Turpaz Industries Ltd.

Periodic report for the quarter ended June 30, 2023

This is an English translation of a Hebrew Periodic report that was published on August 20, 2023 (reference no.: 2023-01-077212) (hereafter: the "**Hebrew Version**"). This English version is only for convenience purposes. This is not an official translation and has no binding force. Whilst reasonable care and skill have been exercised in the preparation hereof, no translation can ever perfectly reflect the Hebrew Version. In the event of any discrepancy between the Hebrew Version and this translation, the Hebrew Version shall prevail.

Table of Contents

TURPAZ

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

For the period ended June 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 six and three months ended June 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 banking, and gluten free flours, which are used mainly in the production of food and beverages, specialty fine ingredients for the pharma and the agro and fine chemicals industries, and citrus products and aromatic chemicals for the flavor and fragrance industry.

The Turpaz Group has an extensive and diversified range of products, which are developed and produced in the Group's plants across the world. As of the report's publication date, the Group develops, produces, markets and sells products to more than 2,000 customers in more than 40 countries across the world, and operates approx. 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 485 employees.

Set forth below are the key operating results and business environment of Turpaz for the first half and second quarter of 2023:

- The complex global economy was characterized by inflation and interest rate hikes in capital markets. The increase in inflation rates, coupled with a lack of economic certainty in the markets, caused customer destocking in the Company's areas of activity, along with a rise in raw material prices worldwide. According to industry projections, these trends are expected to weaken in the coming months .The Company estimates that once customer destocking ends, it will lead to improvement in growth, profit, and profitability.
- **In the first half of 2023**, **Turpaz' sales** increased by approx. 6.6% and amounted to USD 61.5 million, compared with a total of USD 57.7 million in the corresponding half last year. The change stems from growth due to acquisition of companies and activities, which were completed since 2022 through the date of this report, and from organic growth[1] of 3.6% **in the fragrances segment**, which was partially offset against an organic decline of 2.5% in the **tastes segment**, and against an organic decline of 8.8% in the **specialty ingredients segment -** a total organic decline of 2.7%.

  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, the company started improvement processes and reduction of sales to customers generating low levels of profitability, alongside destocking among customers in this segment. The decline in the **specialty 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 second quarter of 2023, Turpaz' sales increased by 1.1% and amounted to USD 30.6 million, compared with a total of USD 30.3 million in the corresponding quarter last year. The change stems from growth due to acquisition of companies and activities, which were completed since 2022 and through the date of this report, and from organic growth of 0.1% **in the specialty ingredients segment**, which was offset against an organic decline[2] of 5.6% in the **fragrances segment**, and against an organic decline of 9.4% in the **tastes segment -** a total organic decline of 6.6%.
- **In the first half of 2023**, gross profit increased by 3.0%, and amounted to USD 23.0 million compared with USD 22.4 in the corresponding half last year. **In the second quarter of 2023**, gross profit decreased by 3.8%, and amounted to USD 11.2 million compared with USD 11.7 million in the corresponding period last year, mainly due to decrease in organic sales, alongside fixed expenses, the increase in energy prices compared with the corresponding quarter last year, and an increase in employees' payroll expenses.

[1] **Organic growth/decline** - after deduction the effect of exchange rates, on a pro-forma basis, assuming that the acquisitions that were completed in 2022 and in the first half of 2023 were consolidated in the financial statements as from January 1 2022.

[2] **Organic growth/decline** - see footnote 1 above.

- **In the first half of 2023, operating profit** decreased by 17.6% and amounted to USD 7.8 million compared with USD 9.5 million in the corresponding half last year. **In the second quarter of 2023, operating profit** decreased by 25.7% and amounted to USD 3.7 million compared with USD 5.0 million in the corresponding period last year, mainly due to an organic decline in sales and amortization of intangible assets.
- **In the first half of 2023, net income** decreased by 32.7% and amounted to USD 5.5 million compared with USD 8.2 million in the corresponding half last year. **In the second quarter of 2023, net income** decreased by 40.7%, and amounted to USD 2.5 million compared with USD 4.2 million in the corresponding period last year.
- **In the first half of 2023, adjusted EBITDA**[3] decreased by 5.2% and amounted to USD 12.6 million compared with USD 13.3 million in the corresponding half last year. **In the second quarter of 2023, adjusted EBITDA** decreased by 13.8% and amounted to USD 6.0 million compared with USD 7.0 million in the corresponding period last year. The change stems mainly from the organic decline in sales.
- The Group's strong equity structure, low leverage levels, its USD 15.0 million cash balance and low debt level of USD 8.0 million as of June 30, 2023, the USD 5.0 million in cash flow from operating activities for the second 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 acquired **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 fragrances segment - in this segment, Turpaz Group is engaged in the development, production, marketing and sale of natural and synthesized fragrance extracts for customers in the cosmetics, toiletries, detergents, wet wipes, scented candles, hair care, air care & odor neutralizers industries for hotels and households. Furthermore, Turpaz Group operates to manufacture specialty ingredients of high added value, whose purpose is to conceal bad odors, and give and enhance desired scents in consumer or industrial products. The fragrance extracts developed by the perfumers are tailored to customers' requirements while creating long-term 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

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

services and their knowledge of the needs of the customers for whom the specialty extracts were developed.

