Turpaz Industries Ltd.

Periodic report for the quarter ended September 30, 2023

This is an English translation of a Hebrew Periodic report that was published on November 19, 2023 (reference no.: 2023-01-125118) (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, 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 nine and three months ended September 30, 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 baking, 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. 14 manufacturing facilities, including R&D centers, laboratories and sales, marketing and regulation offices in Israel, the USA, Poland, Belgium, Vietnam, Latvia, Romania and Hungary, which employ 469 employees.

Set forth below are the key operating results and business environment of Turpaz for the first nine months and third quarter of 2023:

- Both in the first nine months and in the third quarter of 2023 the Company's **sales reached record levels**, and amounted to USD **94.0** million and USD **32.5** million, respectively.
- In the first nine months and in the third quarter of 2023 the Company's **adjusted EBITDA**[1], rate, which is one of the highest in the industry in which the Company operates, reached approx. 21.5% and 23.3%, respectively.
- In the third quarter of 2023, **net income** amounted to USD **4.0** million, the **cash flow from operating activities** reached a record level of USD **6.4** million, and the **cash balance** amounted to USD **19.3** million.
- **In the first nine months of 2023, Turpaz' sales** increased by approx. 6.8% and amounted to USD 94.0 million, compared with a total of USD 88.1 million in the corresponding period last year. The increase in sales stems from growth due to acquisitions of companies, which were completed since 2022 and through the date of this report, and from organic[2] growth of 2.6% **in the fragrances segment**, which was partially offset against an organic decline of 3.9% in the **tastes segment**, and against an organic decline of 10.6% in the **specialty fine ingredients segment -** a total organic decline of 4.0%.

  The decline in the **tastes segment** arises mainly from the subsidiary SDA; in view of intensified competition and the entry of new players to the market. In the second quarter of 2023, the Company started improvement processes of sales to customers/products generating low levels of profitability, alongside destocking among customers in this segment. The decline in the **specialty fine ingredients segment** also stems from the continued destocking trend among customers in this segment due to interest rates hikes across the world and the economic uncertainty in the markets.

  In the third quarter of 2023, Turpaz' sales increased by 7.0% and amounted to USD 32.5 million, compared with a total of USD 30.3 million in the corresponding quarter last year. The increase stems from growth due to acquisition of companies, which were completed since 2022 and through the date of this report, and from organic growth of 0.9% in the **fragrances segment**, which was partially offset against an organic decline[3] of 13.8% in the **in the specialty fine ingredients segment**, and against an organic decline of 6.3% in the **tastes segment** - a total organic decline of 6.5%.

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[1] **Adjusted EBITDA** means - earnings before interest, taxes, depreciation and amortization, net of non-recurring expenses in respect of acquisition of companies and closure of a site in the USA.

[2] **Organic growth/decline** - after deduction the effect of exchange rates, on a pro-forma basis, assuming that the acquisitions that were completed in 2022 were consolidated in the financial statements as from January 1, 2022, and that the acquisitions that were completed in 2023 would have been consolidated in the 2022 financial statements on dates corresponding to their acquisition dates in 2023.

[3] **Organic growth/decline** - see footnote 2 above.

- **In the first nine months of 2023, gross profit** increased by 5.0% and amounted to approx. USD 36.0 million compared with USD 34.3 million in the corresponding period last year. **Gross profit** increased by approx. 8.6% and amounted in the **third quarter of 2023** to USD 13.0 million compared with USD 12.0 million in the corresponding period last year. Gross profit increased to approx. 40.0% compared with 39.4% in the corresponding quarter last year.
- **Operating profit** declined by approx. 10.0% and amounted to approx. USD 13.1 million **in the first nine months of 2023** compared with approx. USD 14.5 million in the corresponding period last year. This is mainly due to the organic decline in sales, and the fixed expenses component and amortization of intangible assets in respect of the acquisitions that were completed the first nine months of 2023. **Operating profit** increased by approx. 4.4% and amounted to approx. USD 5.2 million **in the third quarter of 2023** compared with USD 5.0 million in the corresponding period last year.
- **Net profit** declined by approx. 19.2% and amounted to approx. USD 9.5 million **in the first nine months of 2023** compared with approx. USD 11.8 million in the corresponding period last year. **In the third quarter of 2023, net income** increased by 11.5%, and amounted to USD 4.0 million compared with USD 3.6 million in the corresponding period last year.
- **The Adjusted EBITDA in the first nine months of 2023** declined by 0.5%, and amounted to approx. USD 20.2 million compared with USD 20.3 million in the corresponding period last year. **In the third quarter of 2023, adjusted EBITDA** increased by 8.5% and amounted to USD 7.6 million compared with USD 7.0 million in the corresponding period last year.
- As of the date of this report, it is evident that there has been a decrease in the destocking trend among the Company's customers around the world operating in its areas of activity, which was due, among other things, to the increase in inflation rates and economic uncertainty in the markets. Actions taken by the Company to improve its sales to customers generating low levels of profitability, alongside with an increase in operational efficiency and synergies that were reflected in the quarter, led to an improvement in profits in the third quarter of 2023. According to industry forecast, the destocking trend is expected to end in 2023.
- The Group’s strong equity structure, low leverage levels, its USD 19.3 million cash balance and debt of USD 15.9 million as of September 30, 2023, the USD 6.4 million in cash flow from operating activities for the third quarter of 2023, the 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 the acquisition of **two companies** since the beginning of 2023 **and completed nine acquisitions** since its issuance on the Stock Exchange in May 2021.

Turpaz Group is engaged in the following three segments:

The Fragrance 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 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.

The Taste 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.

Specialty Fine Ingredients segment - in this segment, Turpaz Group is engaged in the development, production, marketing and sale of specialty fine ingredients used as intermediates and raw materials 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.

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[4] Products whose list of ingredients does not include ingredients which are not natural ingredients.

<u>Combined growth strategy</u> -

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, marketing and compliance with regulatory requirements, which contribute to the improvement in profits and profitability. The Company continues assessing on an ongoing-basis options to acquire additional companies, noting the market conditions and the expected contribution from the acquisition, as estimated by the Company.

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.

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, demand trends among customers, the destocking trend among segments' 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 that were completed the first nine months of 2023:

Acquisition of Food Base

On August 14, 2023, the Company completed - through a wholly-owned subsidiary - the acquisition of 60% of the issued and paid up share capital and voting rights of FOOD Base Kft., a privately-owned company incorporated in Hungary (hereinafter - "**Food Base**"), from its sole shareholder (hereinafter - the "**Seller**") in consideration for Ft 3,300 million (approx. USD 9.3 million), net of 60% of the net debt of Food Base on the transaction completion date, and a future consideration based on Food Base's business performance during 2023-2024. As part of the agreement, Turpaz was awarded a call option to purchase Food Base's remaining shares from the Seller; the option is exercisable starting from 3 years after the transaction's completion date and until the end of 5 years from that date, at a price based on Food Base's business performance during the period from the transaction's completion date through the option's exercise date. To finance the acquisition, the Company took a short-term mezzanine bank loan that will be replaced with a long-term loan. Food Base, which was incorporated in 2004, is engaged in the development, manufacturing, marketing and sale of flavor extracts and plant-based natural extracts for the food and beverages industry, with an emphasis on the field of convenience food, health drinks and snacks, and specialty raw materials for the food supplements industry. Food Base's results have been consolidated as from August, and are reflected in this report.

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.

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

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, mainly against the shekel as of September 30, 2023, compared with December 31, 2022, caused a decrease in assets and liabilities as of September 30, 2023 compared to December 31, 2022.

Companies, the acquisition of which was completed the first nine months of 2023, led to an increase in assets and liabilities.

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

	September 30, 2023	September 30, 2022	December 31 2022[5]	Company's explanations compared with December 31 2022
Current assets	77,916	92,944	89,913	The change stems mainly from a USD 16.4 million decrease in cash due to payment of a dividend to the Company's shareholders in the second quarter of 2023, the acquisition of companies and the repayment of loans.
Non-current assets	139,837	93,124	123,493	The increase stems mainly from acquisitions completed in 2023.
Total assets	**217,753**	**186,068**	**213,406**	
Current liabilities	41,205	35,140	46,674	The change stems mainly from a decrease in the trade payable and other payables balances that was offset as stated above in respect of an addition from acquisitions of companies that were completed in 2023.
Non-current liabilities	66,912	60,061	63,207	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	**109,636**	**90,867**	**103,525**	The increase arises mainly from a USD 9.5 million net income for the period, net of a USD 5 million dividend to the shareholders in respect of 2022, expenses in respect of options, translation differences due to changes in exchange rates of currencies, and recognition in minority interests in respect of the acquisition of Food Base.
Total liabilities and equity	**217,753**	**186,068**	**213,406**	

[5] Reclassified, for details see note 4 to the financial statements.

4. **Operating results**

4.1. Set forth below is an analysis of the operating results for the nine months ended September 30 2022 and 2023, in accordance with the financial statements, and the explanations for the key changes in those data (in USD thousand):

Line item	**For the nine-month period ended September 30, 2023**	**For the nine-month period ended September 30, 2022**	**For the year ended December 31, 2022**	**Company's explanations compared to the corresponding period last year**
Revenues from sales	**94,016**	**88,056**	**118,556**	Revenues from sales increased by approx. 6.8%. The increase stems from acquisitions that were completed during 2022 and the first nine months of 2023, which was partially offset by an organic[6] decline of 4.0% and by the impact of effect of exchange rates, which reduced sales by 1.5%.
Cost of sales	58,001	53,742	70,897	The gross profit increased by approx. 5.0%, mainly in view of the increase of revenues from sales. Gross profitability declined slightly mainly due to the organic decrease in sales, alongside fixed expenses, increase in energy prices and in employees' payroll expenses.
Gross profit (% of sales)	36,015 38.3%	34,314 39.0%	47,659 40.2%	
Research and development expenses (% of sales)	3,528 3.8%	2,329 2.6%	3,607 3.0%	The increase stems from continued investment in the development of new products, the improvement of existing products, the acquisitions completed in 2022 and the first nine months of 2023, and the amortization of intangible assets in respect of these acquisitions.
Selling and marketing expenses (% of sales)	7,690 8.2%	7,010 8.0%	10,016 8.4%	The increase stems mainly from acquisitions completed in 2022 and the first nine months of 2023, and the amortization of intangible assets in respect of these acquisitions.
General and administrative expenses (% of sales)	11,386 12.1%	10,496 11.9%	15,055 12.7%	The increase stems from an increase in the workforce as a result of acquisitions completed in 2022 and in the first nine months of 2023.
Other expenses (income)	360	(24)	(8,349)	Mainly one-off expenses in respect of the acquisition of companies and closure of a site in the USA.
Income from ordinary operations (% of sales)	13,051 13.9%	14,503 16.5%	27,330 23.1%	The change stems mainly from the organic decrease in sales and the reasons described above in this table.
Income from ordinary operations, net of one-off profit arising from the fire.	13,051 13.9%	14,503 16.5%	19,153 16.2%	
Finance expenses, net	1,678	784	1,513	The increase stems mainly from non-cash finance expenses in respect of put options, and finance expenses in respect of leases.
Taxes on income	1,849	1,929	4,486	The change stems from a decrease in tax expenses in the corresponding period due to creation of deferred taxes in respect of past losses.
Net income for the period (% of sales)	9,524 10.1%	11,790 13.4%	21,331 18.0%	The decrease in the net income rate stems mainly from the reasons described above.
EBITDA[7]	19,801	19,783	35,039	Adjusted EBITDA decreased by 0.5% 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[8] **(% of sales)**	**20,279** **21.5%**	**20,181** **23.0%**	**26,862** **22.7%**	

[6] See footnote 1 above.
[7] EBITDA means - earnings before interest, taxes, depreciation and amortization. This is a data normally used to measure the operational efficiency of companies.
[8]Non-recurring expenses in the nine months ended September 30, 2023 included legal expenses and other expenses in respect of acquisition of activities and the closing of a site in the USA.

4.2. Set forth below is an analysis of the operating results for the three months ended September 30 2022 and 2023, 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 September 30, 2023**	**For the three-month period ended September 30, 2022**	**Company's explanations compared to the corresponding period last year**
Revenues from sales	**32,476**	**30,346**	Revenues from sales increased by approx. 7.0%; the increase stems from acquisitions that were completed during 2022 and the first nine months of 2023, which was partially offset by an organic[9] decline of 6.5% and by the impact of effect of exchange rates of foreign currencies, which increased sales by 1.1%.
Cost of sales	19,495	18,396	Gross profit increased by approx. 8.6% due to the increase in sales, the steps taken to increase efficiency and synergies that were reflected in the third quarter of 2023.
Gross profit (% of sales)	12,981 40.0%	11,950 39.4%	
Research and development expenses (% of sales)	1,231 3.8%	827 2.7%	The increase stems from continued investment in the development of new products, the improvement of existing products, the acquisitions completed in 2022 and the first nine months of 2023, and the amortization of intangible assets in respect of these acquisitions.
Selling and marketing expenses (% of sales)	2,591 8.0%	2,496 8.2%	Similar to the corresponding period last year
General and administrative expenses (% of sales)	3,892 12.0%	3,632 12.0%	Similar to the corresponding period last year
Other expenses (income)	56	3	Non-recurring expenses in respect of the acquisition of companies.
Income from ordinary operations (% of sales)	5,211 16.0%	4,992 16.5%	The increase stems mainly from an increase in sales, the steps taken to increase efficiency and synergies that were reflected in the third quarter of 2023.
Finance expenses, net	409	326	The increase stems mainly from non-cash finance expenses in respect of put options, and finance expenses in respect of leases.
Taxes on income	797	1,075	The decrease stems from changes in the pre-tax profit mix between the different countries in which the Group operates.
Net income for the period (% of sales)	4,005 12.3%	3,591 11.8%	The change stems mainly from the reasons described above.
EBITDA[10]	7,458	6,691	The adjusted EBITDA increased by approx. 8.5%, and profitability improved and increased to 23.3% compared with the corresponding period last year due to the reasons listed above in this table.
Adj. EBITDA[11] (% of sales)	**7,561** **23.3%**	**6,971** **23.0%**	

[9] See footnote 1 above.
[10] See footnote 6 above.
[11] Non-recurring expenses in the third quarter of 2023 included legal expenses and other expenses in respect of acquisition of companies.

