheet**	**USD thousand**	**% of total balance sheet**
Equity	101,968	48.8%	91,084	46.6%
Other long-term liabilities	65,348	31.2%	59,561	30.5%
Long-term liabilities from banks, net of current maturities	3,369	1.6%	6,661	3.4%
Short-term credit	4,347	2.1%	10,382	5.3%
Suppliers credit	14,362	6.9%	16,092	8.2%
Other long-term payables	19,691	9.4%	11,702	6%
Total	**209,085**	**100%**	**195,482**	**100%**

The average amount of the long-term loans in the first quarter of 2023 was USD 3,713 thousand.
The average amount of the short-term credit in the first quarter of 2023 was USD 8,192 thousand.

As of March 31 2023, the Company's working capital is USD 37,759 thousand, compared with working capital of USD 61,032 thousand as of March 31 2022.

As of March 31 2023, the Company's operating working capital[8] is USD 41,311 thousand (33.4% of the sales), compared with operating working capital of USD 24,738 thousand (22.6% of sales) as of March 31, 2022, and USD 31,850 thousand (26.1% of sales) as of December 31, 2022. The change in operating working capital stems mainly from supplier payments in the first quarter of 2023, which were paid after receipt of insurance proceeds at the end of the fourth quarter of 2022, and the replenishment of inventories following the fire.

The Company's net cash balance[9] as of March 31, 2023 is USD 8,610 thousand.

[8]Operating working capital means - trade receivable plus the balance of inventory and net of trade payables.
[9]Cash net of debt.

Disclosure in accordance with the reportable credit directive:

Original loan amount (NIS thousand)	Loan balance as of 31.3.2022 (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	6,711	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.	3.1%	-	Equity to assets - the Company's equity shall not be lower than 25% of total assets at any given time. As of March 31 2023, the equity amounts to 48.8% of total assets. Debt coverage ratio - shall not exceed 3.5 at any given time. As of March 31 2023, the debt coverage ratio is 0.3.
10,000	4,474	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 plus 0.8%	-	
4,000	2,200	February 2021	20 equal quarterly payments starting in February 2021.	2.3%	See Note 20C to the Company's consolidated financial statements as of December 31 2022.	
3,000	1,650	February 2021	20 equal quarterly payments starting in February 2021.	Prime plus 0.75%		

7. The effect of inflation and interest rates

Further to what is stated in Section 1.8.5 to Chapter A to the Company's Annual Report, in the first quarter of 2023 inflation rates in Israel and across the world continued to rise, and accordingly central banks continued to increase inflation rates in an attempt to curb inflation. In Israel, the Bank of Israel increased its interest rate during the first quarter, and as of the report's publication date, the interest rate stands at 4.5%. In Europe, the Central European Bank (ECB) increased its interest rate to 3.75% as of the publication date of this report, and in the USA the interest rate increased to 5.25% as of the publication date of this report. As of the report date, the Company does not have material CPI-linked or unlinked loans, and therefore, the above-mentioned changes do not have a material effect on the Company's results.

However, a future increase in the Company's loans balance as part of the Group's combined strategy shall lead to an increase in financing costs, and therefore will affect the Company's financial results.

Following the increase in raw material prices and inflation, 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.

As of the report date, the Company is unable to assess the future impact of all of the above-mentioned factors, if any, on the markets in which it operates 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 and the implementation of its strategy.

All assumptions and data listed in this Section above regarding the effect of inflation and interest rates on the Company's results constitute forward-looking forecasts, assessments and estimates, as defined in the Securities Law, which are based on the Company's assessments of developments and current and future events, whose date of occurrence, if any, is uncertain and outside the Company's control. These assessments may not materialize, in whole or in part, or may materialize in a manner different than that expected by the Company, due to, among other things, changes in the economic situation in Israel and in other countries in which the Company operates as part of its operating segments.

8. For information regarding the social-economic situation in Israel and across the world and the war between Russia and Ukraine, see Section 1.8 to Chapter A to the 2022 Periodic Report.

The Board of Directors wishes to thank the Company's management and its employees for the results achieved in the first quarter of 2023.