The tastes segment - as part of the flavors segment, Turpaz Group is engaged in the development, production, sale and marketing of natural and synthesized, sweet and savory flavor extracts, seasonings and gluten free flours, which are used mainly in the production of food, including meat and egg substitutes, plant-based solutions, snacks, ready-made meals, dairy products, ice creams, pharmaceuticals, food and organic colorings for the animal food, beverages and food supplements industries, all tailored to meet customers' needs. Furthermore, the Group develops extracts and mixtures that allow the production of "clean label" products, 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.

Combined growth strategy -

Turpaz Group's strategy is based on combined growth that includes targets of double-digit growth and improvement of the Group's geographic deployment through organic growth and through M&As of activities that are synergetic to Turpaz's activity, while leveraging the synergies between Group companies in the areas of sales, procurement, development, marketing and compliance with regulatory requirements, which contribute to the improvement in profits and profitability. The Company continues assessing on an ongoing basis some 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 completed in the first half 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. For the purpose of the acquisition Turpaz took a short-term bank loan as interim financing which will be replaced by a long-term bank 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 shall be consolidated as from the third quarter of 2023.

Acquisition of Aromatique Food

On January 9, 2023, the Company completed - through a wholly-owned subsidiary - the acquisition of 65% of the issued and paid-up share capital and voting rights in Aromatique Food SRL, a privately-owned company incorporated in Romania (hereinafter - "**Aromatique**"), from its only shareholder (hereinafter - the "**Seller**") in consideration for RON 17 million (approx. USD 3.6 million). The acquisition agreement includes a (call/put) option to purchase Aromatique's remaining shares by Turpaz; the option is exercisable as from January 1, 2025, at a price based on Aromatique's business performance during the period from January 1, 2023 through the option's exercise date. Aromatique, which was founded in 2013, is engaged in research, development, production, marketing, sale and supply of raw materials and savory flavor functional ingredients for the food industry; Aromatique's sales are mainly made to the Romanian market.

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 against the shekel as of June 30, 2023, compared with December 31, 2022, net of the effects of the strengthening against the dollar of the other currencies used by the Group caused a decrease in assets and liabilities as of June 30, 2023 compared to December 31, 2022.

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

	June 30 2023	June 30 2022	December 31 2022	Company's explanations compared with December 31 2022
Current assets	72,370	91,769	89,913	The change stemmed mainly from a USD 20.7 million decrease in cash as a result of the USD 5 million in dividend paid in the second quarter of 2023, a USD 9.2 million decrease in respect of repayment of credit and liabilities, and a USD 3.6 million decrease in respect of the completion of a company in the first quarter of 2023.
Non-current assets	132,232	95,954	124,267	The increase stems mainly from the acquisition of Aromatique, which was completed in the first quarter of 2023, and from an increase in property, plant and equipment and right-of-use assets.
Total assets	**204,602**	**187,723**	**214,180**	
Current liabilities	33,202	35,437	46,674	The change arises mainly from a USD 6 million repayment of short-term credit, a USD 4.8 million decrease in the trade payables, and a decrease in other payables balances.
Non-current liabilities	66,842	63,137	63,981	The increase stems mainly from a recognition of a liability in respect of the put option for the purchase of the remaining shares of Aromatique, whose acquisition was completed in the first quarter of 2023, and from an increase in the lease liability.
Total equity	**104,558**	**89,149**	**103,525**	The increase arises mainly from a USD 5.5 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, and translation differences due to changes in exchange rates of currencies.
Total liabilities and equity	**204,602**	**187,723**	**214,180**	

4. <u>Operating results</u>

4.1. Set forth below is an analysis of the operating results for the six months ended June 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 six months ended June 30, 2023	For the six months ended June 30, 2022	For the year ended December 31, 2022	Company's explanations compared to the corresponding period last year
Revenues from sales	**61,540**	**57,710**	**118,556**	Revenues from sales increased by approx. 6.6%; the increase stems from acquisitions completed in 2022 and in the first half of 2023 and is partially offset against a [4] 6.6% organic decrease and the effect of exchange rate that reduced the sales by 1.2%.
Cost of sales	38,506	35,346	70,897	The gross profit increased by approx. 3.0%, mainly in view of the increase of revenues from sales. Profitability declined mainly due to the organic decrease in sales, alongside fixed expenses, increase in energy prices and in employees' payroll expenses.
Gross profit (% of sales)	23,034 37.4%	22,364 38.8%	47,659 40.2%	
Research and development expenses (% of sales)	2,297 3.7%	1,502 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 half of 2023, and the amortization of intangible assets in respect of these acquisitions.
Selling and marketing expenses (% of sales)	5,099 8.3%	4,514 7.8%	10,016 8.4%	The increase stems mainly from acquisitions completed in 2022 and the first half of 2023, and the amortization of intangible assets in respect of these acquisitions.
General and administrative expenses (% of sales)	7,494 12.2%	6,864 11.9%	15,055 12.7%	The increase stems from an increase in the number of employees as a result of acquisition of companies completed in 2022 and in the first half of 2023, and from recruitment of management teams and strengthening of the Company's headquarters, in order to support Turpaz Group's global growth strategy.
Other expenses (income)	304	(27)	(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)	**7,840** 12.7%	**9,511** 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.	**7,840** 12.7%	**9,511** 16.5%	**19,153** 16.2%	
Finance expenses, net	1,269	458	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	1,052	854	4,486	The change stems mainly from decrease in tax expenses during corresponding period last year due to creation of deferred tax on past losses.
Net income for the period (% of sales)	**5,519** 9.0%	**8,199** 14.2%	**21,331** 18.0%	The decrease in the net income rate stems mainly from the reasons described above.
EBITDA[5]	12,343	13,092	35,039	Adjusted EBITDA decreased by5.2% 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[6] (% of sales)	**12,620 20.5%**	**13,308 23.1%**	**26,862 22.7%**	