4.3. Set forth below is an analysis of the operating results for the nine months ended September 30, 2022 and 2023, by segments (in USD thousand):

Segment		**For the nine-month period ended September 30, 2023**	**For the nine-month period ended September 30, 2022**	**For the 12 months period ended December 31, 2022**	**Company's explanations to the change between the first nine months of 2022 and 2023**
Fragrance segment	Revenues	24,635	19,753	27,490	Revenues increased by approx. 24.7%; the increase stems mainly from organic growth of 2.6%, and from the completion of the acquisition of Klabin in the fourth quarter of 2022, which was partially offset by the effects of exchange rates that reduced sales by 2.2%. 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 closure of the Turpaz USA site that was completed in the second quarter of 2023, and the transfer of the manufacturing, development and sales activities to Klabin's site.
	Operating profit (% of sales)	6,387 25.9%	6,064 30.7%	7,390 26.9%	
Taste segment	Revenues	48,603	44,534	59,325	The revenues increased by approx. 9.1% - a change that stems from acquisitions completed in 2022 and the first nine months of 2023, and from an organic decline of approx. 3.9%. The effect of exchange rates of foreign currencies reduced sales by 1.0%. The decrease in profitability stems mainly from a decline in sales in the subsidiary SDA. In view of intensified competition and the entry of new players to the market, in the second quarter of 2023, the Company started improvement processes of sales to customers/products generating low levels of profitability, alongside destocking among customers in this segment.
	Operating profit (% of sales)	6,887 14.2%	6,564 14.7%	17,667 29.8%	
	Operating profit, net of one-off profit from the fire (% of sales)	6,887 14.2%	6,564 14.7%	8,873 15.0%	
Specialty fine ingredients segment	Revenues	20,902	23,769	31,741	Revenues declined by approx. 12.1%; the decrease stems mainly from an organic decrease of approx. 10.6%, 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 approx. 1.6%. The change in profitability stems mainly from a decline in sales, an increase in raw materials prices, and an increase in the fixed operating costs component.
	Operating profit (% of sales)	4,313 20.6%	6,523 27.4%	9,086 28.6%	
Unallocated joint expenses	Revenues	(124)	-	-	
	Operating profit	(4,536)	(4,648)	(6,813)	
Total	**Revenues**	**94,016**	**88,056**	**118,556**	
	Operating profit (% of sales)	**13,051 13.9%**	**14,503 16.5%**	**27,330 23.1%**	

4.4. Set forth below is an analysis of the operating results for the three months ended September 30, 2022 and 2023, by segments (in USD thousand):

Segment		**For the three-month period ended September 30, 2023**	**For the three-month period ended September 30, 2022**	**Company's explanations**
Fragrance segment	Revenues	8,528	6,687	Revenues increased by approx. 27.5%; the increase stems mainly from the completion of the acquisition of Klabin in the fourth quarter of 2022 and from an approx. 0.9% organic increase. The effect of exchange rates of foreign currencies contributed approx. 1.0% of sales.
	Operating profit (% of sales)	2,694 31.6%	2,128 31.8%	
Taste segment	Revenues	16,796	15,114	Revenues increased by approx. 11.1%; this increase arises mainly from an organic decline of approx. 6.3%, and from the acquisitions that were completed in the first nine months of 2023. The effect of exchange rates of foreign currencies contributed approx. 2.9% of sales. The organic decline arises from improvement processes of sales to customers/product with low profitability of the subsidiary SDA, which improved to the profitability of the segment, and by destocking by segment's customers.
	Operating profit	2,612 15.6%	2,164 14.3%	
Specialty fine ingredients segment	Revenues	7,190	8,545	Revenues declined by approx. 15.9%; the decrease stems mainly from an organic decrease of approx. 13.8%, which stems mainly from a continued decline in customers' inventory levels due to interest rate hikes across the world and the economic unclarity in the markets, and from the effects of the changes of exchange rates of foreign currencies, which reduced sales by approx. 2.4%. The change in profitability stems mainly from a decline in sales, an increase in raw materials prices, and an increase in the fixed operating costs component.
	Operating profit	1,302 18.1%	2,315 27.1%	
Unallocated joint expenses	Revenues	(38)	-	
	Operating profit	(1,397)	(1,615)	
Total	**Revenues**	**32,476**	**30,346**	
	Operating profit (% of sales)	**5,211** **16.0%**	**4,992** **16.5%**	

5. Liquidity

As of September 30, 2023, the Company has a cash balance of USD 19,317 thousand. Set forth below are the key components of the cash flows and the way they were utilized (in USD thousand):

Line item	For the nine-month period ended September 30, 2023	For the nine-month period ended September 30, 2022	For the 12 months period ended December 31, 2022	Company's explanations to the change between the first nine months of 2022 and 2023
Net cash provided by operating activities	6,588	926	31,938	The increase arises from the profit earned in the reporting period, and from an improvement in working capital balances compared with the corresponding period last year. It should be noted that the cash flow from operating activities in 2022 include proceeds received from the insurance company in respect of the fire.
Net cash used in investing activities	(11,970)	(15,336)	(39,802)	The change arises from the cost of the companies acquired in the reporting period compared to the cost of the companies acquired in the corresponding period last year.
Net cash provided by (used in) financing activities	(9,746)	(7,405)	(7,519)	The change stems from a USD 1 million increase in dividend paid, acquisition of further 10% in the subsidiary WFF in Vietnam at an amounts which is not material to the Company, the payment of dividend to minority interest in subsidiaries and the repayment of loans.
Exchange differences in respect of cash and cash equivalents	(1,230)	(4,920)	(4,843)	
Total change in cash and cash equivalents	**(16,358)**	**(26,735)**	**(20,226)**	

Line item	For the three-month period ended September 30, 2023	For the three-month period ended September 30, 2022	Company's explanations
Net cash provided by operating activities	6,370	(182)	The increase arises from the profit earned in the reporting period, and from an improvement in working capital balances compared with the corresponding period last year. It should be noted that the cash flow from operating activities in 2022 include proceeds received from the insurance company in respect of the fire.
Net cash used in investing activities	(5,693)	(1,166)	The decrease stems mainly from the acquisition of Food Base, that was completed in the third quarter of 2023.
Net cash provided by (used in) financing activities	4,446	(235)	The increase stems mainly from receipt of a short-term mezzanine bank loan used to acquire Food Base, payment of a dividend to minority interest in subsidiaries, and acquisition of further 10% in the subsidiary WFF at an amount which is not material to the Company.
Exchange differences in respect of cash and cash equivalents	(770)	(727)	
Total change in cash and cash equivalents	**4,353**	**(2,310)**	

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 September 30, 2023		Data as of December 31 2022	
	USD thousand	% of total balance sheet	USD thousand	% of total balance sheet
Equity	109,636	50.3%	103,525	48.5%
Other long-term liabilities	63,225	29.0%	59,151	27.7%
Long-term liabilities from banks, net of current maturities	3,687	1.7%	4,056	1.9%
Short-term credit	11,750	5.4%	12,036	5.6%
Suppliers credit	14,773	6.8%	19,306	9.0%
Other long-term payables	14,682	6.7%	15,332	7.2%
Total	**217,753**	**100%**	**213,406**	**100%**

The average amount of the long-term loans in the first nine months of 2023 was USD 3,872 thousand.

The average amount of the short-term credit in the first nine months of 2023 was USD 11,893 thousand.

As of September 30, 2023, the Company's working capital is USD 36,711 thousand, compared with working capital of USD 57,804 thousand as of September 30, 2022.

As of September 30, 2023, the Company's operating working capital[12] is approx. USD 41,197 thousand (approx. 31.1% of sales), compared with operating working capital of approx. USD 37,039 thousand (approx. 30.5% of sales) as of September 30, 2022. The change in operating working capital stems mainly from supplier payments in 2023, which were paid after receipt of insurance proceeds at the end of the fourth quarter of 2022, an increase in the trade receivables balance due to the conclusion of a factoring transaction, and the replenishment of inventories following the fire.

As of September 30, 2023 the Company's net cash balance[13] is approx. USD 3,413 thousands.

[12] Operating working capital means - trade receivable plus the balance of inventory and net of trade payables.
[13] Cash net of approx. USD 15.9 million in debt.

Disclosure in accordance with the reportable credit directive:

<table>
<tr><th>Original loan amount (NIS thousand)</th><th>Loan balance as of 30.9.2023 (NIS thousand)</th><th>Date on which the loan was actually taken out</th><th>Amortization schedule (loan principal)</th><th>Interest</th><th>Collaterals provided in respect of the loan</th><th>Financial covenants in relation to loan</th></tr>
<tr><td colspan="6">Credit from an Israeli bank</td><td></td></tr>
<tr><td>15,000</td><td>5,552</td><td>May 2019</td><td>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.</td><td>3.1%</td><td>-</td><td rowspan="4">Equity to assets - the Company's equity shall not be lower than 25% of total assets at any given time.
As of September 30, 2023, the equity amounts to 50.3% of total assets.

Debt coverage ratio - shall not exceed 3.5 at any given time. As of September 30, 2023, the debt coverage ratio is 0.6.</td></tr>
<tr><td>10,000</td><td>3,723</td><td>May 2019</td><td>Once a quarter starting in November 2019; the first to the 18th payments will amount to approx. NIS 395 thousand, and the remaining loan shall be paid in the last payment in May 2024.</td><td>Prime plus 0.8%</td><td>-</td></tr>
<tr><td>4,000</td><td>1,800</td><td>February 2021</td><td>20 equal quarterly payments starting in February 2021.</td><td>2.3%</td><td rowspan="2">See Note 20C to the Company's consolidated financial statements as of December 31, 2022.</td></tr>
<tr><td>3,000</td><td>1,350</td><td>February 2021</td><td>20 equal quarterly payments starting in February 2021.</td><td>Prime plus 0.75%</td></tr>
</table>

7. Disclosure regarding very material valuation

Identifying the valuation's subject matter:	Purchase price allocation of Klabin
Valuation date:	September 30, 2023
Value of the valuation's subject matter as per the valuation:	1. Total consideration- USD 23,406 thousands • Cash paid- USD 22,381 thousands. • Earn-Out- USD 1,025 thousands. 2. Customer relations- USD 3,640 thousands. 3. Know How- USD 2,326 thousands.
Details abut the appraiser:	BDO Consulting and Management Ltd. The work was prepared by a team led by Mr. Sagiv Mizrahi, CPA, partner, and team leader in the Corporate Finance Department. Sagiv has an undergraduate degree in Practical Mathematics from Bar Ilan University, and an MBA (Summa cum Laude), specialized in financial management from Tel Aviv University. Sagiv has over 10 years' experience in economic and business consulting, valuations of companies and financial instruments and diverse economic-accounting work, in conformity with international accounting standards (IFRS) and with US accounting standards (US GAAP).
Is there an indemnification agreement with the appraiser?	In accordance with the Engagement Agreement, if the Appraiser required to pay any sum to any third party pertaining to the performance of the services specified in the Engagement Agreement, via legal proceeding or some other binding proceeding, Turpaz undertakes to indemnify the Appraiser for any such sum paid, beyond a sum equal to three times of the service fee, and all with the exception of cases of negligence or malice on behalf of BDO, in which case no indemnification or compensation shall apply.
The valuation model used by the appraiser:	The purchase allocation price was carried out in accordance with the provisions and principles of the IFRS3 standard. The valuation of the intangible assets was carried out according to: Customer relations - income approach, MPEEM method. Know How - income approach, relief from royalty method.
The assumptions, based on which the appraiser carried out the valuation, in accordance with the valuation model:	**Main assumptions in customer relations valuation:** Discount rate- 14% Churn rate- 20% Life span- 10 years **Main assumptions in Know-How valuation**: Discount rate- 13% Royalty fees rate- 5% Life span- 20 years

8. The effects of the 'Iron Swords' war in Israel

Subsequent to the reporting period, on October 7, 2023, the Iron Swords war broke out in Israel. As of the date of this report, the war is still unfolding, and it is impossible to assess its duration, nature or scope. This is an unusual event, which is characterized with high levels of uncertainty, and its short and long-term effects on the Israeli economy are unknown.

Further to an immediate report of October 10, 2023 (Ref. No.:2023-01-114471), it should be clarified that as of the date of this report all of the Company's sites in Israel and abroad operate as usual and at full capacity. The Company is an international company, and a material part of its production, marketing and sales activities are conducted outside Israel; the situation in Israel has negligible bearing on the activity of the Company's foreign subsidiaries.

As of the date of this report, all Company employees, except for a small number of employees who were recruited as reservists, attend work as usual.

The Company is of the opinion, that as the war drags on, it may be difficult for the suppliers of SDA, (a wholly owned subsidiary of the company), to supply various crops to SDA, which SD Auses for product manufacturing. This might affect SDA's sales. However, the Company is of the opinion that this will not have a material effect on the Group's profitability and profit.

The Company has liquidity, available financial means and sources of financing (as described in this report), which give it financial resilience and allow it to continue with its planned activity, including executing the acquisition of companies or activities.

The Company assessed the war's impact so far and in the foreseeable future in terms of its manufacturing capacity, sales, purchase of raw materials, cash flow and financing sources, the processes designed to expand the Company's activity, including by way of acquisition of companies, and other activities. In view of the Company's areas of activity, its global deployment, the fact that most of its sales are made to foreign companies, the identity of its customers and the nature of its products, the Company believes that the war does not have, and is not expected to have, a substantial impact on the Company's business and financial results (assuming that no substantial changes will take place in the scope and intensity of its activities, and that no substantial geopolitical changes will take place).