Karen Cohen Khazon, CEO and Chairperson of the Board of Directors	**Dr. Israel Leshem, Director**[10]

Date: May 18, 2023

[10] Director authorized by the Board of Directors to sign.

Chapter B

Financial Statements as of March 31, 2023

TURPAZ INDUSTRIES LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF MARCH 31, 2023

UNAUDITED

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Building a better
working world

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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 March 31, 2023 and the related condensed consolidated statements of comprehensive income, changes in equity and cash flows for the period of three months then ended. The Company's board of directors and management are responsible for the preparation and presentation of interim financial information for this period 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 3.9% of total consolidated assets as of March 31, 2023, and whose revenues included in consolidation constitute approximately 6.6% of total consolidated revenues for the period of three months then ended. 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.

Tel-Aviv, Israel
May 18, 2023

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	March 31,		December 31,
	2023	2022	2022
	Unaudited		Audited
	U.S. dollars in thousands		
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	16,806	43,959	35,675
Trade receivables	28,283	21,741	25,164
Other accounts receivable	3,680	14,419	3,082
Inventories	27,390	19,089	25,992
	76,159	99,208	89,913
NON-CURRENT ASSETS:			
Deferred taxes	402	1,084	515
Property, plant and equipment	22,662	19,259	21,259
Right-of-use assets, net	20,839	14,513	18,563
Intangible assets, net	89,023	*) 61,418	83,930
	132,926	*) 96,274	124,267
	209,085	*) 195,482	214,180

*) Restated, see Note 5e to the annual consolidated financial statements as of December 31, 2022.

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	March 31,		December 31,
	2023	2022	2022
	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	4,347	10,382	12,036
Trade payables	14,362	16,092	19,306
Other accounts payable	17,398	9,667	13,048
Short-term liabilities in respect of acquisition of activity	329	330	338
Current maturities of lease liabilities	1,964	1,705	1,946
	38,400	38,176	46,674
NON-CURRENT LIABILITIES:			
Long-term loans from banks, less current maturities	3,369	6,661	4,056
Long-term loans from others, less current maturities	480	1,407	476
Provision for waste removal	3,482	5,232	3,454
Long-term lease liabilities	19,317	12,711	16,585
Long-term liabilities in respect of acquisition of activity	37,933	*) 35,731	35,401
Deferred taxes	3,909	3,869	3,811
Employee benefit liabilities	156	525	139
Other long-term payables	71	86	59
	68,717	*) 66,222	63,981
EQUITY:			
Equity attributable to equity holders of the Company:			
Share capital **)	1	1	1
Share premium	74,449	74,449	74,449
Other capital reserves	(4,610)	(6,078)	(4,857)
Reserve in respect of translation differences	(6,387)	(388)	(6,542)
Retained earnings	37,643	22,383	39,633
	101,096	90,367	102,684
Non-controlling interests	872	717	841
Total equity	101,968	91,084	103,525
	209,085	*) 195,482	214,180

*) Restated, see Note 5e to the annual consolidated financial statements as of December 31, 2022.

**) Less than $ 1 thousand.

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

May 18, 2023			
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 May 18, 2023	Guy Gill CFO

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three months ended March 31, 2023	Three months ended March 31, 2022	Year ended December 31, 2022
	Unaudited	Unaudited	Audited
	U.S. dollars in thousands (except per share data)		
Revenues from sales	30,914	27,405	118,556
Cost of sales	19,095	16,701	70,897
Gross profit	11,819	10,704	47,659
Research and development expenses	1,094	785	3,607
Selling and marketing expenses	2,526	2,343	10,016
General and administrative expenses	3,863	3,027	15,055
Other expenses (income)	176	(8)	(8,349)
Operating income	4,160	4,557	27,330
Finance expenses, net	575	322	1,513
Income before taxes on income	3,585	4,235	25,817
Taxes on income	578	275	4,486
Net income for the period	3,007	3,960	21,331
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	(3,320)	(1,950)	(12,216)
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	3,475	(221)	3,891
Total comprehensive income	3,162	1,789	13,006
Total net income attributable to:			
Equity holders of the Company	2,976	3,924	21,174
Non-controlling interests	31	36	157
	3,007	3,960	21,331
Total comprehensive income attributable to:			
Equity holders of the Company	3,131	1,753	12,849
Non-controlling interests	31	36	157
	3,162	1,789	13,006
Net earnings per share attributable to equity holders of the Company (in U.S. dollars):			
Basic and diluted net earnings per share	0.030	0.039	0.21