[4] See footnote 1 above.

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

[6] Non-recurring expenses in the first half of 2023 included legal expenses and other expenses in respect of acquisition of activities and closing of a site during the reporting period, amounting to USD 277 thousand.

4.2. Set forth below is an analysis of the operating results for the three months ended June 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 months period ended June 30, 2023	For the three months period ended June 30, 2022	Company's explanations compared to the corresponding period last year
Revenues from sales	**30,626**	**30,305**	Revenues from sales increased by approx. 1.1%; the increase stems from acquisitions completed in 2022 and in the first half of 2023, and is partially offset against a [7] 6.6% organic decrease and the effect of exchange rate that reduced the sales by 1.2%.
Cost of sales	19,411	18,645	Gross profit declined mainly due to the organic decrease in sales, alongside fixed expenses, increase in energy prices and in employees' payroll expenses.
Gross profit (% of sales)	11,215 36.6%	11,660 38.5%	
Research and development expenses (% of sales)	1,203 3.9%	717 2.4%	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 half of 2023, and the amortization of intangible assets in respect of these acquisitions.
Selling and marketing expenses (% of sales)	2,573 8.4%	2,171 7.2%	The increase stems mainly from acquisitions completed in 2022 and the first half of 2023, and the amortization of intangible assets in respect of these acquisitions.
General and administrative expenses (% of sales)	3,631 11.9%	3,837 12.7%	Similar to the corresponding period last year
Other expenses (income)	128	(19)	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)	**3,680** 12.0%	**4,954** 16.3%	The change stems mainly from the organic decrease in sales and the reasons described above in this table.
Finance expenses, net	694	136	The increase stems mainly from non-cash finance expenses in respect of put options, and finance expenses in respect of leases.
Taxes on income	474	579	The change stems mainly from decrease in tax expenses during corresponding period last year due to creation of deferred tax on past losses.
Net income for the period (% of sales)	**2,512** 8.2%	**4,239** 14.0%	The change stems mainly from the reasons described above.
EBITDA[8]	5,921	6,879	Adjusted EBITDA decreased by13.8% compared with the corresponding period last year. The decrease in the rate of adjusted EBITDA stems from the reasons listed above in this table.
Adj. EBITDA[9] **(% of sales)**	**6,026** **19.7%**	**6,990** **23.1%**	

[7] See footnote 1 above.
[8] See footnote 6 above.
[9] Non-recurring expenses in the second quarter of 2023 included legal expenses and other expenses in respect of acquisition of activities and closing of a site during the reporting period, amounting to USD 105 thousand.

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

Segment		For the six months ended June 30, 2023	For the six months ended June 30, 2022	For the 12 months period ended December 31, 2022	Company's explanations to changes between H1 2022 and H1 2023
Fragrances segment	Revenues	16,107	13,066	27,490	Revenues increased by approx. 23.3%; the increase stems mainly from organic growth of 3.6%, and from the completion of the acquisition of Klabin in the fourth quarter of 2022, and is partially offset from the effects of exchange rates that reduced sales by 3.9%. 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 reporting period, and the transfer of the manufacturing, development and sales activities to Klabin's site.
	Operating profit (% of sales)	3,693 22.9%	3,936 30.1%	7,390 26.9%	
Flavors segment	Revenues	31,807	29,420	59,325	The revenues increased by 8.1%, a change that stems mainly from acquisitions completed in 2022 and the first half of 2023, and from an organic decline of 2.5%. The effect of exchange rates of foreign currencies reduced sales by 3.1%. 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, the company started improvement processes and reduction of sales to customers generating low levels of profitability, alongside destocking among customers in this segment.
	Operating profit (% of sales)	4,275 13.4%	4,400 15.0%	17,667 29.8%	
	Operating profit, net of one-off profit from the fire (% of sales)	4,275 13.4%	4,400 15.0%	8,873 15.0%	
Specialty ingredients segment	Revenues	13,712	15,224	31,741	Revenues declined by approx. 9.9%; the decrease stems mainly from an organic decrease of 8.8%, which stems mainly from the continued decline in customers' inventory levels due to interest rate hikes across the world and the economic unclarity in the markets. The effect of exchange rates of foreign currencies reduced sales by 1.2%. The change in profitability stems mainly from a decline in sales, an increase in raw materials prices, alongside fixed operating costs component.
	Operating profit (% of sales)	3,011 22.0%	4,208 27.6%	9,086 28.6%	
Unallocated joint expenses	Revenues	(86)	-	-	
	Operating profit	(3,139)	(3,033)	(6,813)	
Total	**Revenues**	**61,540**	**57,710**	118,556	
	Operating profit (% of sales)	**7,840** **12.7%**	**9,511** **16.5%**	27,330 23.1%	