The Company's assessments in this section above in connection with the effects of the war on the Company and its financial results constitute forward-looking information, as defined in Section 32A to the Securities Law, 1968; those assessments are based on information available to the Company as of the report's publication date, and the assumptions listed above. Those assessments may not materialize, in whole or in part, or materialize in a manner materially different than expected, since, among other things, they are impacted by factors outside the Company's control. Should the war continue, expand to other regions in the country, or if the guidance issued by the Israeli government and the Home Front Command change, the pace of recovery of the Israeli economy, the growth trends in Israel and across the world, as well as other changes that will stem from what is stated above, might impact the Company's activity and its financial results in a manner that is different than the assessments listed above.

9. 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 nine months 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, during the first half of 2023, the Bank of Israel continued the trend of interest rate hikes, which started in 2022, and as of the report's publication date the interest rate remained at 4.75% - and has not changed since May 2023. In Europe the interest increased in the third quarter, and is standing on a rate of 4.5% as of the publication date of this report; and in the USA the interest rate remained unchanged at 5.50% 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.

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.

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 third quarter of 2023.

Dr. Israel Leshem, Director[14]	**Karen Cohen Khazon, CEO and Chairperson of the Board of Directors**

Date: November 16, 2023

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

Chapter B

Financial Statements as of September 30, 2023

TURPAZ INDUSTRIES LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 2023

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. ("the Company") and its subsidiaries (collectively - "the Group"), which comprises the condensed consolidated statement of financial position as of September 30, 2023 and the related condensed consolidated statements of profit or loss and other 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 8.1% of total consolidated assets as of September 30, 2023, and whose revenues included in consolidation constitute approximately 5.1% and approximately 9.2% 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.

Tel-Aviv, Israel
November 16, 2023

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	September 30, 2023	September 30, 2022	December 31, 2022
	Unaudited	Unaudited	Audited
	U.S. dollars in thousands		
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	19,317	29,166	35,675
Trade receivables	28,790	28,710	25,164
Other accounts receivable	2,629	11,300	3,082
Inventories	27,180	23,768	25,992
	77,916	92,944	89,913
NON-CURRENT ASSETS:			
Deferred taxes	530	423	515
Property, plant and equipment	28,900	19,671	*) 21,359
Right-of-use assets, net	18,595	15,372	18,563
Intangible assets, net	91,174	57,658	*) 83,056
Other long-term assets	638	-	-
	139,837	93,124	123,493
	217,753	186,068	213,406

*) Restated.

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	September 30, 2023	September 30, 2022	December 31, 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	11,750	10,125	12,036
Trade payables	14,773	15,439	19,306
Other accounts payable	11,820	7,256	13,048
Short-term liabilities in respect of acquisition of activity	1,061	571	338
Current maturities of lease liabilities	1,801	1,749	1,946
	41,205	35,140	46,674
NON-CURRENT LIABILITIES:			
Long-term loans from banks, less current maturities	3,687	4,686	4,056
Long-term loans from others, less current maturities	467	1,097	476
Provision for waste removal	3,397	5,129	3,454
Lease liabilities	17,609	13,667	16,585
Long-term liabilities in respect of acquisition of activity	37,479	31,874	*) 34,627
Deferred taxes	3,862	3,383	3,811
Employee benefit liabilities	302	147	139
Other long-term payables	109	78	59
	66,912	60,061	63,207
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	(4,295)	(5,303)	(4,857)
Reserve in respect of translation differences	(9,017)	(9,210)	(6,542)
Retained earnings	43,962	30,110	39,633
	105,100	90,047	102,684
Non-controlling interests	4,536	820	841
Total equity	109,636	90,867	103,525
	217,753	186,068	213,406

*) Restated.

**) Presented in a token amount of NIS 1 thousand.

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

November 16, 2023			
Date of approval of the financial statements	Karen Cohen Khazon Chair of the Board and CEO	Dr. Israel Leshem Director Authorized by the Board to sign the financial statements on November 16, 2023	Guy Gill CFO

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2023	2022	2023	2022	2022
	Unaudited				Audited
	U.S. dollars in thousands (except per share data)				
Revenues from sales	94,016	88,056	32,476	30,346	118,556
Cost of sales	58,001	53,742	19,495	18,396	70,897
Gross profit	36,015	34,314	12,981	11,950	47,659
Research and development expenses	3,528	2,329	1,231	827	3,607
Selling and marketing expenses	7,690	7,010	2,591	2,496	10,016
General and administrative expenses	11,386	10,496	3,892	3,632	15,055
Other expenses (income), net	360	(24)	56	3	(8,349)
Operating income	13,051	14,503	5,211	4,992	27,330
Finance expenses, net	1,678	784	409	326	1,513
Income before taxes on income	11,373	13,719	4,802	4,666	25,817
Taxes on income	1,849	1,929	797	1,075	4,486
Net income for the period	9,524	11,790	4,005	3,591	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	(13,475)	(12,254)	(7,390)	(1,280)	(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	10,795	1,261	4,716	(880)	3,891
Total other comprehensive loss	(2,680)	(10,993)	(2,674)	(2,160)	(8,325)
Total comprehensive income	6,844	797	1,331	1,431	13,006
Total net income attributable to:					
Equity holders of the Company	9,295	11,651	3,830	3,530	21,174
Non-controlling interests	229	139	175	61	157
	9,524	11,790	4,005	3,591	21,331
Total comprehensive income attributable to:					
Equity holders of the Company	6,820	658	1,361	1,370	12,849
Non-controlling interests	24	139	(30)	61	157
	6,844	797	1,331	1,431	13,006
Net earnings per share attributable to equity holders of the Company (in U.S. dollars):					
Basic and diluted net earnings per share	0.09	0.12	0.04	0.04	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	-	-	-	-	9,295	9,295	229	9,524
Total other comprehensive loss	-	-	-	(2,475)	-	(2,475)	(205)	(2,680)
Total comprehensive income (loss)	-	-	-	(2,475)	9,295	6,820	24	6,844
Share-based payment			695	-	-	695	-	695
Acquisition of non-controlling interests			(133)	-	-	(133)	(219)	(352)
Non-controlling interests created in newly consolidated companies	-	-	-	-	-	-	3,890	3,890
Dividends to equity holders of the Company	-	-	-	-	(4,966)	(4,966)	-	(4,966)
Balance as of September 30, 2023	1	74,449	(4,295)	(9,017)	43,962	105,100	4,536	109,636

	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	(5,303)	(9,210)	30,110	90,047	820	90,867

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, 2023	1	74,449	(4,371)	(6,548)	40,132	103,663	895	104,558
Net income	-	-	-	-	3,830	3,830	175	4,005
Total other comprehensive loss	-	-	-	(2,469)	-	(2,469)	(205)	(2,674)
Total comprehensive income (loss)	-	-	-	(2,469)	3,830	1,361	(30)	1,331
Share-based payment			209	-	-	209	-	209
Acquisition of non-controlling interests			(133)	-	-	(133)	(219)	(352)
Non-controlling interests created in newly consolidated companies	-	-	-	-	-	-	3,890	3,890
Balance as of September 30, 2023	1	74,449	(4,295)	(9,017)	43,962	105,100	4,536	109,636

	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	89,149
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

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

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2023	2022	2023	2022	2022
	Unaudited				Audited
	U.S. dollars in thousands				
Cash flows from operating activities:					
Net income for the period	9,524	11,790	4,005	3,591	21,331
Adjustments to reconcile net income to net cash provided by (used in) operating activities (a)	(2,936)	(10,864)	2,365	(3,773)	10,607
Net cash provided by (used in) operating activities	6,588	926	6,370	(182)	31,938
Cash flows from investing activities					
Purchase of property, plant and equipment and other assets	(3,462)	(3,830)	(746)	(1,166)	(5,850)
Proceeds from sale of property, plant and equipment	87	-	23	-	55
Acquisition of initially consolidated subsidiaries (b)	(8,551)	(10,556)	(4,926)	-	(32,995)
Repayment of liability in respect of acquisition of activity	(44)	(950)	(44)	-	(1,012)
Net cash used in investing activities	(11,970)	(15,336)	(5,693)	(1,166)	(39,802)
Cash flows from financing activities					
Receipt (repayment) of short-term credit	(1,006)	616	6,285	954	2,967
Dividend paid to equity holders of the Company	(4,966)	(3,971)	-	-	(3,971)
Dividend paid to holders of put option and of non-controlling interests in subsidiaries	(545)	-	(545)	-	(8)
Acquisition of non-controlling interests by the Company	(352)	-	(352)	-	-
Repayment of lease liabilities	(1,551)	(1,519)	(539)	(614)	(2,358)
Repayment of long-term loans	(1,326)	(2,531)	(403)	(575)	(4,149)
Net cash provided by (used in) financing activities	(9,746)	(7,405)	4,446	(235)	(7,519)
Exchange rate differences on balances of cash and cash equivalents	(1,230)	(4,920)	(770)	(727)	(4,843)
Increase (decrease) in cash and cash equivalents	(16,358)	(26,735)	4,353	(2,310)	(20,226)
Cash and cash equivalents at the beginning of the period	35,675	55,901	14,964	31,476	55,901
Cash and cash equivalents at the end of the period	19,317	29,166	19,317	29,166	35,675

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine months ended September 30, 2023	Nine months ended September 30, 2022	Three months ended September 30, 2023	Three months ended September 30, 2022	Year ended December 31, 2022
	Unaudited				Audited
	NIS 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	6,055	4,355	2,038	1,452	6,338
Capital loss (gain) from sale of property, plant and equipment	4	116	(1)	116	(12)
Change in employee benefit liabilities, net	(1)	(308)	(5)	(276)	(326)
Cost of share-based payment	695	925	209	287	1,371
Finance expenses, net	1,678	784	409	326	1,513
Taxes on income	1,849	1,929	797	1,075	4,486
	10,280	7,801	3,447	2,980	13,370
Changes in asset and liability items:					
Increase in trade receivables	(3,476)	(7,624)	(1,033)	(4,415)	(3,372)
Decrease in other accounts receivable	401	1,119	481	2,334	9,144
Decrease (increase) in inventories	689	(7,669)	610	(1,979)	(8,929)
Increase (decrease) in trade payables	(5,350)	(567)	(111)	(1,512)	2,801
Increase (decrease) in other accounts payable	(2,009)	(1,300)	201	(60)	1,499
	(9,745)	(16,041)	148	(5,632)	1,143
	535	(8,240)	3,595	(2,652)	14,513
Cash paid and received during the period for:					
Taxes paid	(2,482)	(2,255)	(977)	(946)	(2,869)
Interest paid, net	(989)	(369)	(253)	(175)	(1,037)
	(2,936)	(10,864)	2,365	(3,773)	10,607

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,
	2023	2022	2023	2022	2022
	Unaudited				Audited
	NIS in thousands				
(b) Acquisition of initially consolidated subsidiaries:					
The subsidiaries' assets and liabilities at date of acquisition:					
Working capital (excluding cash and cash equivalents)	773	1,534	448	-	2,585
Property, plant and equipment	6,842	1,069	6,539	-	*) 964
Right-of-use assets	307	2,744	158	-	5,069
Intangible assets	11,568	14,142	6,097	-	*) 36,014
Other long-term assets	672	-	672	-	-
Lease liabilities	(307)	(2,744)	(158)	-	(5,069)
Other non-current liabilities	(2,731)	(957)	(2,731)	-	(806)
Payables for acquisition of investments in subsidiaries	(3,988)	(4,518)	(1,806)	-	*) (4,959)
Deferred taxes	(695)	(714)	(403)	-	(792)
Non-controlling interests	(3,890)	-	(3,890)	-	(11)
	8,551	10,556	4,926	-	32,995
(c) Significant non-cash transactions:					
Right-of-use asset recognized with corresponding lease liabilities	2,565	3,204	(1,210)	112	4,518

*) Restated.

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 September 30, 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 September 30, 2023 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, 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.

In the latest examination performed in the previous reporting period, the Company found that the recoverable amount of the cash-generating units was significantly higher than their carrying amount and after analyzing the discount rate used to calculate the value in use of its cash-generating units concluded that the updated rate does not significantly reduce the recoverable amounts.

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.

d. The effects of the Swords of Iron War:

Subsequent to the reporting period, on October 7, 2023, the Iron Swords war broke out in Israel. As of the date of this report, the war is still unfolding, and it is impossible to assess its duration, nature or scope. This is an unusual event, which is characterized with high levels of uncertainty, and its short and long-term effects on the Israeli economy are unknown.

It should be clarified that as of the date of this report all of the Company's sites in Israel and abroad operate as usual and at full capacity. The Company is an international company, and a material part of its production, marketing and sales activities are conducted outside Israel; the situation in Israel has negligible bearing on the activity of the Company's foreign subsidiaries.

As of the date of this report, all Company employees, except for a small number of employees who were recruited as reservists, attend work as usual.

The Company is of the opinion, that as the war drags on, it may be difficult for the suppliers of SDA, (a wholly owned subsidiary of the company), to supply various crops to SDA, which SD Auses for product manufacturing. This might affect SDA's sales. However, the Company is of the opinion that this will not have a material effect on the Group's profitability and profit.

The Company has liquidity, available financial means and sources of financing (as described in this report), which give it financial resilience and allow it to continue with its planned activity, including executing the acquisition of companies or activities.

The Company assessed the war's impact so far and in the foreseeable future in terms of its manufacturing capacity, sales, purchase of raw materials, cash flow and financing sources, the processes designed to expand the Company's activity, including by way of acquisition of companies, and other activities. In view of the Company's areas of activity, its global deployment, the fact that most of its sales are made to foreign companies, the identity of its customers and the nature of its products, the Company believes that the war does not have, and is not expected to have, a substantial impact on the Company's business and financial results (assuming that no substantial changes will take place in the scope and intensity of its activities, and that no substantial geopolitical changes will take place).

