FRUTAROM INDUSTRIES LTD.
DIRECTORS' REPORT ON THE COMPANY'S STATE OF AFFAIRS
FOR THE PERIOD ENDING SEPTEMBER 30, 2016

BOARD OF DIRECTORS' DISCUSSIONS ON THE COMPANY'S STATE OF BUSINESS

A. REVIEW OF ACTIVITY

Frutarom Industries Ltd. (the **"Company"**) is a global company established in Israel in 1933. Frutarom became a public company in 1996 upon registration of its shares for trade on the Tel Aviv Stock Exchange. In February 2005 the Company's Global Depository Receipts were also listed on the London Stock Exchange Official List. The Company, itself and through its subsidiaries ("**Frutarom**" or the **"Group**") develops, produces and markets flavors and fine ingredients used in the manufacture of food, beverages, flavors, fragrances, pharma/nutraceuticals, cosmetics and personal care products. Frutarom operates 55 production sites, 71 research and development laboratories, and 93 sales offices in Europe, North America, Latin America, Israel, Asia, Africa and New Zealand and markets and sells over 52,000 products to more than 29,000 customers in more than 150 countries and employs approximately 4,500 people.

Frutarom operates in the framework of two main activities which constitute its core activities: the Flavors activity and the Specialty Fine Ingredients activity (the "**core businesses**"):

- **Flavors Activity** – Frutarom develops, produces, markets and sells sweet and savory flavor solutions, including flavor and other solutions which in addition to flavors also contain fruit or vegetable ingredients and other natural ingredients (Food Systems) used mainly in the manufacture of foods, beverages and other consumer products. Frutarom develops thousands of different flavors for its customers, most of which are tailor-made for specific customers. It also develops innovative products to meet changing consumer preferences and future customer needs.

  In accordance with the Company's strategy, Frutarom's flavor activity has grown rapidly and profitably by combining organic growth and acquisitions, and accounts for approx. 80% of the Company's total core activity sales and 74% of its overall sales (as opposed to 33% of overall sales in 2000). This accelerated growth results from focusing on the fast growing field of natural flavors, the development of innovative unique solutions combining taste and health for the large multinational market segment, focusing on mid-size and local customers in emerging and developed markets – and private label manufacturers in particular, emphasizing customized service including technological and marketing support and assistance in the development of products; the offer of high level tailor-made services and products, as are normally provided for large multinational companies and as the result of Frutarom's strategic acquisitions, which have been and continue being successfully integrated with Frutarom's global activities.

- **Specialty Fine Ingredients Activity** – Frutarom develops, produces, markets and sells natural flavor extracts, natural functional food ingredients, natural pharma/nutraceutical extracts, natural algae-based biotech products, natural colors, natural antioxidants that help in providing solutions in the field of food protection, essential oils, specialty citrus products, aromatic chemicals, and natural gums and resins. The Specialty Fine Ingredients products are sold primarily to the food, beverage, flavor, fragrance, pharma/nutraceutical, cosmetics and personal care industries.

  Frutarom focuses its Specialty Fine Ingredients activity on developing a portfolio of high value-added products which give it a competitive edge over its rivals. Most of the specialty fine ingredients in taste and health are natural products which enjoy a higher rate of growth in demand than non-natural products. This activity, which has grown following the acquisitions of Ingrenat and Nutrafur in Spain, Vitiva in Slovenia, the US-based Scandia and Grow, and of Extrakt Chemie in Germany is focused on expanding the portfolio of natural products offered to customers, with particular emphasis on the field of natural, functional and healthy foods. Specialty Fine Ingredients activity accounts for 20% of Frutarom's overall sales.

- **Trade & Marketing** – in addition to its core activities, Frutarom also imports and markets various raw materials that it does not itself manufacture, as part of the service offered to customers which includes providing them comprehensive solutions for their needs. This Trade & Marketing activity is synergetic and supports Frutarom's core activities by leveraging its global sales organization, supply chain and purchasing systems, as well as its global management, and allows Frutarom to offer a wider variety of products and more solutions and added value to its customers – mainly those in the mid-sized and domestic categories in emerging markets – and strengthen its partnerships with them. This activity, which greatly expanded following the acquisitions of Etol in 2012, PTI in 2013 and Montana Food in 2014, centers mainly on Central and Eastern Europe, Latin America and Israel. Sales in this field account for 6% of overall Frutarom activity.