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

<table>
<tr><th colspan="2">Segment</th><th>For the three months period ended June 30, 2023</th><th>For the three months period ended June 30, 2022</th><th>Company's explanations</th></tr>
<tr><td rowspan="2">Fragrances segment</td><td>Revenues</td><td>8,139</td><td>7,074</td><td rowspan="2">Revenues increased by approx. 15.1%; the increase stems mainly from the acquisition of Klabin in the fourth quarter of 2022 and from a 5.6% organic decrease. The effect of exchange rates of foreign currencies reduced sales by 1.4%. The organic decrease in the second quarter arises from an increase in orders placed by customers in the first quarter of 2023, which had an organic growth of 15.0% on account of the second quarter.
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 reporting period, and the transfer of the manufacturing, development and sales activities to Klabin's site.</td></tr>
<tr><td>Operating profit
(% of sales)</td><td>2,111
25.9%</td><td>2,143
30.3%</td></tr>
<tr><td rowspan="2">Flavors segment</td><td>Revenues</td><td>15,662</td><td>16,222</td><td rowspan="2">Revenues declined by 3.5%; the decline stems mainly from an organic decease of 9.4%, and from an acquisition completed in the first quarter of 2023. The effect of exchange rates of foreign currencies reduced sales by 0.9%.

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, the company started improvement processes and reduction of sales to customers generating low levels of profitability, alongside destocking among customers in this segment.</td></tr>
<tr><td>Operating profit</td><td>1,415
9.0%</td><td>2,657
16.4%</td></tr>
<tr><td rowspan="2">Specialty fine ingredients segment</td><td>Revenues</td><td>6,911</td><td>7,009</td><td rowspan="2">Revenues declined by approx. 1.4%; the decrease 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 1.5%.
The change in profitability stems mainly from an increase in raw materials prices, alongside fixed operating costs component.</td></tr>
<tr><td>Operating profit</td><td>1,675
24.2%</td><td>2,010
28.7%</td></tr>
<tr><td rowspan="2">Unallocated joint expenses</td><td>Revenues</td><td>(86)</td><td>-</td><td rowspan="2"></td></tr>
<tr><td>Operating profit</td><td>(1,521)</td><td>(1,856)</td></tr>
<tr><td rowspan="2">Total</td><td>Revenues</td><td>30,626</td><td>30,305</td><td rowspan="2"></td></tr>
<tr><td>Operating profit
(% of sales)</td><td>3,680
12.0%</td><td>4,954
16.3%</td></tr>
</table>

5. Liquidity

As of June 30, 2023, the Company has a cash balance of USD 14,964 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 six months ended June 30, 2023	For the six months ended June 30, 2022	For the 12 months period ended December 31, 2022	Company's explanations to changes between H1 2022 and H1 2023
Net cash provided by operating activities	**218**	**1,109**	31,938	The change arises mainly from a decrease in net income, which was offset as a result of an improvement in working capital. 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	**(6,277)**	**(14,181)**	(39,802)	The change arises mainly from the completion of the acquisition of companies in the first half of 2022 at the total amount of USD 10.5 million compared with USD 3.6 million in the first half of 2023.
Net cash provided by (used in) financing activities	**(14,192)**	**(7,171)**	(7,519)	The change stems mainly from the repayment of USD 7.3 million in short-term credit in the first half of 2023, compared with USD 0.3 million in the first half of 2022, and a USD 1 million increase in paid dividend.
Exchange differences in respect of cash and cash equivalents	(460)	(4,182)	(4,843)	
Total change in cash and cash equivalents	**(20,711)**	**(24,425)**	**(20,226)**	

Line item	For the three months period ended June 30, 2023	For the three months period ended June 30, 2022	Company's explanations
Net cash provided by operating activities	**4,953**	**(4,259)**	The increase arises mainly from an improvement in working capital in the second quarter of 2023, compared with the corresponding quarter last year, from an increase in non-cash expenses, mainly amortization of intangible assets, and an increase in finance expenses in respect of the time value of the put options.
Net cash used in investing activities	**(1,210)**	**(3,985)**	The decrease in cash flows from investing activities arises mainly from the completion of the acquisition of companies in the second quarter of 2022.
Net cash provided by (used in) financing activities	**(5,370)**	**(1,068)**	The increase in cash used in financing activities stems mainly from a dividend paid in the second quarter of 2023.
Exchange differences in respect of cash and cash equivalents	(215)	(3,171)	
Total change in cash and cash equivalents	**(1,842)**	**(12,483)**	

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 June 30 2023**		**Data as of December 31 2022**	
	USD thousand	**% of total balance sheet**	**USD thousand**	**% of total balance sheet**
Equity	104,558	51.1%	103,525	48.3%
Other long-term liabilities	65,284	31.9%	59,925	28.0%
Long-term liabilities from banks, net of current maturities	1,558	0.8%	4,056	1.9%
Short-term credit	5,940	2.9%	12,036	5.6%
Suppliers credit	14,509	7.1%	19,306	9.0%
Other long-term payables	12,753	6.2%	15,332	7.2%
Total	**204,602**	**100%**	**214,180**	**100%**

The average amount of the long-term loans in the first half of 2023 was USD 2,807 thousand.
The average amount of the short-term credit in the first half of 2023 was USD 8,988 thousand.