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.

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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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 COMBINATIONS

a. 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.

NOTE 3:- BUSINESS COMBINATIONS (Cont.)

The purchase price was allocated to tangible assets, intangible assets and liabilities acquired at their fair value on the purchase date based on a PPA. The table below summarizes the purchase price and PPA:

	January 9, 2023
	U.S. dollars in thousands
Working capital, net	325
Right-of-use asset	149
Property, plant and equipment	303
Customer relations	1,117
Product formulas	705
Deferred taxes	(292)
Lease liabilities	(149)
Net identifiable assets	2,158
Goodwill arising on purchase	3,649
Purchase price:	
Paid in cash	3,625
Liability for contingent consideration and acquisitions date adjustments	2,182
Total purchase price	5,807

From the consolidation date through September 30, 2023, the acquired operation has contributed approximately $ 3,814 thousand to revenues and approximately $ 447 thousand to net income.

b. Acquisition of Food Base:

On August 14, 2023, the Company, through a wholly owned subsidiary, completed the purchase of 60% of the issued and outstanding share capital and voting rights of Food Base Kft. ("Food Base"), a private company incorporated in Hungary, from its single shareholder ("the seller") in return for approximately HUF 3,300 million (approximately $ 9.3 million), less 60% of Food Base's net debt on the closing date and a future earnout based on Food Base's business performances in 2023-2024. According to the agreement, the Company was granted a call option to purchase the remaining shares of Food Base from the seller which can be exercised at the end of three years from the closing date (until five years have elapsed from the closing date) for a price based on Food Base's business results in the period from the closing date to the option exercise date. To finance the purchase, the Company received a bridge loan from a bank that will be later replaced by a long-term loan.

NOTE 3:- BUSINESS COMBINATIONS (Cont.)

Food Base was founded in 2004. It develops, manufactures, markets and sells flavors and herbal extracts for the food and beverage industries focusing on convenience foods, health drinks and snacks as well as raw materials for the food supplement industry. Food Base's results have been consolidated in the Group's consolidated financial statements since August 2023.

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 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:

	August 14, 2023
	U.S. dollars in thousands
Working capital, net	448
Right-of-use asset	158
Property, plant and equipment	6,539
Deferred taxes	(403)
Lease liabilities	(158)
Other non-current liabilities	(2,731)
Net identifiable assets	3,853
Intangible assets	6,097
Other long-term assets	672
Non-controlling interests	(3,890)
Purchase price:	
Amount paid in cash less net cash in the acquiree on acquisition date	4,926
Liability for contingent consideration and acquisitions date adjustments	1,806
Total purchase price	6,732

From the consolidation date through September 30, 2023, the acquired operation has contributed approximately $ 1,381 thousand to revenues and approximately $ 422 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 final approval for the merger was obtained from the Registrar of Companies on June 22, 2023 and Pentaor Ltd. was merged into the Company's operations.

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 parties signed a clarification and subsequent amendment to the Klabin acquisition agreement, see Note 5d to the annual consolidated financial statements.

d. On August 28, 2023, the Company increased its interests in the subsidiary, WFF, by purchasing another 10% of the latter's share capital from holders of non-controlling interests in return for approximately $ 352 thousand. Following the purchase, the Company holds 70% of WFF's share capital.

e. On September 7, 2023, a merger agreement was signed between the Company as the transferee and S.D.A Spice Industries Ltd. as the transferor in accordance with the provisions of Section 103C to the Israeli Income Tax Ordinance (Revised), 1961 ("the Ordinance"). The merger agreement was approved by the boards of the two companies. As per the merger agreement, the companies will be merged by a share swap according to Section 103C to the Ordinance following which the transferor's entire operation will be transferred to the Company. The effective date of the merger is December 31, 2023, subject to obtaining the approval of the Israel Tax Authority and the Israel Registrar of Companies which have yet to be obtained.

f. 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.

g. Attached to these interim consolidated financial statements is a final PPA prepared for Klabin (see Note 5d to the annual consolidated financial statements). Accordingly, statement of financial position data as of December 31, 2022 have been restated in these interim consolidated financial statements as follows: intangible assets decreased by approximately $ 874 thousand, property, plant and equipment increased by approximately $ 100 thousand and long-term liability for contingent consideration decreased by approximately $ 774 thousand.

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.

b. Reporting on operating segments:

	Nine months ended September 30, 2023				
	Tastes	Fragrances	Specialty raw material ingredients	Adjustments	Total
	Unaudited				
	U.S. dollars in thousands				
External revenues	48,603	24,635	20,778	-	94,016
Intersegment revenues	-	-	124	(124)	-
Total revenues	48,603	24,635	20,902	(124)	94,016
Segment operating income net of unallocated joint expenses	6,887	6,387	4,313	-	17,587
Unallocated joint expenses					4,536
Finance expenses, net					1,678
Income before taxes on income					11,373

NOTE 5:- OPERATING SEGMENTS (Cont.)

	Nine months ended September 30, 2022			
	Tastes	Fragrances	Specialty raw material ingredients	Total
	Unaudited			
	U.S. dollars in thousands			
Segment revenue	44,534	19,753	*) 23,769	88,056
Segment operating income net of unallocated joint expenses	6,564	6,064	*) 6,523	19,151
Unallocated joint expenses				4,648
Finance expenses, net				784
Income before taxes on income				13,719

*) Restated.

	Three months ended September 30, 2023				
	Tastes	Fragrances	Specialty raw material ingredients	Adjustments	Total
	Unaudited				
	U.S. dollars in thousands				
External revenues	16,796	8,528	7,152	-	32,476
Intersegment revenues	-	-	38	(38)	-
Total revenues	16,796	8,528	7,190	(38)	32,476
Segment operating income net of unallocated joint expenses	2,612	2,694	1,302	-	6,608
Unallocated joint expenses					1,397
Finance expenses, net					409
Income before taxes on income					4,802

NOTE 5:- OPERATING SEGMENTS (Cont.)

	Three months ended September 30, 2022			
	Tastes	Fragrances	Specialty raw material ingredients	Total
	Unaudited			
	U.S. dollars in thousands			
Segment revenue	15,114	6,687	*) 8,545	30,346
Segment operating income net of unallocated joint expenses	2,164	2,128	*) 2,315	6,607
Unallocated joint expenses				1,615
Finance expenses, net				326
Income before taxes on income				4,666

*) Restated.

	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.

NOTE 5:- OPERATING SEGMENTS (Cont.)

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,
	2023	2022	2023	2022	2022
	Unaudited				Audited
	U.S. dollars in thousands				
Israel and the Middle East	24,392	22,203	8,403	6,910	29,099
Europe	44,954	*) 37,512	15,909	*) 12,716	48,922
North America	12,955	15,525	4,130	6,486	21,555
Asia and other	11,715	*) 12,816	4,034	*) 4,234	18,980
	94,016	88,056	32,476	30,346	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, contingent consideration and holdback mechanism:

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 September 30, 2023, total liabilities amounted to $ 37,479 thousand, of which approximately $ 720 thousand in respect of a holdback mechanism in the Food Base transaction and the balance of $ 36,759 thousand in respect of the put options and contingent consideration. The value of the put options and contingent consideration was estimated in accordance with the average EBITDA achieved over the term of the agreement. The weighted annual discount rate of the options is 6.5%. 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 liabilities is the future EBITDA that will be achieved; in order to assess the liabilities and update their value, the Company used the companies' ongoing results and updated forecasts.

NOTE 6:- FINANCIAL INSTRUMENTS (Cont.)

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

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2023	2022	2023	2022	2022
	Unaudited				Audited
	U.S. dollars in thousands				
Balance as of January 1,	(34,627)	(31,998)	(37,867)	(33,454)	(31,998)
Total gain (loss) recognized:					
Repayment	589	-	589	-	
In profit or loss	(817)	(96)	(143)	(51)	(307)
In other comprehensive income (loss)	535	4,581	919	1,631	2,262
In business combinations	(2,439)	(4,361)	(257)	-	*) (4,584)
Balance at end of period	(36,759)	(31,874)	(36,759)	(31,874)	(34,627)

*) Restated.

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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 third 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 third 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.

November 16, 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 third 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.

November 16, 2023

Guy Gill, Chief Financial Officer

Turpaz Industries Ltd.

Purchase Price Allocation Study – Klabin Fragrances Inc.

As of October 3, 2022

Convenience translation only.

BDO Consulting
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Israel
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Turpaz Industries Ltd.

In accordance with a request by Turpaz Industries Ltd (Hereinafter: "**the Client**" and/or "**Turpaz**"), BDO Ziv Haft Consulting & Management Ltd. (hereinafter: "**BDO**") has performed a Purchase Price Allocation Study (hereinafter: "**PPA Study**") according to IFRS 3- Business Combination, in connection with the acquisition (hereinafter: the "**Transaction**") of 100% ordinary shares of Klabin Fragrances inc (hereinafter: **"Klabin**" and/or the "**Acquired Entity**" and/or "**the Company**") by Turpaz Fragrances and Flavors Aroma Inc (Hereinafter: " **Acquiring Entity** " and/or "**Turpaz USA**"), as of October 3, 2022 (hereinafter: the "**Closing Date**" or "**Valuation Date**").

The engagement between BDO Ziv Haft Consultation and Management Ltd. (hereinafter: "**BDO**") and Turpaz was approved and signed by Mr. Guy Gil, Turpaz CFO on December 21, 2022.

Our findings will be used by the Company, its management, and its auditors, for financial reporting purposes within the framework of generally accepted Israeli accounting and financial reporting principles required by law including in accordance with International Accounting 3 Business Combination (IFRS 3). This paper is for the exclusive use of Turpaz, its management and its independent auditors, in accordance with all applicable laws.

In order to prepare this paper, we relied on the accuracy, comprehensiveness and timeliness of the information received from the Company and from various elements connected to the Company's activity. We have no reason to believe that the data at the basis of our work is not reliable, complete or fair, and we did not conduct our own independent examination of this information with the exception of examination of its reasonability. Reliance on this information does not constitute verification or confirmation of its veracity. No due diligence was carried out during the preparation of this opinion and it has no pretense of including all of the information, tests and checks or any other information included in due diligence.

Economic opinions are not a precise science and are supposed to provide a reasonable and fair reflection of a certain situation at a certain time, on the basis of known data, basic assumptions made and forecasts assessed. Changes to key variables and/or information may alter the basis of the base assumptions and accordingly, the conclusions.

Calculations in this paper were performed using an electronic spreadsheet, and therefore rounding errors are possible.

Non-dependence

We hereby note that we are not dependent on the Company, and we are not interested parties nor are we expected to become interested parties in any of the Group companies or in their assets in the future. In addition, we have no personal interest in the Company's securities. We are not dependent on the Company as this term is defined in the Securities Law, 1955 and resulting regulations, including the Accountants' Regulations (Conflict of Interest and Harm to Independence as a Result of Other Occupation), 2009, in the auditing standards and rules of professional behavior of the Israeli Institute of Certified Public Accountants, and in accordance with the ruling of the Securities Authority (on the subject of independence), in accordance with Section H(b) of the Securities Law 1968.

We shall also note that no stipulations were made the for the receipt of our fee contingent on the results of this opinion.

Disclosure on the Indemnification of the Appraiser for Their Work

In accordance with the Engagement Agreement, if we are required to pay any sum to any third party pertaining to the performance of the services specified in the Engagement Agreement, via legal proceeding or some other binding proceeding, Turpaz undertakes to indemnify us for any such sum we pay, beyond a sum equal to three times our fee, so long as Turpaz is given the right to defend itself, and all with the exception of cases of negligence or malice on behalf of BDO, in which case no indemnification or compensation shall apply.

Disclosure on the Indemnification of the Appraiser for Their Work

We are aware of the fact and that we agree that this paper will be used in and/or be included in the Company's September 30 2023 reports, including reports included within the framework of shelf prospectuses or shelf offering reports published by the Company, as well as in any immediate report in accordance with the Securities Law, 1968 and its regulations, which according to legal requirements the companies in question will be required to include the economic paper. No other use may be made of this opinion except for that noted above, including publishing it or quoting it in full or in part, and it may not be transferred to any third party without our express advance approval.

Details on the Appraiser and Their Expertise

BDO Consulting and Management Ltd – founded by the partners of the BDO accounting firm. BDO Consulting and Management is part of the international BDO Network, which provides a broad variety of business services needed for national and international businesses in any sector. Our company has extensive experience in the following areas: Business valuation, financial and taxation due diligence, valuation of goodwill and intangible assets, financial analysis, creating business plans, consulting on PFI/PPP project financing, M&A, investment banking and so forth.

The leading team

Mr. Moti Dattelkramer, C.P.A., Partner, Head of Corporate Finance

Moti has a B.A. in Economics and Computer Sciences and an MBA from Bar Ilan University. Moti has over 17 years of experience consulting companies and government ministries. In his current role with the consulting company, Moti is a partner, managing dozens of economists and CPAs involved in teams involved in valuation, PPA, business plans, due diligence, impairment assessment, evaluation of financial instruments etc. As part of his work, Moti was involved in a broad variety of valuations, business plans, strategic plans, and due diligence in a variety of areas of activity such as communications, media, technology, traditional industry, food, real estate, medical equipment, and finance. Prior to joining BDO, Moti managed the Economic Department of Tavor Economics and Finance. Previously, Moti was a lecturer at the Technion and at Tel Aviv University, in the Accounting Department, as well as at the Hebrew University in Jerusalem.

Mr. Sagiv Mizrahi, CPA, Partner, Team Leader in the Corporate Finance Department

The work was prepared by a team led by Mr. Sagiv Mizrahi, CPA, partner, and team leader in the Corporate Finance Department. Sagiv has an undergraduate degree in Practical Mathematics from Bar Ilan University, and an MBA (Summa cum Laude), specialized in financial management from Tel Aviv University. Sagiv has over 10 years' experience in economic and business consulting, valuations of companies and financial instruments and diverse economic-accounting work, in conformity with international accounting standards (IFRS) and with US accounting standards (US GAAP). Previously, Sagiv was lecturer on accounting and valuations at Bar Ilan University.