RAPID GROWTH STRATEGY – COMBINING PROFITABLE ORGANIC GROWTH AND STRATEGIC ACQUISITIONS

Frutarom continues to resolutely implement its rapid profitable growth strategy while strengthening its research and development, supply chain and manufacturing, and sales and marketing infrastructures along a continuing evaluation of additional strategic acquisitions.

- **Increasing the Share of the Flavors Activity** – The successful implementation of Frutarom's rapid and profitable growth strategy has allowed Frutarom to significantly increase its activity in the Flavors segment, the more profitable of its activities, achieving growth at a higher rate than that of the markets where it operates. In the framework of expanding its Flavor activity, Frutarom set off on a strategic course some 10 years ago to also establish market leadership in the field of savory taste solutions which is growing due to the rising standard of living and lifestyle and changes in consumption habits that bring increased demand for

processed foods and convenience foods. This is also brought about through the acquisition of leading companies in their fields with unique solutions and a strong position in strategic target markets.

Since 2000 Frutarom's Flavors activity has grown at an average annual rate (CAGR) of 24%. Revenues from Flavors make up approx. 74% of Frutarom's total revenues (compared to 33% in 2000).

- **Development of New Products and Solutions Combining Taste and Health** - Frutarom develops innovative taste and health solutions addressing customers' requirements and future needs. These solutions are in line with the major trends in the global food market and with consumer demand, including the combination of taste with health, health supplements, anti-aging products and food products targeting specific population and age groups. The added value offered by Frutarom and its unique abilities to blend together solutions for taste, natural colors for food, natural substances for food protection, texture and ingredients with added health attributes give it an important competitive advantage among customers in both developed and emerging markets. These new and innovative products mostly have higher margins and therefore will contribute not only to growth in sales but also towards improving Frutarom's product mix and profitability.

- **Focus on Natural Products** - Frutarom is engaged in developing and expanding its portfolio of natural products in response to consumer demand and prevalent trends in the global food industry towards healthier and more natural foods. This field is growing at a rapid pace and Frutarom's unique capabilities give it a competitive edge. In accordance with this strategy, Frutarom continues to expand the portfolio of unique natural products that it offers its customers by means of its internal R&D, through collaborations with universities, research institutes and startups, and also through its acquisitions. As part of the strategy of focusing on natural products with health-promoting attributes, Nutrafur and Vitiva were acquired in 2015 and in 2016 Grow and Extrakt Chemie were acquired and an investment was made in Algalo. Frutarom further expanded its activities in natural products recently by entering the field of natural food colors (through its acquisitions of Montana Food, Vitiva and Ingrenat) and by significantly increasing its operations in the field of natural antioxidants for food protection solutions (through the acquisition of Vitiva, Ingrenat and Nutrafur). Similarly, Frutarom has further strengthened its activity in the field of specialty natural citrus products which constitute important components in the development and production of many flavors and food and beverage products, and has established a excellence center for citrus in the US state of Florida, one of the world centers for citrus (through its acquisitions of CitraSource and the activity of Scandia). In addition, Frutarom increased its activity in the field of natural innovative solutions for incorporating fruit components into food products (by acquiring Taura and Inventive). Today over 70% of Frutarom sales consist of natural products.

- **Improvements in Specialty Fine Ingredients Product Mix** – Over the past few years Frutarom has been taking steps to improve its product mix in its Specialty Fine Ingredients activity. Frutarom's R&D teams are successfully developing

specialty innovative natural products directed towards both the areas of taste and health. The successful penetration of these products will also contribute to the growth in the sales of the Specialty Fine Ingredients activity and to its improved profitability. The latest acquisitions, as mentioned, will contribute towards the continuation of the growth trend in this activity. Frutarom continues fulfilling its strategic plans for strengthening its diverse and innovative global infrastructures in natural ingredient extracts while greatly expanding its production capacity, and acquired Extrakt Chemie which specializes in specialty ingredient extracts primarily for pharma, natural medications, nutritional supplements, foods and cosmetics.

- **Strategic Change in the Geographic Mix** – The successful implementation of Frutarom's strategy over the past few years, which included also substantial expansion of its sales and market share in North America and in emerging markets with higher growth rates, has led to Frutarom tripling its revenues in emerging markets and in North America between 2010 and 2015. Sales in North America accounted for 16% of total sales in 2015 compared with 9% in 2010. Meanwhile the Flavors activity in North America grew by a factor of six.