As of June 30, 2023, the Company's working capital is USD 39,168 thousand, compared with working capital of USD 56,332 thousand as of June 30, 2022.

As of June 30, 2023, the Company's operating working capital[10] is USD 39,770 thousand (32.5% of the sales), compared with operating working capital of USD 29,828 thousand (24.6% of sales) as of June 30, 2022. The change in operating working capital stems mainly from supplier payments in the first half of 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.

Furthermore, as of June 30, 2023 the Company's net cash balance[11] is USD 6,989 thousands.

[10]Operating working capital means - trade receivable plus the balance of inventory and net of trade payables.
[11]Cash net of USD 8 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 30.6.2023 (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>6,146</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 December 31 2022, the equity amounts to 51.1% of total assets.

Debt coverage ratio - shall not exceed 3.5 at any given time. As of March 31 2023, the debt coverage ratio is 0.3.</td></tr>
<tr><td>10,000</td><td>4,121</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 amount 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>2,000</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>1,500</td><td>February 2021</td><td>20 equal quarterly payments starting in February 2021.</td><td>Prime plus 0.75%</td></tr>
</table>

7. The effect of inflation and interest rates

Further to what is stated in Section 1.8.5 to Chapter A to the Company's Annual Report, in the first half of 2023 inflation rates in Israel and across the world continued to rise, and accordingly central banks continued to increase inflation rates in an attempt to curb inflation. In Israel, the Bank of Israel increased its interest rate during the first half, and as of the report's publication date, the interest rate stands at 4.75%. In Europe, the Central European Bank (ECB) increased its interest rate to 4.25% as of the publication date of this report, and in the USA the interest rate increased to 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 second quarter of 2023.

________________________	________________________
Karen Cohen Khazon, CEO and Chairperson of the Board of Directors	**Dr. Israel Leshem, Director**[12]

Date: August 17, 2023

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

Chapter B

Financial Statements as of June 30, 2023

TURPAZ INDUSTRIES LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2023

UNAUDITED

INDEX

- - - - - - - - - - -

Building a better
working world

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

Introduction

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

We did not review the condensed interim financial information of certain subsidiaries, whose assets included in consolidation constitute approximately 4.3% of total consolidated assets as of June 30, 2023, and whose revenues included in consolidation constitute approximately 6.9% and approximately 7.2% of total consolidated revenues for the periods of six 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
August 17, 2023

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	June 30,		December 31,
	2023	2022	2022
	Unaudited		Audited
	U.S. dollars in thousands		
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	14,964	31,476	35,675
Trade receivables	27,872	24,329	25,164
Other accounts receivable	3,127	13,481	3,082
Inventories	26,407	22,483	25,992
	72,370	91,769	89,913
NON-CURRENT ASSETS:			
Deferred taxes	520	1,270	515
Property, plant and equipment	23,227	19,024	21,259
Right-of-use assets, net	20,603	15,933	18,563
Intangible assets, net	87,882	*) 59,727	83,930
	132,232	*) 95,954	124,267
	204,602	*) 187,723	214,180

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

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	June 30, 2023	June 30, 2022	December 31, 2022
	Unaudited	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	5,940	9,026	12,036
Trade payables	14,509	16,984	19,306
Other accounts payable	10,411	6,864	13,048
Short-term liabilities in respect of acquisition of activity	366	524	338
Current maturities of lease liabilities	1,976	2,039	1,946
	33,202	35,437	46,674
NON-CURRENT LIABILITIES:			
Long-term loans from banks, less current maturities	1,558	5,427	4,056
Long-term loans from others, less current maturities	477	984	476
Provision for waste removal	3,480	5,185	3,454
Lease liabilities	19,327	13,870	16,585
Long-term liabilities in respect of acquisition of activity	37,981	*) 33,454	35,401
Deferred taxes	3,810	3,568	3,811
Employee benefit liabilities	144	433	139
Other long-term payables	65	216	59
	66,842	*) 63,137	63,981
EQUITY:			
Equity attributable to equity holders of the Company:			
Share capital **)	1	1	1
Share premium	74,449	74,449	74,449
Other capital reserves	(4,371)	(5,590)	(4,857)
Reserve in respect of translation differences	(6,548)	(7,050)	(6,542)
Retained earnings	40,132	26,580	39,633
	103,663	88,390	102,684
Non-controlling interests	895	759	841
Total equity	104,558	89,149	103,525
	204,602	*) 187,723	214,180