Results

The following table provides details regarding the PPA summary of Klabin (in USD Thousands):

In Thousands USD	03/10/2022
Cash paid	22,381
Earn-Out	1,025
Total consideration	**23,406**
Equity	**462**
Excess to allocation	**22,944**
Allocation	
Customer relations	3,640
Know-How	2,326
Fixed Assets	100
Goodwill (P.N)	**16,878**

Respectfully,
Sagiv Mizrahi, C.P.A.
BDO Ziv Haft Consulting and Management Ltd.

Sources of Information

The principal sources of information used in performing our PPA Study include:

- Company's forecasts for the last quarter of 2022 and for the years 2023-2027;
- Company's financial due diligence that included financial statements for the years 2021-2019 and the first half of 2022;
- Company's balance sheet as of October 3, 2022 (the closing date);
- The SPA;
- Additional information received from the Company by mail and discussions;

Meetings, conversations and correspondences with key employees:

- Guy Gil, CFO,Turpaz;

Section 1

The Acquiring Entity

The Acquiring Entity

Turpaz Group

Tupaz was incorporated and registered in Isarel on February 10 2011 as a private company, under the name BCP Perfume Essences Ltd. On January 21 2021 the Company changed its name to Turpaz Industries Ltd. On May 23 2021, Turpaz shares were listed for trade on the Tel Aviv Securities Exchange for the first time, and it became a public company.

The Company is a global company, which operates, by itself and through its subsidiaries (hereinafter: "**The Turpaz Group**" and/or "**The Group**") (see the Group's holdings chart on the next page), in the development, manufacture, marketing and sale of fragrance essences, taste essences, specialty interim process for the pharmaceutical industry and specialty ingredients. The Turpaz Group has a broad variety of products it developed itself, manufactured at its factories around the world. As of the work date, the Group develops, manufactures, markets and sells products to over 2,000 customers in over 40 countries around the world, operating 13 production sites that include R&D centers, laboratories and sales offices, marketing and regulation in Israel, in the United States, Poland, Belgium, Vietnam, Latvia and Romania, with over 400 workers.

The Group's activity:

- Fragrance area of activity – within the framework of its fragrance activity, the Turpaz Group deals in the development, manufacture, marketing and sale of natural and synthetic fragrance essences for perfumes, for the cosmetics industry, toiletries, detergents, wet wipes, candles, hair products, air fragrances for hotels and the home market. In addition, the Turpaz Group works to manufacture unique components with high added valuer the purpose of which is to mask bad odors, and grant and intensify desired odors in consumer or industrial products.

  The fragrance essences developed by the perfumeries are adapted to customer requirements while creating long-term relationships between the Turpaz Group and its customers around the world. When selecting a supplier, customers in this area place an emphasis on innovation, uniqueness, quality reproducibility, meeting regulatory requirements, reliability, excellence of services and familiarity with the needs of customers for whom the unique essences were developed.

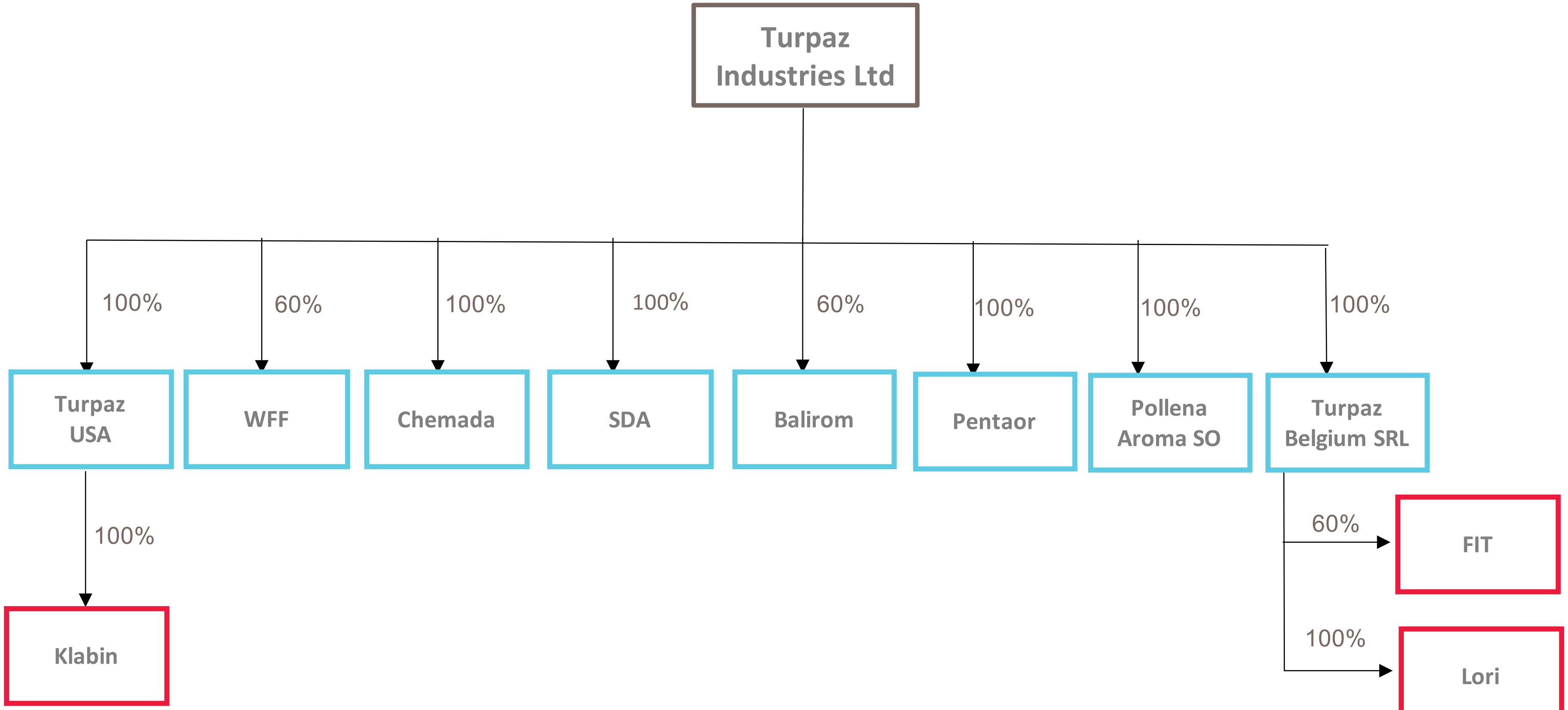
- Taste area of activity – within the framework of taste activity, the Turpaz Group deals in the development, manufacture, marketing and sale of sweet and savory flavor essences, natural and synthetic, unique functional solutions for the field of baking, spice mixtures and special flours (gluten-free) mainly used to produce food, including for the manufacture of meat replacement and egg replacements, plant-based solutions, snacks, prepared meals, dairy products, ice creams, drugs, organic food and coloring for the animal feed industry, beverages, snacks and nutritional supplements personally adapted to customer requirements and regulations. In addition, the Group develops essences and mixtures allowing the presentation of a clean label, reducing fat, salt and sugar in snacks, food products and beverages, while maintaining the desired taste and texture in the products.

- Specialty ingredients field – within the framework of this activity, the Turpaz Group deals in the development, manufacture, marketing and sales of specialty agreements in a variety of production processes intended for industries from various areas with an emphasis on the field of pharmaceuticals, flavoring and fragrance materials, environmental protections, polymers and catalysators, and unique natural products with high added value from citrus products and fragrance products for the flavor and fragrance industry.

The Acquiring Entity

Holdings Structure – Turpaz Group

The following is the holdings Structure of Turpaz Group as of the valuation date:



Section 2

Acquired Entity

Acquired Entity

Klabin

Klabin, which has been active since 1998, deals in the research, development, manufacture, marketing, sale and supply of personally-adapted fragrance essences, natural oil mixes, concentrates, natural and synthetic raw materials, functional applications and solutions for the cosmetics, toiletries, cables, body and hair products, air fragrance, detergents and fine fragrances industries.

The Company was founded by Mr. Saul Klabin, who also serves as Company CEO, who began his activity in the field of fragrances as a perfumer as far back as 1967. Today, his son Justic Klabin also works at the Company and serves as VP and Operations Manager.

The Company manufactures fragrances for almost every market while focusing on skin and hair care, air treatment and home fragrances. The Company has fragrance formulas comprised of mixtures of natural and synthetic products.

Section 3

The Transaction

The Transaction

The Purchase Agreement

On October 3 2022 (Closing date), Turpaz reported that it was purchasing 100% of the issued capital and voting rights of Klabin from its shareholders, Saul and Justin Klabin (hereinafter: "**the Sellers**") in return for a total of USD 22.4 million. The Company's purchase was carried out through Turpaz United States. In addition, the purchase agreement includes contingent consideration (Earn-Out) to the sellers, in which they will be entitled to additional compensation of USD 3 million, in accordance with Kabin's business results in 2023-2025, as will be detailed below.

Earn-Out

In accordance with the agreement, the sellers shall be entitled to a sum of up to USD 3 million, on the condition that the average EBIDTA of the Company for 2023-2025, rounded downward to the closest USD 100 thousands (hereinafter: "**the Average EBITDA**") is higher than USD 2 million (lower threshold) to a ceiling of USD 3 million (upper threshold). The contingent consideration will be determined according to 3 times the difference between the Average EBITDA and the lower threshold. In the event that the Company's Average EBITDA is under the lower threshold, the sellers will not be entitled to additional compensation, in the event that it is over the upper threshold, the sellers shall be entitled to USD 3 million. For example, in the event that the average EBITDA for 2023-2025 is USD 2.5 million, the sellers shall be entitled to additional compensation of USD 1.5 million.

Continued Employment and Non-Compete

The sellers undertook to continue working at the Company and not compete with it, in such a manner that Saul Klabin would continue working at the Company for at least two years from December 31 2025 (end of the contingent consideration period) and Justin Klabin would continue for at least four years from December 31 2025.

Note that under certain circumstances, the sellers will be able to conclude their employment period one year before the end date of the agreement to continue with their employment and non-competition.

Assets Transaction

It was also decided between Turpaz and the sellers that the transaction would be reported for tax purposes as an assets transaction and not as a stock transaction in accordance with Section 338.(h).(10) of the U.S. tax laws. As a result, all of the intangible assets (with the exception of an original difference for fixed assets that will be amortized in accordance with the life span) will be deductible for 15 years from the business closing date.

Rental Agreement with Company of Company Controlling Shareholder

On the closing date, alongside the purchase agreement, the Company agreed upon an amendment to its current rental agreement with Klabin Eco LLC, Development (hereinafter: "**Klabin Eco**"), a company owned by Mr. Saul Klabin, according to which the Company will continue renting the property from Klabin Eco until September 30 2027 with an option to extend by 5 additional years, for yearly rental fees of USD 300 thousands.

Transaction Rationale

According to Turpaz management, the rationale for the transaction is as follows:

- The purchase of Klabin constitutes a strategic purchase for Turpaz in the United States, which allows the expansion of the Group's portfolio of products and customers in the field of fragrance essences.
- Leveraging synergies between the Group's companies in development, purchasing, marketing and sales in the field of fragrance essences.

Section 4

Financial Statements

Financial Statements

Balance Sheet

The following presents Klabin's unaudited balance sheet as of December 31, 2019-2021, and as of October 3, 2022 (in Thousands USD), prepared in accordance with IFRS (*):

Thousands in USD	31.12.19	31.12.20	31.12.21	3.10.22
Current Assets				
Cash and cash equivalents	520	1,941	1,376	1
Customers	344	169	559	312
Prepaid costs	17	41	42	7
Inventory	215	305	576	356
Total current assets	**1,096**	**2,456**	**2,553**	**675**
Non current assets				
Fixed Assets, net	6	5	3	3
Right of use assets	–	–	–	2,167
Total Non current assets	**6**	**5**	**3**	**2,170**
Total assets	**1,102**	**2,461**	**2,556**	**2,845**

Thousands in USD	31.12.19	31.12.20	31.12.21	3.10.22
Current liabilities				
Short-term loans	–	277	–	–
Suppliers and expenses payable	227	185	348	138
Related parties	622	509	188	–
Accrued Costs	37	37	115	78
Total current liabilities	**886**	**1,008**	**651**	**216**
Non-Current Liabilities				
Long-term liabilities due to leases	–	–	–	2,167
Total non-current liabilities	**–**	**–**	**–**	**2,167**
Equity	**216**	**1,453**	**1,905**	**462**
Total liabilities and Equity	**1,102**	**2,461**	**2,556**	**2,845**

(*) According to the company's management, the financial statements were prepared in accordance with the IFRS.

Financial Statements

Balance Sheet (cont.)