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, 2023 (audited)	1	74,449	(4,857)	(6,542)	39,633	102,684	841	103,525
Net income	-	-	-	-	2,976	2,976	31	3,007
Total other comprehensive income	-	-	-	155	-	155	-	155
Total comprehensive income	-	-	-	155	2,976	3,131	31	3,162
Share-based payment	-	-	247	-	-	247	-	247
Dividends to equity holders of the Company	-	-	-	-	(4,966)	(4,966)	-	(4,966)
Balance as of March 31, 2023	1	74,449	(4,610)	(6,387)	37,643	101,096	872	101,968

	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	-	-	-	-	3,924	3,924	36	3,960
Total other comprehensive loss	-	-	-	(2,171)	-	(2,171)	-	(2,171)
Total comprehensive income (loss)	-	-	-	(2,171)	3,924	1,753	36	1,789
Share-based payment	-	-	150	-	-	150	-	150
Dividends to equity holders of the Company	-	-	-	-	(3,971)	(3,971)	-	(3,971)
Balance as of March 31, 2022	1	74,449	(6,078)	(388)	22,383	90,367	717	91,084

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
	Audited							
	U.S. dollars in thousands							
Balance as of January 1, 2022	1	74,449	(6,228)	1,783	22,430	92,435	681	93,116
Net income	-	-	-	-	21,174	21,174	157	21,331
Total other comprehensive loss	-	-	-	(8,325)	-	(8,325)	-	(8,325)
Total comprehensive income (loss)	-	-	-	(8,325)	21,174	12,849	157	13,006
Share-based payment	-	-	1,371	-	-	1,371	-	1,371
Dividends distributed	-	-	-	-	(3,971)	(3,971)	(8)	(3,979)
Acquisition of non-controlling interests in newly consolidated subsidiaries	-	-	-	-	-	-	11	11
Balance as of December 31, 2022	1	74,449	(4,857)	(6,542)	39,633	102,684	841	103,525

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended March 31,		Year ended December 31,
	2023	2022	2022
	Unaudited		Audited
	U.S. dollars in thousands		
Cash flows from operating activities:			
Net income for the period	3,007	3,960	21,331
Adjustments to reconcile net income to net cash provided by (used in) operating activities (a)	(7,742)	1,408	10,607
Net cash provided by (used in) operating activities	(4,735)	5,368	31,938
Cash flows from investing activities			
Purchase of property, plant and equipment	(1,506)	(1,749)	(5,850)
Proceeds from sale of property, plant and equipment	64	-	55
Acquisition of initially consolidated subsidiaries (b)	(3,625)	(7,481)	(32,995)
Repayment of liability in respect of acquisition of activity	-	(966)	(1,012)
Net cash used in investing activities	(5,067)	(10,196)	(39,802)
Cash flows from financing activities			
Receipt (repayment) of short-term credit	(7,469)	(814)	2,967
Dividend paid to equity holders of the Company	-	(3,971)	(3,971)
Dividend paid to non-controlling interests	-	-	(8)
Repayment of long-term lease liabilities	(542)	(481)	(2,358)
Repayment of long-term loans	(811)	(837)	(4,149)
Net cash used in financing activities	(8,822)	(6,103)	(7,519)
Exchange rate differences on balances of cash and cash equivalents	(245)	(1,011)	(4,843)
Decrease in cash and cash equivalents	(18,869)	(11,942)	(20,226)
Cash and cash equivalents at the beginning of the period	35,675	55,901	55,901
Cash and cash equivalents at the end of the period	16,806	43,959	35,675