  Emerging markets accounted for 44% of Frutarom sales in 2015 compared with 27% in 2010.

  The rapid growth of activity outside of Western Europe has led to sales in Western Europe (which have grown by 23% since 2010) constituting 32% of Frutarom's total sales in 2015 compared with 51% in 2010.

  The six acquisitions carried out by Frutarom in 2013 and 2014 (JannDeRee in South Africa; PTI in Russia; Aroma in Guatemala; Hagelin in the United States, with sales also to Africa and Latin America; US-based CitraSource; and Montana Food in Peru and Chile) contributed towards Frutarom's accelerated growth and raising market share and sales in emerging markets and North America. To these are now added the acquisitions made since the beginning of 2015 of Sonarome in India with activity also in Africa, as well as BSA in Canada with activity also in India, US-based F&J and Scandia, Inventive of Hong Kong with activity also in China, AMCO in Poland, Wiberg of Austria with activity also in Canada, in the western US, and in many emerging markets, Nardi in Brazil and Piasa in Mexico.

  The first quarter of 2016 saw the inauguration of Frutarom's new plant in South Africa which will allow it to significantly increase and strengthen its activity in the sub-Saharan countries and provide its customers in the region with R&D and advanced application services along with the use of efficient cutting-edge means of production.

  Construction of Frutarom's new state-of-the-art plant in China, which features sophisticated laboratories for research, development and applications, has been completed, and for the first time Frutarom will have the ability to also locally develop and produce savory flavors.

  Frutarom will continue developing and expanding its activity in the growing emerging markets and North America also through focused reinforcement of its

R&D, production, marketing and sales platforms in key growing target countries and the continued execution of further strategic acquisitions.

Frutarom continues and will continue to expand its activity also in Western European markets while leveraging its extensive product portfolio, continuing to capitalize on its many cross-selling opportunities, and continuing to carry out further strategic acquisitions.

- **Focus on Providing Quality Service and Product Development for Large Multi-national Customers and for Medium-sized Local Customers** – Frutarom continues to expand the services provided to customers, its product portfolio, and the range of solutions for both large multi-national customers and mid-size local customers, with special emphasis on the rapidly growing private label market.

  - In the market segment of large multinational food and beverage manufacturers, Frutarom will continue to focus on innovative and unique products and on expanding its portfolio of natural taste and health solutions.

  - In the market segment of mid-size and local customers, Frutarom offers the same high level of service, products and solutions tailored to their specific requirements as generally provided to large multi-national customers. Frutarom also offers mid-size and local customers and private label customers, usually with more limited resources than large and multi-national customers, assistance in their product development, while providing support in marketing and flexibility regarding minimal quantities and delivery dates.

- **Acquisitions and Mergers, and their Contribution towards Achieving Profitable Growth** – Frutarom has extensive experience with successful execution of acquisitions and mergers, and it acts to integrate the acquired companies and activities into its existing business, utilizing commercial and operational synergies to leverage the many cross-selling and cost savings opportunities and to achieve continued improvement of its margins.

  Since 2011 and until the date of release of this report, Frutarom has performed 33 strategic acquisitions, 19 of these since the beginning of 2015,and eight this year, that are integrated into its global activities and are contributing and will keep contributing to continued sales growth and improved profits and margins.

  Frutarom's acquisition strategy focuses on:
  (1) expanding its share of sales and market share in North America and in emerging markets;
  (2) continuing to increase the share of its Flavors activity, including continuing to establish a leading position in the field of savory taste solutions;
  (3) broadening and deepening its portfolio of natural solutions it offers its customers in the areas of Flavors, Health, Colors, and Food Protection.

  Frutarom is working on successfully integrating all 19 acquisitions it has made since the beginning of 2015 and fully tapping the strong potential they bring. The

integration of these acquisitions is proceeding successfully and according to plan. The managements of the acquired activities together with Frutarom's regional and local managements in each geographic area or of the relevant business unit assume the leading role in the merger processes. In addition, Frutarom has developed advanced dedicated computer systems that support the quick and efficient integration of acquired activities and their monitoring while realizing synergies in the areas of R&D, marketing, sales, purchasing, production and logistics.

Frutarom foresees much synergetic potential in the acquisitions it has carried out and is working to realize and fully utilize them, both for accelerating growth through the fullest possible tapping of cross-selling opportunities and the many marketing and technological synergies contributed by these acquisitions, and for attaining the significant operational savings expected to be reflected in its results in upcoming quarters[1].