The following table presents Klabin Economic Balance Sheet as of December 31, 2019-2021, and as of October 3, 2022 (Thousands USD):

Thousands in USD	31.12.19	31.12.20	31.12.21	3.10.22
Working Capital	312	293	714	459
Net Debt	(102)	1,155	1,188	1
Other operating assets	6	5	3	3
Total Economic Balance sheet	**216**	**1,453**	**1,905**	**462**

The following table presents Klabin Working Capital as of December 31, 2019-2021, and as of October 3, 2022 (Thousands USD):

Thousands in USD	31.12.19	31.12.20	31.12.21	3.10.22
Customers	344	169	559	312
Inventory	215	305	576	356
Suppliers and expenses payable	(227)	(185)	(348)	(138)
Other Working capital	(20)	4	(73)	(71)
Total Working capital	**312**	**293**	**714**	**459**

The following table presents Klabin Net Debt as of December 31, 2019-2021, and as of October 3, 2022 (Thousands USD):

Thousands in USD	31.12.19	31.12.20	31.12.21	3.10.22
Cash and cash equivalents	520	1,941	1,376	1
Related parties	(622)	(509)	(188)	–
Short-term loans	–	(277)	–	–
Total Net debt	**(102)**	**1,155**	**1,188**	**1**

The following table presents Klabin Other Operating Assets as of December 31, 2019-2021, and as of October 3, 2022 (Thousands USD):

Thousands in USD	31.12.19	31.12.20	31.12.21	3.10.22
Fixed Assets, net	6	5	3	3
Right of use assets	–	–	–	2,167
Long-term liabilities due to leases	–	–	–	(2,167)
Total Other operating assets	**6**	**5**	**3**	**3**

Financial Statements

Profit and Loss

The following table presents Klabin's unaudited Profit and Loss statements for years 2019-2021, and for 9 months ended on October 3, 2022 (Thousands USD):

Thousands in USD	2019	2020	2021	1.1-3.10/22
Revenues	5,085	9,938	9,658	4,797
% Growth rate		**95.4%**	**-2.8%**	**-33.8%**
Cost of sales	(2,600)	(3,963)	(4,608)	(2,057)
Gross Profit	**2,485**	**5,975**	**5,050**	**2,740**
% Gross margin	**48.9%**	**60.1%**	**52.3%**	**57.1%**
Operating expenses	(2,209)	(3,319)	(2,971)	(1,754)
% of revenues	**43.4%**	**33.4%**	**30.8%**	**36.6%**
Operating profit	**276**	**2,656**	**2,079**	**986**
% of revenues	**5.4%**	**26.7%**	**21.5%**	**20.6%**
Finance expenses	(18)	(19)	(11)	–
Profit before tax	**258**	**2,637**	**2,068**	**986**
Tax expenses **(*)**	–	–	–	–
Net Income	**258**	**2,637**	**2,068**	**986**

(*) Prior to the Transaction, the Company was defined as a S Corporation, so that the taxes were paid directly by the shareholders and not by the Company.

Section 5

Methodology

Methodology

The Acquisition Method

According to IFRS3, an entity shall account for each business combination by applying the acquisition method.

Applying the acquisition method requires:

a) Identifying the acquirer;

b) Determining the acquisition date;

c) Recognizing and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquire, and;

d) Recognizing and measuring goodwill or a gain from a bargain purchase.

Identifying the acquirer

An entity is required to identify one of the combining entities in each business combination as the acquirer.

Determining the acquisition date

The acquirer shall determine the acquisition date, which is the date on which it obtains control of the acquiree.

The date on which the acquirer obtains control of the acquiree is generally the date on which the acquirer legally transfers the consideration, acquires the assets and assumes the liabilities of the acquiree - the closing date.

Recognizing and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree

As of the acquisition date, the acquirer shall recognize, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree.

Classifying identifiable assets acquired and liabilities assumed in a business combination

Identifiable assets acquired and liabilities assumed are classified based on the economic conditions, operating and accounting policies, contract terms, and other relevant factors that exist as of the acquisition date.

Methodology

The Acquisition Method (cont.)

Measurement principle

The acquirer is required to measure the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values.

Recognizing and measuring goodwill or a gain from a bargain purchase

The acquirer shall recognize goodwill as of the acquisition date measured as the excess of (a) over (b) below:

(a) the aggregate of:

1. The consideration transferred measured in accordance with IFRS3, which generally requires acquisition-date fair value;
2. The amount of any non-controlling interest in the acquiree measured
3. In a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree.

(b) The net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with IFRS3.

Bargain purchases

Bargain purchases occur if the acquisition-date amounts of the identifiable net assets acquired, excluding goodwill, exceed the sum of (i) the fair-value of consideration transferred, (ii) the fair-value of any non-controlling interest in the acquiree, and (iii) the fair value of any previously held equity interest in the acquiree.

Bargain purchase represents an economic gain, which should be immediately recognized by the acquirer in profit or loss.

If a bargain purchase is initially identified, the acquirer should reassess whether all of the assets acquired and liabilities assumed have been identified and recognized, including any additional assets and liabilities not previously identified or recognized in the acquisition accounting. Once completed, the acquirer should review the procedures used to measure the following items:

- Identifiable assets acquired and liabilities assumed;
- Non-controlling interest in the acquiree, if any;
- Acquirer's previously held equity interest in the acquiree, if any;
- Consideration transferred.

The objective of the review is to ensure that the measurements appropriately reflect consideration of all available information as of the acquisition date.

Methodology

Approaches to Valuation

In order to arrive at estimate value, the three generally accepted approaches to valuation were considered as described below.

The generally accepted approaches to valuation are commonly referred to as the following:

1. Market approach;
2. Income approach;
3. Asset-based approach;

Within each category, a variety of methodologies exists to assist in the estimation of fair value. The following contain a brief overview of the theoretical basis of each approach, as well as a discussion of the specific methodologies relevant to the analyses performed.

Market Approach

The market approach references actual transactions in the assets of the enterprise being valued or transactions in similar assets that are traded in the public markets. Third-party transactions in the assets of an enterprise generally represent the best estimate of fair market value if they are done at arm's length.

Income Approach

The income approach is based on the premise that the value of a security or asset is the present value of the future earning capacity that is available for distribution to investors in the security or asset. A commonly used methodology under the income approach is a discounted cash flow analysis. A discounted cash flow analysis involves forecasting the appropriate cash flow stream over an appropriate period and then discounting it back to a present value at an appropriate discount rate.

This discount rate should consider the time value of money, inflation, and the risk inherent in ownership of the asset or security interest being valued.

Asset-Based Approach

A third approach to the valuation is the asset-based approach. The discrete valuation of an asset using an asset-based approach is based upon the concept of replacement as an indicator of value. A prudent investor would pay no more for an asset than the amount for which he or she could replace the asset new. The asset-based approach establishes value based on the cost of reproducing or replacing the property, less depreciation from physical deterioration and functional obsolescence, if present and measurable. This approach generally provides the most reliable indication of the value of land improvements, special-purpose buildings, special structures, systems, and special machinery and equipment.

Methodology

Valuation of the Intangible Assets

The valuation of the intangible assets of acquired companies is particularly important since the most valuable assets of this type of company generally are not recorded on the balance sheet before acquisition. Intangibles that may exist at the time of the acquisition include: (a) current and in-process technologies; (b) customer- related intangibles (such as a distribution network or a customer base); (c) trademark(s), trade name(s), and related intellectual property; (d) distribution rights; (e) backlog; and (f) covenants not-to-compete.

In the determination of the Fair Value for each intangible asset, each assessment should consider specific factors of the asset, including (but not limited to):

- The value of economic or monetary benefit to market participants;
- The remaining economic life;
- The relative risk profile;

Assembled workforce was also identified for the valuation analysis but was incorporated as part of goodwill. IFRS3 - Business Combinations, requires that the assembled workforce shall not be recognized as an intangible asset apart from goodwill in a business combination. Nevertheless, the assembled workforce was identified separately for the purpose of calculating the appropriate contributory charge needed to arrive at the Fair Value of each of the Intangible Assets on a standalone basis.

Relief from Royalty Method

The premise of the relief from royalty method is that ownership of the subject asset relives the owner of the need to license the assets from a third party. Thus, by owning the intangible asset, the owner avoids the royalty payments required to license the asset.

The relief from royalty method is often appropriate for certain types of intangible assets. For example: trademarks and trade names, patents and developed product technology are examples of intangible assets that frequently are licensed in exchange for royalty payment.

Methodology

Multi-Period Excess Earning Method ("MPEEM")

The application of the income approach to the valuation of intangible assets acquired is typically performed using the Multi-Period Excess Earnings Method ("**MPEEM**"). The fundamental premise of the multi-period excess earnings method is that the value of an intangible asset is equal to the present value of the net cash flows attributable to the subject intangible asset. The net cash flows attributable to the subject asset are those in excess of fair returns on all the assets that are necessary to the realization of the cash flows. The contributory asset charges would be based on the fair value of the contributing assets.

The principal behind a contributory asset charge is that each valued asset "rents" or "leases" from a hypothetical third party only the needed assets, and that each project pays the owner of the assets a fair return on the fair value of the rented assets. Thus, any net cash flows remaining after such charges are attributed to the subject-valued asset.

Fixed Assets

Fixed assets allow the workspace for the marketing sales and logistics functions for both tangible and intangible products. In order to evaluate the assets in a stand-alone basis, a market participant will have to theoretically rent such fixed assets.

Working Capital

Realizing cash flows from the commercialization of new products or services requires working capital for investment in receivables, inventory and other short-term assets. Working capital contributes to the project by allowing and supporting the normal business cycle.

Workforce

The value of the workforce asset is estimated according to the Cost Approach and is calculated as the cost of recruiting and training personnel.

Tax Amortization Benefits ("TAB")

An additional adjustment is added to the indicated values derived to the Company's intangible assets. Under the assumption of future amortization of the asset for tax purposes, tax amortization benefits reflect the hypothetical tax benefits associated with amortizing the asset for income tax purposes.

Black & Scholes (option valuation model)

The Black Scholes model, also known as the Black-Scholes-Merton (BSM) model, is a model of price variation over time of financial instruments such as stocks that can, among other things, be used to determine the price of a European call option.

The model assumes the price of heavily traded assets follows a geometric Brownian motion with constant drift and volatility. When applied to a stock option, the model incorporates the constant price variation of the stock, the time value of money, the option's strike price, and the time to the options expire.

Also called Black-Scholes-Merton, it was the first widely used model for option pricing. It's used to calculate the theoretical value of European-style options using current stock prices, expected dividends, the option's strike price, expected interest rates, time to expiration and expected volatility.

Section 6

Valuation - Intangible Assets

valuation - intangible assets

Intangible Assets Recognized

In our opinion, we have considered the existence of the following intangible assets:

- Customer relations;
- Know How;
- Non-competition;
- Rental agreements under preferred or inferior conditions;

Rental agreements under preferred or inferior conditions.

We have identified and valued the following intangible assets:

- Customer relations;
- Know How;

Non-Competition

In order to assess the value of the non-compete asset, the probability that the sellers will compete with the Company (if no non-compete agreement between the parties to the transaction had been arranged) must be assessed, as well as the economic damage that may have been caused the Company as a result of any competition that may have existed.

We estimate that the noncompete agreement has negligible value, for the following reasons:

- The sellers remain employed at the Company for the period defined in the agreement.
- The sellers were granted additional compensation on the basis of the average adjusted EBITDA for 2023-2025 and the sellers will strive for the Company to reach a high EBITDA. (For more on the non-competition see Chapter 3 "Description of Transaction"). During these years, Turpaz will make sure to strengthen its relations with the business's customers, in a manner that will significantly moderate the customers' loyalty risk to the sellers.
- This is industrial activity that requires significant capital and construction times, as well as access to formulas and knowledge that constitute additional natural barriers to competition.

Customer relations

International standards define "Customer relationships" as agreements, relationships with customers or list of customers of the acquired entity, which have a material value for the acquiring entity. Agreements or relationships with customers have an economic value, as their absence would impact the future cash flows of the business.

Relationships with customers/distributors may result from contracts, but customer/distributor relationships may also derive from other types of business relationships, such as an ordinary relationship arising from supplier-customer sales.

According to international standards, the customer list does not typically arise from contractual or other legal rights. However, customer lists are often leased or exchanged. Therefore, the customer list, acquired in a business combination, normally meets the separable criterion and is identifiable separately from goodwill.

Valuation of the intangible asset "customer relationships" was based on the income approach, the MPEEM method, with the asset valued based on the future cash flow arising from Company revenues.

valuation - intangible assets

Intangible Assets Recognized (Cont.)

Customer relations (Cont.)

The Company's customers portfolio is comprised of a variety of customers, most of whom are from the United States. The fragrance essence manufacture field is a field the complex nature of which, the importance of quality and the level of bureaucracy of which dictate conservative and long-term work practices with suppliers. The slightest changes in raw materials may harm the quality of the product, and as a result food manufactures do not often replace suppliers. Turpaz management estimates that the Company's existing customer relations uphold the conditions detailed above, for them to be recognized as an asset separate from goodwill as ongoing relationships exist with Group customers and the Group has available and accessible information on these customers

Know-How

As noted, the core business is based on the Company's know-how, as it deals in the development, manufacture and marketing of production processes and formulas of fragrance essences to broad segments of various industries. The Company's know-how is an intangible asset representing knowledge developed internally by the Company. Ownership of this accumulated knowhow in effect exempts the asset owner from the need to develop formulas and products, and thus allows the production of profits for the products. Based on information provided by Turpaz Management and analyses we performed, we reached the conclusion that the knowledge meets the accounting definition of an intangible asset and is considered an intangible asset purchased as part of a business combination.

Valuation of the intangible asset "customer relationships" was based on the income approach method, the RFR method, with the asset valued based on the capitalization of "worthwhile royalties" payments saved from the Company and based on the Company's revenues.