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended March 31, 2023	Three months ended March 31, 2022	Year ended December 31, 2022
	Unaudited	Unaudited	Audited
	U.S. dollars in thousands		
(a) Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Adjustments to profit and loss items:			
Depreciation and amortization	2,015	1,506	6,338
Capital loss (gain) from sale of property, plant and equipment	5	-	(12)
Change in employee benefit liabilities, net	(2)	116	(326)
Cost of share-based payment	247	150	1,371
Finance expenses, net	575	322	1,513
Taxes on income	578	275	4,486
	3,418	2,369	13,370
Changes in asset and liability items:			
Decrease (increase) in trade receivables	(2,662)	1,026	(3,372)
Decrease (increase) in other accounts receivable	(608)	(658)	9,144
Increase in inventories	(804)	(1,067)	(8,929)
Increase (decrease) in trade payables	(5,542)	(1,178)	2,801
Increase (decrease) in other accounts payable	(281)	1,823	1,499
	(9,897)	(54)	1,143
	(6,479)	2,315	14,513
Cash paid and received during the period for:			
Taxes paid	(869)	(801)	(2,869)
Interest paid, net	(394)	(106)	(1,037)
	(7,742)	1,408	10,607

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended March 31, 2023	Three months ended March 31, 2022	Year ended December 31, 2022
	Unaudited	Unaudited	Audited
	U.S. dollars in thousands		
(b) Acquisition of initially consolidated subsidiaries:			
The subsidiaries' assets and liabilities at date of acquisition:			
Working capital (excluding cash and cash equivalents)	308	2,222	2,585
Property, plant and equipment	303	1,018	864
Right-of-use assets	149	2,602	5,069
Intangible assets	5,119	9,765	36,888
Lease liabilities	(149)	(2,602)	(5,069)
Other non-current liabilities	(20)	(885)	(806)
Payables for acquisition of investments in subsidiaries	(1,791)	(4,361)	(5,733)
Deferred taxes	(294)	(278)	(792)
Non-controlling interests	-	-	(11)
	3,625	7,481	32,995
(c) Significant non-cash transactions:			
Dividend payable	4,966	-	-
Right-of-use asset recognized with corresponding lease liabilities	3,175	142	4,518

The accompanying notes are an integral part of the 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 March 31, 2023 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 three operating segments: (1) tastes; (2) fragrances; (3) specialty raw material ingredients (see Note 5).

These financial statements have been prepared in a condensed format as of March 31, 2023 and for the period of 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, 2022 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 to cause major casualties, damage to infrastructures and disruption of the Ukrainian economy. As a result, several countries (including the U.S., U.K. and the EU) imposed economic sanctions on certain entities and individuals in Russia or related to Russia elsewhere in the world. Various sanctions were also levied on Belarus.

These sanctions are likely to have a direct impact on these entities and individuals and indirectly affect their business partners as well as certain industries in the Russian and Belarussian economies.

The potential fluctuations in commodity prices, foreign exchange rates, import and export restrictions, availability of materials and local services and access to local resources are all factors that affect entities operating in or with major exposure to Russia, Belarus and Ukraine.

As of the date of these interim consolidated financial statements, the Company assesses that the war in Ukraine has not had a material impact on the Group's operating results. However, the war's implications challenge the markets in which the Company operates including disruption of supply chains and raw material availability which, together with the rise in inflation, have led to increases in raw material prices. The increases in raw material prices did not have a material effect on the Company's financial statements.

NOTE 1:- GENERAL (Cont.)

c. Effects of inflation and increase in interest rate:

Following the global macroeconomic developments in 2022, there was an increase in rates of inflation in Israel and worldwide. As part of the measures taken to restrain inflationary price increases, central banks around the world, including the Bank of Israel, began raising their benchmark interest rates.

As of the reporting date, the Company has no material indexed or unindexed loans or loans bearing variable interest and therefore the above changes are not likely to affect its results. Nevertheless, a future increase in the Company's debt as part of practicing the Group's integrated business strategy will likely lead to an increase in the Group's finance expenses.

The Company also examined the discount rate used to calculate the value in use of its cash-generating units and found that the updated rate does not significantly reduce the recoverable amounts.

Due to the increase in raw material prices and in inflation, the Company is taking steps to update the prices of products sold to customers to mitigate the markup effect on its operations.