Following are brief summaries of the acquisitions performed since the beginning of 2016 until publication of this report. The USD sales figures shown below for each of the purchased activities relate to the average USD exchange rate for the reported period, and the purchase price relates to the USD exchange rate on the date of acquisition.

Acquisitions performed in 2016:

- **Acquisition of a controlling share in AMCO** – On January 11, 2016 Frutarom completed the purchase of 75% of the share capital of the Polish company AMCO Sp. z o.o. ("**AMCO**") for approximately US$ 22.4 million (88.5 million PLN). The purchase agreement includes a mutual option for acquiring the remaining shares starting two and a half years from the closing date of the transaction at a price based on the company's business performance. The transaction was financed through bank debt.

  AMCO has an R&D and sales and marketing center along with an efficient and modern state-of-the-art production site in Warsaw, Poland with large production capacity and significant room to expand. AMCO employs a staff of 53, including 12 engaged in R&D with advanced academic degrees. AMCO's main activity is the development, production and marketing of unique and

[1] The above-stated assessment concerning the synergetic potential of the acquisitions and attaining significant operational savings and the ancillary savings constitutes a forward-looking statement, as defined in the Securities Law, which rests upon estimates by Company management based on the potential synergies between the Company's activity and the acquired activities. Such an assessment could fail to materialize, in full or in part, or materialize in a different manner, including materially differently than expected, as a result of unexpected occurrences in merging the activity that are connected with the human resources, the R&D, the salesforce, the operations (including the closure of manufacturing facilities and/or transfer of production and other activities between different facilities), the logistics, the technology, the procurement, the systems and the services of the merged activities. In addition, Frutarom could fail to capitalize on the expected synergies (including those whose purpose is cost savings) that are inherent in the acquisitions.

innovative savory taste solutions that include seasoning blends, marinades, and functional ingredients for the food industry.

AMCO sales in the 12-month period ending September 2015 stood at approximately US$ 19.5 million (approx. 71 million PLN).

AMCO's activity is largely synergetic with Frutarom's activities and enables Frutarom to reinforce its supply of its savory taste solutions products and to continue expanding and deepening its activity and market share in Poland and neighboring countries. Following the acquisition, Frutarom's flavor activity in Poland was merged with AMCO's, this being the first time Frutarom has had a production site locally in Poland to provide for improved service and delivery times to customers. This quarter Wiberg's activity in Poland was also merged with that of AMCO. Poland, with its population of 38 million, is a major growing country of Europe and considered one of its largest consumer markets, with a stable economy and strong industrial sector. The country has a large and efficient food industry which also manufactures finished food products for Western, Central and Eastern European markets. According to forecasts by analysts, the Polish market is expected to grow by 4-5% annually in upcoming years, a much higher rate of growth than expected for Western Europe. The company's founders who have been running AMCO successfully are continuing in their managerial roles with the company and as shareholders.

For further information on the acquisition of control of AMCO, see the Company's immediate reports from November 11, 2015 and January 12, 2016.

- **Acquisition of Wiberg** – On January 28, 2016 Frutarom completed the purchase of 100% of the shares of the Austrian company SAGEMA GmbH (which owns, *inter alia*, 50% of Canadian subsidiary Wiberg Corporation and 51% of Turkish subsidiary WIBERG BAHARAT SANAYİ VE TİCARET ANONİM SİRKETİ) as well as the purchase of 100% of the shares of the German company Wiberg GmbH (hereinafter collectively: "**Wiberg**") for approximately US$ 129.9 million (€ 119.1 million).

  According to Wiberg's managerial reports, in 2015[2] its sales amounted to approx. US$ 172 million (approx. € 155 million).

  The purchase was funded through bank financing.

  Wiberg activity was consolidated into Frutarom's financial reports on February 1, 2016.