Rental Agreements Under Preferred or Inferior Conditions

As noted, within the framework of the purchase agreement, the Company renewed its rental agreement with Klabin Eco for 5 additional years to September 30 2027. In accordance with Turpaz management, the rental fees set in the new agreement reflect the market price, and therefore there is no additional value, positive or negative, as a result of this agreement..

valuation - intangible assets

Customer Relations

The table below shows the valuation of customer relationships, as of the business closing date (thousands of USD):

In Thousands USD		3.10-31.12/22	2023	2024	2025	2026	2027	2028	2029	2030	2031	Q1-Q3/2032
Revenues - Base Case		661	9,810	10,791	11,870	12,938	14,259	14,687	15,128	15,582	16,049	12,398
% Churn rate		*0.0%*	*20.0%*	*20.0%*	*20.0%*	*20.0%*	*20.0%*	*20.0%*	*20.0%*	*20.0%*	*20.0%*	*20.0%*
Revenues from customer relations, net		**661**	**7,848**	**6,278**	**5,023**	**4,018**	**3,215**	**2,572**	**2,057**	**1,646**	**1,317**	**790**
% of Base case revenues					*42%*	*31%*	*23%*	*18%*	*14%*	*11%*	*8%*	*6%*
Cost of sales		(367)	(4,378)	(3,348)	(2,580)	(2,013)	(1,579)	(1,263)	(1,010)	(808)	(647)	(388)
Gross profit		**294**	**3,470**	**2,930**	**2,442**	**2,005**	**1,636**	**1,309**	**1,047**	**837**	**670**	**402**
Gross margin %		*44.4%*	*44.2%*	*46.7%*	*48.6%*	*49.9%*	*50.9%*	*50.9%*	*50.9%*	*50.9%*	*50.9%*	*50.9%*
Research and development		(14)	(754)	(571)	(432)	(266)	(204)	(164)	(131)	(105)	(84)	(50)
% of revenues		*2.2%*	*9.6%*	*9.1%*	*8.6%*	*6.6%*	*6.4%*	*6.4%*	*6.4%*	*6.4%*	*6.4%*	*6.4%*
Sales and marketing		(51)	(449)	(343)	(262)	(201)	(155)	(124)	(99)	(80)	(64)	(38)
% of revenues		*7.7%*	*5.7%*	*5.5%*	*5.2%*	*5.0%*	*4.8%*	*4.8%*	*4.8%*	*4.8%*	*4.8%*	*4.8%*
General and administrative		(151)	(519)	(387)	(289)	(217)	(165)	(132)	(105)	(84)	(67)	(40)
% of revenues		*23%*	*7%*	*6%*	*6%*	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*
Total operating expenses		**(216)**	**(1,722)**	**(1,300)**	**(982)**	**(683)**	**(525)**	**(420)**	**(336)**	**(269)**	**(215)**	**(129)**
% of revenues		*32.7%*	*21.9%*	*20.7%*	*19.5%*	*17.0%*	*16.3%*	*16.3%*	*16.3%*	*16.3%*	*16.3%*	*16.3%*
Royalties for Know-How		(33)	(392)	(314)	(251)	(201)	(161)	(129)	(103)	(82)	(66)	(40)
% of revenues		*5%*	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*
Operating profit before tax		**44**	**1,356**	**1,316**	**1,210**	**1,121**	**950**	**760**	**608**	**487**	**389**	**234**
% operating profit		*6.7%*	*17.3%*	*21.0%*	*24.1%*	*27.9%*	*29.6%*	*29.6%*	*29.6%*	*29.6%*	*29.6%*	*29.6%*
Tax expenses		(13)	(407)	(395)	(363)	(336)	(285)	(228)	(182)	(146)	(117)	(70)
Operating profit after tax		**(16)**	**(189)**	**(151)**	**(121)**	**(97)**	**(77)**	**(62)**	**(49)**	**(40)**	**(32)**	**(19)**
Contributory charges:	**After tax**											
Working capital	**0.85%**	(6)	(66)	(53)	(43)	(34)	(27)	(22)	(17)	(14)	(11)	(7)
Workforce	**1.50%**	(10)	(118)	(94)	(75)	(60)	(48)	(39)	(31)	(25)	(20)	(12)
Fixed Assets	**0.06%**	(0)	(4)	(4)	(3)	(2)	(2)	(1)	(1)	(1)	(1)	(0)
Total contributory charges		**(16)**	**(189)**	**(151)**	**(121)**	**(97)**	**(77)**	**(62)**	**(49)**	**(40)**	**(32)**	**(19)**
Debt free cash flow		**15**	**760**	**770**	**726**	**688**	**588**	**470**	**376**	**301**	**241**	**145**
Discount period		0.13	0.75	1.75	2.75	3.75	4.75	5.75	6.75	7.75	8.75	9.63
Discounted cash flow		**15**	**689**	**612**	**506**	**421**	**316**	**221**	**155**	**109**	**77**	**41**

Value of customer relations before TAB	**3,162**
Value of customer relations after TAB	**3,640**

valuation - intangible assets

Customer Relations (Cont.)

The following shall be the key assumptions when building the projection of cash flows deriving from the Company's customer relationships:

Economic life span – based on the analysis we performed, the life span of the customer relations was estimated at 10 years as of the assessment date.

Abandonment rate – In accordance with Turpaz Management, the accepted abandonment rate in the industry is 20%, as this rate apparently also applies to the purchased company.

Revenues – Revenues from customer relationships were determined based on the Company's revenue forecast as assumed in the base case (for more details Appendices chapter). Subsequently, these revenues decrease over the course of the forecast years (starting 2023) in accordance with an abandonment rate of 20% as described above.

Discount Rate – The discount rate used to discount the cash flow in order to assess the value of customer relationships is 14%, based on the weighted average cost of capital (WACC) of the activity, less 1%. The discount rate was chosen in accordance with the probability chance of the yield rates estimated by us via WARA analysis.

Cost of goods sold – The cost of goods sold was determined based on the ratio of cost of goods sold, as assumed in the base case.

Sales, administrative and general expenses – the operational expenses were determined according to their rate of revenues from existing customers, as assumed in the base case.

Tax expenses – according to the tax rate in New Jersey (United States), 30%.

Charge for Know-How - Charges for Know-How were calculated based on royalty rate of 5%. For more details, please see the Know-How valuation hereinafter.

<u>Contributory charges</u> – Contributory charges reflect the use of other assets which contributed to creating the value of the intangible asset. From after-tax operating income we deducted contributory charges due to personnel, fixed assets and working capital as follows:

In Thousands USD	Balance as of 3.10.2022	Return Rate (After Tax)	Contributory Charge	Yearly Revenue	% Charge of Revenues
Working capital	2,026	4.10%	83	9,810	0.85%
Workforce	982	15.00%	147	9,810	1.50%
Fixed Assets	103	5.40%	6	9,810	0.06%

Fixed assets – the value of the fixed assets as of the purchase date is USD 103,000. The pre-tax rate of return was determined in accordance with the Company's long-term USD debt estimated at 7.71% and 5.4% after tax. The contributory charge rate was determined at 0.06% of annual revenues from customer relationships.

Working capital – in order to calculate the contributory charge working capital, the projected working capital balance for 2023 was taken, in accordance with the purchase model, as a normative working capital balance. The pre-tax rate of return was determined based on the Company's short-term debt rate, estimated at 5.86%, and 4.1% after tax. The contributory charge rate with respect to working capital was determined at 0.85% of annual revenues from customer relationships.

valuation - intangible assets

Customer Relations (Cont.)

Personnel – the value of the skilled personnel asset was estimated in accordance with the cost approach and was calculated as the cost of the employees' recruitment and training cost (for more see Appendix D to this work). This cost was estimated a USD 982,000. The contributory charge for skilled personnel was calculated in accordance with the Company's WACC rate. The contributory charge rate was estimated at 1.5% of annual revenues from customer relationships.

Tax asset (TAB) – in accordance with Section 338 on a business transaction, all intangible assets (with the exception of fixed assets) will be amortized for tax purposes for 15 years from the business closing date. Based on the above, the value of the tax benefit was estimated at 13.1%, as follows:

TAB	Period	Depreciation %	Tax rate	% Benefit	Discounted
1	0.50	7%	30%	2.0%	1.9%
2	1.50	7%	30%	2.0%	1.6%
3	2.50	7%	30%	2.0%	1.4%
4	3.50	7%	30%	2.0%	1.3%
5	4.50	7%	30%	2.0%	1.1%
6	5.50	7%	30%	2.0%	1.0%
7	6.50	7%	30%	2.0%	0.9%
8	7.50	7%	30%	2.0%	0.7%
9	8.50	7%	30%	2.0%	0.7%
10	9.50	7%	30%	2.0%	0.6%
11	10.50	7%	30%	2.0%	0.5%
12	11.50	7%	30%	2.0%	0.4%
13	12.50	7%	30%	2.0%	0.4%
14	13.50	7%	30%	2.0%	0.3%
15	14.50	7%	30%	2.0%	0.3%
		100.0%	**0.0%**	**0.0%**	**13.1%**

Below is a summary of valuation of customer relationships, after tax benefit (TAB) in thousands of USD:

In Thousands USD	03/10/2022
Value of customer relations before TAB	3,162
TAB	477
Value of customer relations	**3,640**

Sensitivity Analysis

The following is a sensitivity analysis testing the change in the value of customer relationships in accordance with the changes in the Discount rate (thousands of USD):

Customer Relations - Discount Rate

Churn Rate		12%	13%	14%	15%	16%
	30%	2,532	2,452	2,378	2,308	2,243
	25%	3,139	3,032	2,933	2,840	2,754
	20%	3,917	3,773	3,640	3,515	3,399
	15%	4,922	4,727	4,546	4,378	4,221
	10%	6,226	5,961	5,715	5,487	5,276

valuation - intangible assets

Know-How

The table below shows the valuation of know-how, as of the business closing date (thousands of USD):

In Thousands USD	3.10-31.12/22	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	Q1-Q3 2042
Revenues - Base Case	661	9,810	10,791	11,870	12,938	13,844	14,259	14,687	15,128	15,582	16,049	16,531	17,026	17,537	18,063	18,605	19,163	19,738	20,331	20,940	16,176
% Revenues from Know-How	100.0%	100.0%	90.0%	81.0%	72.9%	65.6%	59.0%	53.1%	47.8%	43.0%	38.7%	34.9%	31.4%	28.2%	25.4%	22.9%	20.6%	18.5%	16.7%	15.0%	13.5%
Revenues from Know-How	**661**	**9,810**	**9,712**	**9,615**	**9,432**	**9,083**	**8,420**	**7,805**	**7,236**	**6,707**	**6,218**	**5,764**	**5,343**	**4,953**	**4,591**	**4,256**	**3,946**	**3,658**	**3,391**	**3,143**	**2,185**
% Royalties fees	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*
Royalties fees	**33**	**491**	**486**	**481**	**472**	**454**	**421**	**390**	**362**	**335**	**311**	**288**	**267**	**248**	**230**	**213**	**197**	**183**	**170**	**157**	**109**
Tax expenses	**(10)**	**(147)**	**(146)**	**(144)**	**(141)**	**(136)**	**(126)**	**(117)**	**(109)**	**(101)**	**(93)**	**(86)**	**(80)**	**(74)**	**(69)**	**(64)**	**(59)**	**(55)**	**(51)**	**(47)**	**(33)**
Royalties fees after tax	**23**	**343**	**340**	**337**	**330**	**318**	**295**	**273**	**253**	**235**	**218**	**202**	**187**	**173**	**161**	**149**	**138**	**128**	**119**	**110**	**76**
Discount period	**0.13**	**0.75**	**1.75**	**2.75**	**3.75**	**4.75**	**5.75**	**6.75**	**7.75**	**8.75**	**9.75**	**10.75**	**11.75**	**12.75**	**13.75**	**14.75**	**15.75**	**16.75**	**17.75**	**18.75**	**19.63**
Discounted cash flow	**23**	**313**	**274**	**240**	**209**	**178**	**146**	**120**	**98**	**81**	**66**	**54**	**44**	**36**	**30**	**25**	**20**	**17**	**14**	**11**	**7**

Value of Know-how before TAB	**2,006**
Value of Know-how after TAB	**2,326**

valuation - intangible assets

Know-How (Cont.)

We estimated the fair value of the knowledge at the Company using the "**Relief from Royalty**" method. The approach in question is carried out in three stages:

1. Establishing a flow of royalties revenues – in Stage A we examined the flow of revenues and as a result, the imputed royalties payments were calculated. In our examination, we relied on the base case forecast as a whole. However, in general know-how fades in light of migration, meaning gradual fading of existing know-how and its replacement with new know-how. Therefore, across the forecast we recognized revenues decreasing by 10% per year.
2. Setting royalties rate – the royalties rate was set at a level of 5% of revenues, based on our experience in similar valuations and the specific business environment in which the Company is active, as well as based on management's estimates regarding appropriate royalties for this know-how in the market in which it is active. The reasonability of this royalties rate was also tested on the basis of the "Rule of Thumb - 25%[1]", which states that royalties will generally be paid at a value of 25% of operating profits
3. Calculating the current value of the know-how – the contribution of know-how to the Company was carried out by capitalizing the imputed cash flows of the know-how to the Company, over the course of the forecast years in accordance with the life span accepted in the industry. Based on our familiarity with the knowledge and the market, it was assumed that the life span would amount to 20 years.

Tax expenses – 30% tax was deducted from the royalties flow, in accordance with the tax rate applicable to Company revenues in the state in which it was active (New Jersey, U.S.).

Discount Rate – The discount rate used to discount the cash flow in order to assess the value of the know-how is 13%, based on the weighted average cost of capital (WACC) of the activity, less 2%. The discount rate was chosen in accordance with the probability chance of the yield rates estimated by us via WARA analysis.

Tax asset (TAB) – in accordance with Section 338 on a business transaction, all intangible assets (with the exception of fixed assets) will be amortized for tax purposes for 15 years from the business closing date. Based on the above, the value of the tax benefit was estimated at 13.7%, as follows:

TAB	Period	Depreciation %	Tax rate	% Benefit	Discounted
1	0.50	7%	30%	2.0%	1.9%
2	1.50	7%	30%	2.0%	1.7%
3	2.50	7%	30%	2.0%	1.5%
4	3.50	7%	30%	2.0%	1.3%
5	4.50	7%	30%	2.0%	1.2%
6	5.50	7%	30%	2.0%	1.0%
7	6.50	7%	30%	2.0%	0.9%
8	7.50	7%	30%	2.0%	0.8%
9	8.50	7%	30%	2.0%	0.7%
10	9.50	7%	30%	2.0%	0.6%
11	10.50	7%	30%	2.0%	0.6%
12	11.50	7%	30%	2.0%	0.5%
13	12.50	7%	30%	2.0%	0.4%
14	13.50	7%	30%	2.0%	0.4%
15	14.50	7%	30%	2.0%	0.3%
		100.0%			**13.7%**

[1] Use Of The 25 Per Cent Rule In Valuing IP- ROBERT GOLDSCHEIDER, JOHN JAROSZ AND CARLA MULHERN

valuation - intangible assets

Know-How (Cont.)