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

**) Less than $ 1 thousand.

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

August 17, 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 August 17, 2023	Guy Gill CFO

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2023	2022	2023	2022	2022
	Unaudited				Audited
	U.S. dollars in thousands (except per share data)				
Revenues from sales	61,540	57,710	30,626	30,305	118,556
Cost of sales	38,506	35,346	19,411	18,645	70,897
Gross profit	23,034	22,364	11,215	11,660	47,659
Research and development expenses	2,297	1,502	1,203	717	3,607
Selling and marketing expenses	5,099	4,514	2,573	2,171	10,016
General and administrative expenses	7,494	6,864	3,631	3,837	15,055
Other expenses (income), net	304	(27)	128	(19)	(8,349)
Operating income	7,840	9,511	3,680	4,954	27,330
Finance expenses, net	1,269	458	694	136	1,513
Income before taxes on income	6,571	9,053	2,986	4,818	25,817
Taxes on income	1,052	854	474	579	4,486
Net income for the period	5,519	8,199	2,512	4,239	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	(6,085)	(10,974)	(2,765)	(9,025)	(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	6,079	2,141	2,604	2,363	3,891
Total other comprehensive income (loss)	(6)	(8,833)	(161)	(6,662)	(8,325)
Total comprehensive income (loss)	5,513	(634)	2,351	(2,423)	13,006
Total net income attributable to:					
Equity holders of the Company	5,465	8,121	2,489	4,197	21,174
Non-controlling interests	54	78	23	42	157
	5,519	8,199	2,512	4,239	21,331
Total comprehensive income (loss) attributable to:					
Equity holders of the Company	5,459	(712)	2,328	(2,465)	12,849
Non-controlling interests	54	78	23	42	157
	5,513	(634)	2,351	(2,423)	13,006
Net earnings per share attributable to equity holders of the Company (in U.S. dollars):					
Basic and diluted net earnings per share	0.05	0.08	0.02	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	-	-	-	-	5,465	5,465	54	5,519
Total other comprehensive loss	-	-	-	(6)	-	(6)	-	(6)
Total comprehensive income (loss)	-	-	-	(6)	5,465	5,459	54	5,513
Share-based payment	-	-	486	-	-	486	-	486
Dividends to equity holders of the Company	-	-	-	-	(4,966)	(4,966)	-	(4,966)
Balance as of June 30, 2023	1	74,449	(4,371)	(6,548)	40,132	103,663	895	104,558

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

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company							
	Share capital	Share premium	Other capital reserves	Reserve in respect of translation differences	Retained earnings	Total	Non-controlling interests	Total equity
	Unaudited							
	U.S. dollars in thousands							
Balance as of April 1, 2023	1	74,449	(4,610)	(6,387)	37,643	101,096	872	101,968
Net income	-	-	-	-	2,489	2,489	23	2,512
Total other comprehensive loss	-	-	-	(161)	-	(161)	-	(161)
Total comprehensive income (loss)	-	-	-	(161)	2,489	2,328	23	2,351
Share-based payment	-	-	239	-	-	239	-	239
Balance as of June 30, 2023	1	74,449	(4,371)	(6,548)	40,132	103,663	895	104,558

	Attributable to equity holders of the Company							
	Share capital	Share premium	Other capital reserves	Reserve in respect of translation differences	Retained earnings	Total	Non-controlling interests	Total equity
	Unaudited							
	U.S. dollars in thousands							
Balance as of April 1, 2022	1	74,449	(6,078)	(388)	22,383	90,367	717	91,084
Net income	-	-	-	-	4,197	4,197	42	4,239
Total other comprehensive loss	-	-	-	(6,662)	-	(6,662)	-	(6,662)
Total comprehensive income (loss)	-	-	-	(6,662)	4,197	(2,465)	42	(2,423)
Share-based payment	-	-	488	-	-	488	-	488
Balance as of June 30, 2022	1	74,449	(5,590)	(7,050)	26,580	88,390	759	89,149

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

	Six months ended June 30, 2023	Six months ended June 30, 2022	Three months ended June 30, 2023	Three months ended June 30, 2022	Year ended December 31, 2022
	Unaudited				Audited
	U.S. dollars in thousands				
Cash flows from operating activities:					
Net income for the period	5,519	8,199	2,512	4,239	21,331
Adjustments to reconcile net income to net cash provided by (used in) operating activities (a)	(5,301)	(7,090)	2,441	(8,498)	10,607
Net cash provided by (used in) operating activities	218	1,109	4,953	(4,259)	31,938
Cash flows from investing activities					
Purchase of property, plant and equipment and other assets	(2,716)	(2,664)	(1,210)	(915)	(5,850)
Proceeds from sale of property, plant and equipment	64	-	-	-	55
Acquisition of initially consolidated subsidiaries (b)	(3,625)	(10,551)	-	(3,070)	(32,995)
Repayment of liability in respect of acquisition of activity	-	(966)	-	-	(1,012)
Net cash used in investing activities	(6,277)	(14,181)	(1,210)	(3,985)	(39,802)
Cash flows from financing activities					
Receipt (repayment) of short-term credit	(7,291)	(338)	178	476	2,967
Dividend paid to equity holders of the Company	(4,966)	(3,971)	(4,966)	-	(3,971)
Dividend paid to non-controlling interests	-	-	-	-	(8)
Repayment of lease liabilities	(1,012)	(906)	(470)	(425)	(2,358)
Repayment of long-term loans	(923)	(1,956)	(112)	(1,119)	(4,149)
Net cash used in financing activities	(14,192)	(7,171)	(5,370)	(1,068)	(7,519)
Exchange rate differences on balances of cash and cash equivalents	(460)	(4,182)	(215)	(3,171)	(4,843)
Decrease in cash and cash equivalents	(20,711)	(24,425)	(1,842)	(12,483)	(20,226)
Cash and cash equivalents at the beginning of the period	35,675	55,901	16,806	43,959	55,901
Cash and cash equivalents at the end of the period	14,964	31,476	14,964	31,476	35,675