As of the financial statement date, the Company is unable to assess the future effects of all the factors discussed above, if any, on the markets in which it operates and specifically on its activities. Notwithstanding the aforesaid, the Company estimates that they will not have a material impact on its operating results and ability to realize its business strategy.

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, 2022.

b. Initial application of amendments to existing accounting standards:

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

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

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

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

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

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

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

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

The application of the Amendment did not have a material impact on the Company's interim consolidated financial statements but is expected to affect the disclosure of the composition of deferred taxes in the Company's annual consolidated financial statements for 2023.

3. Amendment to IAS 1 - Disclosure of Accounting Policies:

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

The Amendment is applicable for annual periods beginning on or after January 1, 2023.

The application of the Amendment did not have a material impact on the Company's interim consolidated financial statements and is not expected to affect the accounting policy disclosures in the Company's annual consolidated financial statements for 2023.

NOTE 3:- BUSINESS COMBINATION

Acquisition of Aromatique:

On January 9, 2023, after obtaining the regulatory approvals in Romania, the Company, through a wholly owned subsidiary, completed 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 $ 3.6 million). 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.

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 9, 2023
	U.S. dollars in thousands
Working capital, net	308
Right-of-use asset	149
Property, plant and equipment	303
Deferred taxes	(294)
Lease liabilities	(149)
Other non-current liabilities	(20)
Net identifiable assets	297
Intangible assets	5,119
Purchase price:	
Paid in cash	3,625
Liability for contingent consideration and acquisitions date adjustments	1,791
Total purchase price	5,416

From the consolidation date through March 31, 2023, the acquired operation has contributed approximately $ 1,182 thousand to revenues and approximately $ 93 thousand to net income.

NOTE 4:- EVENTS DURING AND AFTER THE REPORTING PERIOD

a. Merger between the Company and Pentaor Ltd.:

On September 21, 2022, following the approval of the companies' boards, a merger agreement was signed pursuant to the provisions of Section 103C to the Income Tax Ordinance, between the Company and Pentaor Ltd. In accordance with the merger agreement, the companies will be merged through the exchange of shares pursuant to Section 103C to the Income Tax Ordinance, so that upon completion of the merger transaction, the Company will hold all of the share capital of Pentaor Ltd. The ITA's approval for the merger was obtained on March 14, 2023 and the relevant merger documents were produced to the Registrar of Companies for approval of the merger.

b. Dividend distribution:

On March 26, 2023, the Company declared the distribution of a dividend of approximately $ 5 million, representing $ 0.0496 per share. The dividend was distributed to the entire shareholders of the Company on April 18, 2023.

c. On March 26, 2023, the Company signed an amendment to the Klabin acquisition agreement, see Note 5d to the annual consolidated financial statements.

d. In keeping with the matters discussed in Note 16c to the annual consolidated financial statements regarding financial covenants, the Company is in compliance with the entire applicable financial covenants.

NOTE 5:- OPERATING SEGMENTS

a. General:

As described in the annual consolidated financial statements, given the significant acquisitions made by the Company, its current economies of scale and diversification of income sources, the chief operating decision maker ("CODM") ceased analyzing the operating segments of specialty intermediates for the pharma industry and specialty ingredients separately and began analyzing them aggregately as a single reportable operating segment (specialty raw material ingredients).

As a result, comparative data have been restated.

Based on the aforesaid, the Group discloses three operating segments: (1) tastes; (2) fragrances; and (3) specialty raw material ingredients.

The segments' performances (segment profits) are estimated based on operating income (income before net finance expenses and unallocated expenses), as presented in the financial statements.

NOTE 5:- OPERATING SEGMENTS (Cont.)

b. Reporting on operating segments:

	Three months ended March 31, 2023			
	Tastes	Fragrances	Specialty raw material ingredients	Total
	Unaudited			
	U.S. dollars in thousands			
Segment revenue	16,145	7,968	6,801	30,914
Segment operating income net of unallocated joint expenses	2,860	1,582	1,336	5,778
Unallocated joint expenses				1,618
Finance expenses, net				575
Income before taxes on income				3,585

	Three months ended March 31, 2022			
	Tastes	Fragrances	Specialty raw material ingredients	Total
	Unaudited			
	U.S. dollars in thousands			
Segment revenue	13,198	5,992	*) 8,215	27,405
Segment operating income net of unallocated joint expenses	1,743	1,793	*) 2,198	5,734
Unallocated joint expenses				1,177
Finance expenses, net				322
Income before taxes on income				4,235

*) Restated.