The following is a summary of the value of the asset after the tax benefit:

In Thousands USD	03/10/2022
Value of Know-how before TAB	2,006
TAB	320
Value of Know-How	**2,326**

Sensitivity Analysis

The following is a sensitivity analysis of the value of the knowledge, against changes of 1% in the Discount rate as well as against changes of 1% in the estimated royalties rate:

		Know-How - Discount Rate				
		11%	12%	13%	14%	15%
Royalties fees rate	7%	3,638	3,437	3,256	3,092	2,943
	6%	3,119	2,946	2,791	2,650	2,522
	5%	2,599	2,455	2,326	2,209	2,102
	4%	2,079	1,964	1,861	1,767	1,682
	3%	1,559	1,473	1,395	1,325	1,261

Section 7

Purchase Price Allocation Summary

Purchase Price Allocation Summary

Findings

The following table represents the attribution of the consideration for the purchased company as of the purchase date (thousands of USD):

In Thousands USD	Note	03/10/2022	Lifespan (yees)
Cash paid	1	22,381	
Earn-Out	2	1,025	
Total consideration		**23,406**	
Equity	3	**462**	
Excess to allocation		**22,944**	
Allocation			
Customer relations	4	3,640	10
Know-How	5	2,326	20
Fixed Assets	6	100	
Goodwill (P.N)	7	**16,878**	

(1) Cash paid

In accordance with the purchase agreement, the buyer paid a total of USD 22,381 thousands in cash (which includes the adjustment of the contingent consideration as agreed upon by the parties.

(2) Earn-Out

As noted in the Description of Transaction chapter, there is additional compensation for the sellers in accordance with the Company's EBITDA results in 2023-2025. To assess the value of the contingent consideration, a calculation was made according to the Black & Scholes Model with an exercise price of USD 2,000 thousands less a call option with an exercise price of USD 3,000 thousands, similar to the covered call strategy (*).

The following are the parameters used for the purpose of the calculations in the options model:

- The price of the base asset is USD 2,288 thousands, in accordance with the Company's projected average EBITDA for 2023-2025 (in accordance with the purchase mode) is capitalized as of the purchase date according to WACC for a period of 1.75 years.
- Payment period of 1.75 years, in accordance with the period from the valuation date to the middle of the profits production period.
- Volatility of 28.78% in accordance with the average fluctuations of the comparison companies.
- Risk-free interest for an average life span of 1.75 at a rate of 4.17% (Bloomberg, nominal dollar).
- Strike price - USD 2,000 thousands and USD 3,000 thousands respectively.

Accordingly, the value of the contingent consideration was calculated in the following manner:

In Thousands USD	
Average EBITDA for the years 2023-2025	2,920
Average EBITDA capitalized with WACC	2,288
Value of CALL option (strike price of USD 2,000 thousands)	571
Value of CALL option (strike price of USD 3,000 thousands)	182
Difference	389
The difference multiplied by 3 (total payable of additional consideration)	1,168
Value of Earn-Out	**1,025**

Purchase Price Allocation Summary

Findings (Cont.)

The value of the option with an Strike price of USD 2,000 thousands is USD 571 thousands and the value of the option with an Strike price of USD 3,000 thousands is USD 182 thousands. The option's valuation was performed by multiplying the difference between these options (USD 389 thousands) at a slope of 3 representing the added contingent consideration that will be paid the sellers for an increase of one dollar in the average EBIUTDA.

Subsequently, in order to calculate the current value of the contingent consideration that is expected to be paid (in value terms), capitalization was carried out in the debt premium of Turpaz United States, for a period of 3.6, which constitutes the period from the business closing date to the payment date (some 1.6%). As well as capitalization at risk-free interest for a period of 1.86 years (the difference between the period for payment and the operational period above).

Accordingly, the value of the contingent consideration was estimated at USD 1,025 thousands.

(3) Acquired Equity

Approximately USD USD 462 thousands, in accordance with the Company's October 3 2022 balance sheet (see Financial Statements chapter).

(4) Customer Relations

The value of customer relations was estimated at USD 3,640 thousands (for more see Chapter 6).

(5) Know-How

The value of know-how is estimated at USD 2,326 thousands (for more see Section 6).

(6) Fixed Assets

In accordance with Turpaz management, the value of the total fixed asset items is USD 103 thousands, with the cost amortized in the Company's books being USD 3 thousands. Accordingly, the original difference (the difference between the fair value and the book value) of the assets was estimated at USD 100 thousands.

(7) Goodwill

Goodwill is the difference between the consideration in the transaction and the fair value of identified tangible and intangible assets, and amounts to a total of USD 16,878 thousands.

The value of goodwill includes the tax benefit (TAB) for Section 338 on assets transactions, which constitutes an additional component of the value of the company in the purchase model. As noted, all intangible assets (with the exception of original differences for fixed assets) will be amortized for tax purposes for 15 years from the closing date. Therefore, the value of the tax benefit for goodwill was estimated at 7% per year, which was calculated as follows:

Purchase Price Allocation Summary

Findings (Cont.)

Goodwill (Cont.)

The value of goodwill includes the tax benefit (TAB) for Section 338 on assets transactions, which constitutes an additional component of the value of the company in the purchase model. As noted, all intangible assets (with the exception of original differences for fixed assets) will be amortized for tax purposes for 15 years from the closing date. Therefore, the value of the tax benefit for goodwill was estimated at 7% per year, which was calculated as follows:

TAB	Period	Depreciation %	Tax rate	% Benefit	Discounted
1	0.50	7%	30%	2%	1.9%
2	1.50	7%	30%	2%	1.6%
3	2.50	7%	30%	2%	1.4%
4	3.50	7%	30%	2%	1.2%
5	4.50	7%	30%	2%	1.1%
6	5.50	7%	30%	2%	0.9%
7	6.50	7%	30%	2%	0.8%
8	7.50	7%	30%	2%	0.7%
9	8.50	7%	30%	2%	0.6%
10	9.50	7%	30%	2%	0.5%
11	10.50	7%	30%	2%	0.5%
12	11.50	7%	30%	2%	0.4%
13	12.50	7%	30%	2%	0.3%
14	13.50	7%	30%	2%	0.3%
15	14.50	7%	30%	2%	0.3%
		100.0%			**12.5%**

The following is the extraction of the value of the tax benefit for goodwill:

In Thousands USD	03/10/2022	%
Value of Goodwill before TAB	14,762	87.5%
TAB	2,117	12.5%
Value of Goodwill	**16,878**	**100%**

As we can see, the value of the tax benefit amounts to USD 2.1 million.

Section 8

Appendixes

Appendix A – Base Case Scenario

Base Case Scenario

The following is the purchase mode, meaning the Klabin valuation (thousands of USD):

In Thousands USD	10-12/2022	2023	2024	2025	2026	2027	Terminal
Revenues	661	9,810	10,791	11,870	12,938	13,844	14,259
Growth rate		*78.3%*	*10.0%*	*10.0%*	*9.0%*	*7.0%*	*3.0%*
Cost of sales	(510)	(5,472)	(5,755)	(6,098)	(6,482)	(6,800)	(7,004)
Gross profit	**151**	**4,338**	**5,036**	**5,772**	**6,456**	**7,044**	**7,256**
Gross margin %	***22.8%***	***44.2%***	***46.7%***	***48.6%***	***49.9%***	***50.9%***	***50.9%***
Research and development	(225)	(943)	(981)	(1,020)	(857)	(881)	(907)
% of revenues	*34.0%*	*9.6%*	*9.1%*	*8.6%*	*6.6%*	*6.4%*	*6.4%*
Sales and marketing	(91)	(561)	(589)	(619)	(646)	(669)	(689)
% of revenues	*13.8%*	*5.7%*	*5.5%*	*5.2%*	*5.0%*	*4.8%*	*4.8%*
General and administrative	(148)	(649)	(665)	(682)	(697)	(709)	(731)
% of revenues	*22.4%*	*6.6%*	*6.2%*	*5.7%*	*5.4%*	*5.1%*	*5.1%*
Operating profit before tax	**(313)**	**2,185**	**2,801**	**3,452**	**4,256**	**4,785**	**4,929**
% operating profit	***-47.4%***	***22.3%***	***26.0%***	***29.1%***	***32.9%***	***34.6%***	***34.6%***
EBIDTA	**(258)**	**2,292**	**2,908**	**3,559**	**4,363**	**4,892**	**5,036**
Tax expenses	–	(562)	(840)	(1,036)	(1,277)	(1,436)	(1,479)
Operating profit after tax	**(313)**	**1,623**	**1,961**	**2,416**	**2,979**	**3,350**	**3,450**
Cash flow adjustments							
Change in WC	(134)	(1,434)	(181)	(202)	(203)	(172)	(84)
Depreciation and Amortisation	55	107	107	107	107	107	107
CapEx	(55)	(107)	(107)	(107)	(107)	(107)	(107)
Total cash flow adjustments	**(134)**	**(1,434)**	**(181)**	**(202)**	**(203)**	**(172)**	**(84)**
Free cash flow	**(447)**	**190**	**1,780**	**2,215**	**2,776**	**3,178**	**3,367**
Discount period	0.13	0.75	1.75	2.75	3.75	4.75	4.75
Value from operations	**(439)**	**171**	**1,394**	**1,508**	**1,644**	**1,636**	**14,445**

Value of Activity	**20,359**
Net debt	**1**
Value of TAB (338)	**2,914**
Equity value	**23,273**

Key Assumptions

- **The forecast years** – represent the period from October 3 2022 to December 31 2027 as well as the representative year;
- **Gross and operational profit rate** – the revenues and expenses as well as the profitability rates of the purchase model are in accordance with the forecast received from Company management. Note that in accordance with Company management, improvement in gross profitability is expected, among other things, in light of the drop in raw material prices that will be achieved vis-a-vis suppliers, as a market participant discount.
- **Long-term growth rate** – a nominal growth rate was assumed of 3% per year.
- **Capitalization Rate** – the capitalization rate was estimated at 15%, based on the WACC model as detailed in the chapter below. The capitalization rate in dollar-nominal values;
- **Tax rate** – the tax rate taken into account is the tax rate applicable in New Jersey (United States), which amounts to 30%.
- **Depreciation and CapEx** – in accordance with Turpaz management, the Company will not be required to make significant capital investments in the forecast years, and accordingly, it was assumed in the Company's forecast that the investments would be equal to the depreciation.

Appendix A – Base Case Scenario

Key Assumptions (Cont.)

- **Changes in working capital** – the Company's projected working capital forecast was determined based on the normative working capital days for activity, as provided by Company management.
  - 60 customer days;
  - 90 inventory days;
  - 60 supplier days;
  - Other (negative) working capital of 0.4% of revenues`

Net Debt – for more, see section on Financial Statements.

Value of TAB (Section 338) assets transaction – following that stated above, the transaction price includes the tax benefit received for the amortization of intangible assets (including goodwill) and therefore when calculating the base case we added the tax benefit received to the value of the company. The following table concentrates the tax benefit for each intangible asset and the total tax benefit added to the value of the Company:

In Thousands USD	03/10/2022
Value of Goodwill TAB	2,117
Value of Customer relations TAB	477
Value of Know-How TAB	320
Total TAB	**2,914**

Appendix B – WACC

WACC

The capitalization rate as of the closing date was set at 15%, based on the WACC model and based on the following parameters:

Parameters	Marking	Value	Source
(%) Debt	D/(E+D)	15.37%	According to the leverage rates of the comparison group members
(%) Fair Value	E/(E+D)	84.63%	According to the leverage rates of the comparison group members
Foreign Capital Price	Kd	7.71%	Company's nominal Cost of debt
Tax Rate	1-t	70.00%	According to the Israeli tax rate – 23%
Risk-Free Interest	Rf	3.68%	Risk-free interest in USA, nominal for 15 years
Market Risk Premium	Rm-Rf	6.01%	Damodaran, USA July 2022
Beta	Beta	0.87	Average betas of comparison group
Size Premium	SCP	7.89%	Duff & Phelps 2022
Equity Price	Ke	16.83%	Rf+β*(Rm-Rf)+SCP+SRP
Average Weighted Capital Price After Tax	**WACC**	**15.00%**	**(D/V)*(1-T)*Kd + (E/V)*Ke**

Chapter C – WARA Analysis

WARA Analysis

The following table presents the feasibility test for the yield rates estimated by us via WARA (weighted average return on assets) analysis.

In Thousands USD	Value	Discount Rate (%)	WARA
Customer relations	3,640	14.00%	510
Know-How	2,326	13.00%	302
Fixed Assets, net	103	5.40%	6
WC	2,026	4.10%	83
Workforce	982	15.00%	147
Goodwill	15,630	17.01%	2,658
Total Value of Activity (*)	**24,706**	**15.00%**	**3,706**

(*) The following table presents the composition of the value of activity:

In Thousands USD	Value
Value of Activity	20,359
Value of Goodwill TAB	2,117
Value of Customer relations TAB	477
Value of Know-How TAB	320
Normative WC	1,434
Total	**24,706**

Not that the composition of the value of activity includes adjustment to the normative working capital balance relative to the Company's working capital balance as of the purchase date.

Appendix D – Work Force Analysis

Work Force Analysis

The following table presents the value of the personnel, on the basis of recruitment and training costs of all employees at the Company, by department (in thousands of USD):

Department	Total gross salary	Total employer cost	Training period (months)	Total recruitment cost	Total training cost	Total
Production	23	27	3	23	81	104
Research and development	62	74	6	185	444	629
Sales and marketing	6	7	3	18	21	39
General and administrative	32	38	3	96	115	211
Total	**122**	**146**		**321**	**661**	**982**

As the table shows, the value of the Company's personnel as of the purchase date is USD 982 thousands.