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2023	2022	2023	2022	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	4,017	2,903	2,002	1,397	6,338
Capital loss (gain) from sale of property, plant and equipment	5	-	-	-	(12)
Change in employee benefit liabilities, net	4	(31)	6	(147)	(326)
Cost of share-based payment	486	638	239	488	1,371
Finance expenses, net	1,269	458	694	136	1,513
Taxes on income	1,052	854	474	579	4,486
	6,833	4,822	3,415	2,453	13,370
Changes in asset and liability items:					
Decrease (increase) in trade receivables	(2,443)	(3,209)	219	(4,235)	(3,372)
Decrease (increase) in other accounts receivable	(80)	(1,215)	528	(557)	9,144
Decrease (increase) in inventories	79	(5,690)	883	(4,623)	(8,929)
Increase (decrease) in trade payables	(5,239)	945	303	2,123	2,801
Increase (decrease) in other accounts payable	(2,210)	(1,240)	(1,929)	(3,063)	1,499
	(9,893)	(10,409)	4	(10,355)	1,143
	(3,060)	(5,587)	3,419	(7,902)	14,513
Cash paid and received during the period for:					
Taxes paid	(1,505)	(1,309)	(636)	(508)	(2,869)
Interest paid, net	(736)	(194)	(342)	(88)	(1,037)
	(5,301)	(7,090)	2,441	(8,498)	10,607

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended June 30, 2023	Six months ended June 30, 2022	Three months ended June 30, 2023	Three months ended June 30, 2022	Year ended December 31, 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)	323	2,626	-	296	2,585
Property, plant and equipment	303	1,058	-	40	864
Right-of-use assets	149	2,602	-	-	5,069
Intangible assets	4,821	13,022	-	3,257	36,888
Lease liabilities	(149)	(2,602)	-	-	(5,069)
Other non-current liabilities	-	(957)	-	(72)	(806)
Payables for acquisition of investments in subsidiaries	(1,565)	(4,888)	-	(420)	(5,733)
Deferred taxes	(257)	(310)	-	(31)	(792)
Non-controlling interests	-	-	-	-	(11)
	3,625	10,551	-	3,070	32,995
(c) Significant non-cash transactions:					
Right-of-use asset recognized with corresponding lease liabilities	3,775	3,092	600	2,950	4,518

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

NOTE 1:- GENERAL

a. General description of the Group and its activity:

Turpaz Industries Ltd. ("the Company") is an Israeli-based company. The condensed interim consolidated financial statements of the Company as of June 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 June 30, 2023 and for the periods of six and three months then ended ("interim consolidated financial statements"). These financial statements should be read in conjunction with the Company's annual financial statements as of December 31, 2022 and for the year then ended and accompanying notes ("annual consolidated financial statements").

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

During February 2022, a war broke out between Russia and Ukraine, which continues to cause major casualties, damage to infrastructures and disruption of the Ukrainian economy. As a result, several countries (including the U.S., U.K. and the EU) imposed economic sanctions on certain entities and individuals in Russia or related to Russia elsewhere in the world. Various sanctions were also levied on Belarus.

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

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

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

NOTE 1:- GENERAL (Cont.)

c. Effects of inflation and increase in interest rate:

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

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

The Company also examined the discount rate used to calculate the value in use of its cash-generating units and found that in view of the excess of the recoverable amount over its book value, the updated rate does not a sign of an impairment.

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

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

The interim consolidated financial statements have been prepared in accordance with IAS 34, "Interim Financial Reporting", and in accordance with the disclosure requirements of Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970. The accounting policies adopted in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the annual consolidated financial statements as of December 31, 2022.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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.

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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

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

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

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

NOTE 3:- BUSINESS COMBINATION

Acquisition of Aromatique:

On January 9, 2023, after obtaining the regulatory approvals in Romania, the Company, through a wholly owned subsidiary, completed the purchase of 65% of the issued and outstanding share capital and voting rights of Aromatique Food Srl, a private company incorporated in Romania ("Aromatique"), from its single shareholder ("the seller"), in return for RON 17 million (approximately $ 3.6 million). The purchase agreement consists of call/put options for purchasing the remaining shares of Aromatique by the Company which can be exercised from January 1, 2025 for a price based on Aromatique's business performances in the period from January 1, 2023 through the option exercise date. Aromatique was founded in 2013 and is engaged in the research, development, production, marketing, sale and supply of savory functional ingredients and flavor mixtures mainly for the Romanian food industry.