NOTE 5:- OPERATING SEGMENTS (Cont.)

	Year ended December 31, 2022			
	Tastes	Fragrances	Specialty raw material ingredients	Total
	Audited			
	U.S. dollars in thousands			
Segment revenue	59,325	27,490	*) 31,741	118,556
Segment operating income net of unallocated joint expenses	17,667	7,390	*) 9,086	34,143
Unallocated joint expenses				6,813
Finance expenses, net				1,513
Income before taxes on income				25,817

*) Restated.

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:

	Three months ended March 31,		Year ended December 31,
	2023	2022	2022
	Unaudited		Audited
	U.S. dollars in thousands		
Israel and the Middle East	7,982	7,147	29,099
Europe	14,704	10,991	48,922
North America	4,378	*) 4,784	21,555
Asia and other	3,850	*) 4,483	18,980
	30,914	27,405	118,556

*) Reclassified.

NOTE 6:- FINANCIAL INSTRUMENTS

a. Fair value:

In the reporting period, the Company measured the fair value of financial assets and liabilities measured at amortized cost and concluded that their fair value is not materially different from their carrying amount.

b. Liabilities in respect of put options and contingent consideration:

Some of the business combinations executed by the Company include a mechanism whereby the previous owners have a put option to sell their remaining shares and the Company has a call option to buy those shares (symmetrical put-call options) while others include a contingent consideration mechanism based on the future operating results of the acquirees.

As of March 31, 2023, total liabilities amounted to $ 37,933 thousand. The value of the liabilities was estimated in accordance with the average EBITDA achieved over the term of the agreement. The weighted annual discount rate of the options is 8.6%. The fair value is measured at level 3 in the fair value hierarchy. The key non-observable input used by the Company to assess the value of the option is the future EBITDA that will be achieved; in order to assess the liabilities in respect of the options and update their value, the Company used the companies' ongoing results and updated forecasts.

Adjustment for fair value measurements classified at Level 3 in the fair value hierarchy:

	March 31,		December 31,
	2023	**2022**	**2022**
	Unaudited		**Audited**
	U.S. dollars in thousands		
Balance as of January 1,	(35,401)	(31,998)	(31,998)
Total gain (loss) recognized:			
In profit or loss	(210)	(26)	(307)
In other comprehensive income (loss)	(531)	654	2,262
In business combinations	(1,791)	(4,361)	(5,358)
Balance at end of period	(37,933)	(35,731)	(35,401)

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Turpaz Industries Ltd.

Chapter C

Managers’ statements

Quarterly report regarding the effectiveness of internal control over financial reposting and disclosure in accordance with Regulation 38C to the Securities Regulations (Periodic and Immediate Reports), 1970, for the first quarter of 2023:

Turpaz Industries Ltd.'s management (hereinafter - the "Corporation"), under the supervision of the Board of Directors, is responsible for maintaining and implementing appropriate internal control over financial reporting and disclosure in the Corporation.

For that purpose, members of management are:

1. Karen Cohen Khazon, CEO and Chairperson of the Board of Directors

2. Guy Gill, Chief Financial Officer

3. Shauli Eger, VP IT

4. Yoni Adini, Legal Counsel and Company Secretary

5. Idan Shabtay, Group Comptroller

Internal control over financial reporting and disclosure includes controls and procedures maintained by the Corporation, and designed by the CEO and the most senior financial officer or under their supervision, or by those who effectively execute the said offices, under the supervision of the Corporation's Board of Directors, which were designed to obtain reasonable assurance as to the reliability of the financial reporting and preparation of the reports in accordance with the provisions of the law, and to ensure that information that the Corporation is required to disclose in the reports it publishes in accordance with the provisions of the law is collected, processed, summarized and reported on the date and in the format prescribed by law.