  Wiberg was founded in 1947 and now ranks as a top international group in its field, boasting a strong reputation and brand name in the specialty and innovative savory solutions that include flavor extracts, seasoning blends and functional ingredients for the food industry, with special emphasis on

[2] Figures for 2015 include full consolidation of the companies described above and their subsidiaries.

processed meats and convenience foods as well as activity focused on innovative culinary solutions for restaurants, catering firms and chefs which constitutes a distinctive and premium market. Wiberg employs some 660 personnel and operates five production sites, the largest of which is a modern and efficient facility in Germany with a large production capacity and substantial room for expansion, and in Austria, Turkey, Canada, and Los Angeles in the USA. Company headquarters in Salzburg, Austria includes a modern R&D center and advanced laboratories. Wiberg has sales and marketing platforms in some 70 countries, with a presence in Western, Central and Eastern Europe, North America, Africa and Asia. Wiberg's broad customer base encompasses thousands of food manufacturers, including some of the tops in their fields.

Frutarom is working on capitalizing to the fullest on the many synergies between its own activities and those of Wiberg in the various countries in order to achieve operational efficiencies and maximal savings estimated[3] at more than US$ 12 million (on an annual basis) which will already largely be reflected in the results for Q1 2017. The merger plan is successfully moving ahead, and within its framework Frutarom's Savory management been merged with that of Wiberg with the headquarters activity being handled from Wiberg's site in Salzburg, Austria, and with the transfer of production from Frutarom's main plant for savory products in Stuttgart, Germany to Wiberg's efficient plant in Germany already having been completed. Activities of the R&D, sales and marketing, and raw material procurement platforms in the various countries are being merged as well. In the third quarter 49% of the shares in the Turkish subsidiary were acquired and its activity has been merged with the activity of Frutarom in Turkey. In addition, Wiberg's substantial activity has been joined with the global purchasing system being built by Frutarom, with emphasis on the purchasing in their source countries of raw materials used for the manufacture of its products, as well as on maximum future capitalization of the economies of scale built up by Frutarom in recent years.

For further information on the acquisition of Wiberg, see the Company's immediate reports from December 14, 2015 and January 31, 2016.

- **Investment in Algalo** – On January 3, 2016 Frutarom signed an agreement for investing in Algalo Industries Ltd. ("**Algalo**") whereby it will invest a total of NIS 10 million (approx. US$ 2.56 million) for the building of a modern biotechnology facility which will specialize in cultivating, harvesting and processing algae using advanced specialized methods, in exchange for the allocation of 50% of Algalo shares. Frutarom was granted exclusive marketing rights worldwide for Algalo products. NIS 5 million of the overall amount was paid in cash on the day the transaction was completed and the balance will be paid subject to the fulfilling of milestones set in the agreement. The transaction was completed upon signing and was financed through bank credit.

[3] See footnote 1 above.

Algalo is a biotech startup company which has developed a unique and innovative patent pending method for the cultivation, harvesting and processing of a wide variety of algae that yield active ingredients for use by the food, dietary and clinical nutrition supplements and cosmetics industries such as specialty high-powered antioxidants, lipids and unique proteins and carotenoids which, among other things, help in maintaining cardio-vascular health, a strong immune system, and healthy skeletal and bone structure. Algalo's activity will join Frutarom's well-established activity in the field of algae cultivation and production of active ingredients (polysaccharides) being sold to some the world's leading cosmetics companies for use in their skin care and protection products.

For further information on the investment in Algalo, see the Company's immediate report from January 4, 2016.

- **Acquisition of Grow** – On January 11, 2016 Frutarom signed an agreement for the purchase of 100% of the share capital of US-based Grow Company Inc. ("**Grow**") in exchange for approximately US$ 20 million. The purchase agreement includes a mechanism for future consideration conditional upon Grow's business performance over the period of one year following the purchase date. The transaction was completed at the time of signing and was financed through bank credit.

  Grow has accumulated many years of know-how and unique biotechnological production methods for producing natural nutritious ingredients with scientifically-proven health qualities (backed up by clinical studies). These ingredients improve the body's absorption of vitamins, minerals and other nutrients. Among Grow's customers are dietary supplement, natural remedy, functional foods, cosmetic and flavors companies. Grow's unique technology and products strengthen Frutarom's technological infrastructure and its portfolio of natural solutions for the food and health sectors. Frutarom is taking steps towards capitalizing on the many cross-selling opportunities arising from the acquisition and in support of the expansion of research, development and production of specialty natural solutions combining taste and health in response to consumer demand and the trends prevailing in the global food market calling for healthier and more natural foods. This is a fast-growing area in which Frutarom's unique capabilities give it a solid competitive edge.

  Grow has an R&D and marketing center and an efficient production site in New Jersey.

  For further information on the acquisition of Grow, see the Company's immediate report from January 12, 2016.