NOTE 3:- BUSINESS COMBINATION (Cont.)

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

	January 9, 2023
	U.S. dollars in thousands
Working capital, net	323
Right-of-use asset	149
Property, plant and equipment	303
Deferred taxes	(257)
Lease liabilities	(149)
Net identifiable assets	369
Intangible assets	4,821
Purchase price:	
Paid in cash	3,625
Liability for contingent consideration and acquisitions date adjustments	1,565
Total purchase price	5,190

From the consolidation date through June 30, 2023, the acquired operation has contributed approximately $ 2,458 thousand to revenues and approximately $ 241 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.

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

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 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") 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. Food Base's operating results will be consolidated in the Company's consolidated financial statements from the third quarter of 2023.

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

NOTE 5:- OPERATING SEGMENTS

a. General:

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

As a result, comparative data have been restated.

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

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

NOTE 5:- OPERATING SEGMENTS (Cont.)

b. Reporting on operating segments:

	Six months ended June 30, 2023				
	Tastes	Fragrances	Specialty raw material ingredients	Adjustments	Total
	Unaudited				
	U.S. dollars in thousands				
External revenues	31,807	16,107	13,626	-	61,540
Intersegment revenues	-	-	86	(86)	-
Total revenues	31,807	16,107	13,712	(86)	61,540
Segment operating income net of unallocated joint expenses	4,275	3,693	3,011	-	10,979
Unallocated joint expenses					3,139
Finance expenses, net					1,269
Income before taxes on income					6,571

	Six months ended June 30, 2022			
	Tastes	Fragrances	Specialty raw material ingredients	Total
	Unaudited			
	U.S. dollars in thousands			
Segment revenue	29,420	13,066	*) 15,224	57,710
Segment operating income net of unallocated joint expenses	4,400	3,936	*) 4,208	12,544
Unallocated joint expenses				3,033
Finance expenses, net				458
Income before taxes on income				9,053

*) Restated.

NOTE 5:- OPERATING SEGMENTS (Cont.)

	Three months ended June 30, 2023				
	Tastes	Fragrances	Specialty raw material ingredients	Adjustments	Total
	Unaudited				
	U.S. dollars in thousands				
External revenues	15,662	8,139	6,825	-	30,626
Intersegment revenues	-	-	86	(86)	-
Total revenues	15,662	8,139	6,911	(86)	30,626
Segment operating income net of unallocated joint expenses	1,415	2,111	1,675	-	5,201
Unallocated joint expenses					1,521
Finance expenses, net					694
Income before taxes on income					2,986

	Three months ended June 30, 2022			
	Tastes	Fragrances	Specialty raw material ingredients	Total
	Unaudited			
	U.S. dollars in thousands			
Segment revenue	16,222	7,074	*) 7,009	30,305
Segment operating income net of unallocated joint expenses	2,657	2,143	*) 2,010	6,810
Unallocated joint expenses				1,856
Finance expenses, net				136
Income before taxes on income				4,818

*) Restated.

NOTE 5:- OPERATING SEGMENTS (Cont.)

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

*) Restated.

c. Geographic information:

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

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2023	2022	2023	2022	2022
	Unaudited				Audited
	U.S. dollars in thousands				
Israel and the Middle East	15,989	15,293	8,007	8,146	29,099
Europe	29,045	*) 24,796	14,341	*) 13,805	48,922
North America	8,825	9,039	4,447	4,255	21,555
Asia and other	7,681	*) 8,582	3,831	*) 4,099	18,980
	61,540	57,710	30,626	30,305	118,556

*) Reclassified.

NOTE 6:- FINANCIAL INSTRUMENTS

a. Fair value:

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

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

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

As of June 30, 2023, total liabilities amounted to $ 37,981 thousand. The value of the liabilities was estimated in accordance with the average EBITDA achieved over the term of the agreement. The weighted annual discount rate of the options is 8.1%. The fair value is measured at level 3 in the fair value hierarchy. The key non-observable input used by the Company to assess the value of the option is the future EBITDA that will be achieved; in order to assess the liabilities in respect of the options and update their value, the Company used the companies' ongoing results and updated forecasts.

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

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2023	2022	2023	2022	2022
	Unaudited				Audited
	U.S. dollars in thousands				
Balance at beginning of period	(35,401)	(31,998)	(37,933)	(35,731)	(31,998)
Total gain (loss) recognized:					
In profit or loss	(674)	(45)	(464)	(19)	(307)
In other comprehensive income (loss)	(384)	2,950	147	2,296	2,262
In business combinations	(1,522)	(4,361)	269	-	(5,358)
Balance at end of period	(37,981)	(33,454)	(37,981)	(33,454)	(35,401)

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Turpaz Industries Ltd.

Chapter C

Managers’ statements

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

3. Yoni Adini, Chief Legal Counsel and Company Secretary

4. 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 second 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.

August 17, 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 second 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.

August 17, 2023

Guy Gill, Chief Financial Officer