The internal control, includes, among other things, controls and procedures that were designed to ensure that information that the Corporation is required to disclose as stated above, is collected and transferred to the Corporation's management, including to the CEO and to the most senior financial officer, or to those who effectively execute the said offices, in order to allow making decisions in the appropriate date in connection with the disclosure requirements.

Due to its inherent limitations, internal control over financial reporting and disclosure is not designed to provide absolute assurance that a misstatement or omission of information in the reports will be prevented or detected.

In the annual report regarding the effectiveness of the internal control over the financial reporting and the disclosure, which was attached to the Periodic Report for the period ended December 31, 2022 (hereinafter – "**the Latest Annual Report regarding Internal Control**"), the Board of Directors and Management assessed the corporation's internal control; based on this assessment, the corporation's Board of Directors and Management reached the conclusion that the internal control as stated, as of December 31, 2022, is effective.

Through the date of the report, no event or matter was brought to the attention of the Board of Directors or Management that may change the assessment of the effectiveness of internal control, as presented in the Latest Annual Report regarding Internal Control.

As at the date of the report, based on the assessment of the effectiveness of internal control in the Latest Annual Report regarding Internal Control, and based on information brought to the attention of Management and the Board of Directors as stated above, the internal control is effective.

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 first quarter of 2023 (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 independent auditor of the corporation, the Board of Directors, and the Board of Directors' Audit committee, based on my most recent evaluation of the internal control over financial reporting and disclosure, the following:

(a)All significant deficiencies and material weaknesses in the establishment or implementation of the internal controls over financial reporting and disclosure that may adversely affect, in a reasonable manner, the Corporation's ability to collect, process, summate or report financial information in a manner that may give rise to doubt as to the reliability of financial reporting and preparation of the financial statements in accordance with the provisions of the law; and -

(b) 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.

(5) I, severally or jointly with others in the corporation:

(a) have established such controls and procedures, or ensured that such controls and procedures under my supervision be established and in place, designed to ensure that material information relating to the corporation, including its consolidated companies as defined in the Securities Regulations (Preparation of Annual Financial Statements), 2010, is brought to my attention by others in the corporation and the consolidated companies, particularly during the Reports' preparation period; and

(b) have established controls and procedures, or ensured that such controls and provisions under my supervision be established and in place, designed to ensure, in a reasonable manner, the reliability of financial reporting and preparation of financial statements in accordance with the provisions of the law, including in accordance with generally accepted accounting principles;

(c) No event or matter that occurred during the period between the date of the latest Periodic Report and the date of this report was brought to my attention that may change the conclusion of the Board of Directors and Management regarding the effectiveness of the internal control over the corporation's financial reporting and disclosure.

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

May 18, 2023

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 first quarter of 2023 (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 independent auditor of the corporation, the Board of Directors, and the Board of Directors' Audit committee, based on my most recent evaluation of the internal control over financial reporting and disclosure, the following:

(a)All significant deficiencies and material weaknesses in the establishment or implementation of the internal controls over financial reporting and disclosure that may adversely affect, in a reasonable manner, the Corporation's ability to collect, process, summate or report financial information in a manner that may give rise to doubt as to the reliability of financial reporting and preparation of the financial statements in accordance with the provisions of the law; and -

(b) 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.

(5) I, severally or jointly with others in the corporation:

(a) have established such controls and procedures, or ensured that such controls and procedures under my supervision be established and in place, designed to ensure that material information relating to the corporation, including its consolidated companies as defined in the Securities Regulations (Preparation of Annual Financial Statements), 2010, is brought to my attention by others in the corporation and the consolidated companies, particularly during the Reports' preparation period; and

(b) have established controls and procedures, or ensured that such controls and provisions under my supervision be established and in place, designed to ensure, in a reasonable manner, the reliability of financial reporting and preparation of financial statements in accordance with the provisions of the law, including in accordance with generally accepted accounting principles;

(c) No event or matter that occurred during the period between the date of the latest report (quarterly or periodic, as the case may be) and the date of this report, which relates to interim financial statements and to any other financial information including in the interim reports was brought to my attention that may - in my opinion - change the conclusion of the Board of Directors and Management regarding the effectiveness of the internal control over the corporation's financial reporting and disclosure.

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

May 18, 2023

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Guy Gill, Chief Financial Officer