- **Acquisition of Extrakt Chemie** – On May 2, 2016 Frutarom signed an agreement for the purchase of 100% of the rights and of the general partner in the German partnership Extrakt Chemie Dr. Bruno Stellmach GmbH &Co. KG ("**Extrakt Chemie**"), along with the property on which Extrakt Chemie's plant

is situated, for a cash payment of approximately US$ 6 million (approx. € 5.3 million) and the assumption of approx. US$ 2.2 million (approx. € 2 million) of debt. The purchase agreement includes a mechanism for future consideration conditional on Extrakt Chemie's business performance during 2016 and 2017. The transaction was completed at the time of signing and was financed through independent means.

Extrakt Chemie, which was established in 1969, has a long-standing reputation and knowhow in specialty ingredient extracts, primarily for pharma, natural medications, nutritional supplements, foods and cosmetics. The company develops, produces and markets specialty solutions of natural extracts, some of which incorporate plant-sourced enzymes, for use mainly as raw material (API) in the pharmaceutical market, with proven benefits in, among other things, the treatment of liver diseases, digestive problems and the prevention of infections.

Extrakt Chemie has a leading position in the German market. Its 150 customers include top global pharma companies with whom the company has long-lasting relationships. The company is also active in other Western European countries such as Denmark, Switzerland, France and Austria as well as in the Australian market. Extrakt Chemie has an efficient production site with GMP certification for pharmaceutical products, and significantly higher production capacity than the current scope of production, located in Stadthagen, near Hannover in northwest Germany, which includes a research and development laboratory. The company has a staff of about 27 employees.

The acquisition of Extrakt Chemie is part of Frutarom's overall drive towards optimization and operational efficiency in the field of natural plant extracts within its Specialty Fine Ingredients activity.

Revenues of Extrakt Chemie for the fiscal year ended February 29, 2016 amounted to approx. USD 10 million (approx. € 9 million).

For further information on the acquisition of Extrakt Chemie, see the Company's immediate report from May 3, 2016.

- **Acquisition of Redbrook** – On August 2, 2016 Frutarom signed an agreement for the purchase of 100% of the shares in the Irish company Redbrook Ingredient Services Limited ("**Redbrook**") in exchange for approximately US$ 44.8 million (€ 40 million). The purchase agreement includes a mechanism for additional consideration based on Redbrook's future business performance. The transaction was completed at the time of signing and was financed through bank debt.

  Redbrook was founded in 1987 and has an R&D, sales and marketing center and production site near Dublin, Ireland, as well as a production unit and R&D and sales and marketing center in Daventry, England, near Frutarom's site at Wellingborough, England. Redbrook has 39 employees.

Redbrook's main activity is the development, production and marketing of innovative specialty savory taste solutions, which includes seasoning and functional blends, marinades, glazes, cures and specialty ingredients for food processors.

Redbrook sales for the 12 month period ending June 2016 amounted to approximately US$ 25.4 million (approximately €22.7 million). The financial figures shown here are based on Redbrook's managerial reports for the 12 month period ending June 30, 2016.

The CEO and former owner of Redbrook, who has many years of experience in the industry and has headed the company's growth in recent years, is continuing in his role and has joined Frutarom's Flavors activity management.

For further information on the acquisition of Redbrook, see the Company's immediate report from August 3, 2016.

Acquisitions subsequent to the date of the Financial Report:

- **Acquisition of Nardi Aromas** – On October 11, 2016, subsequent to the date of the Financial Report, the Company signed an agreement for the purchase of 100% of the shares in the Brazilian company Nardi Aromas Ltda. ("**Nardi**") in exchange for approximately US$ 1.6 million (BRL 5.1 million). The transaction was completed at the time of signing and was financed through independent means.

  Nardi was founded in 1971 and has an efficient production site in the vicinity of the city Sao Paulo and Frutarom's Brazilian production site. Nardi has 14 employees and specializes in the development, production and marketing of traditional Brazilian flavors and natural plant-based extracts for the alcoholic drinks and carbonated beverages markets. Nardi has dozens of longtime customers including leading Brazilian beverage companies. Nardi's unique products in the field of natural flavors and herbal extracts, based on unique raw materials originating in Brazil, have tremendous growth potential outside Brazil as well, and Frutarom intends to incorporate them into its broad products portfolio in the field of beverages while capitalizing on cross-selling opportunities and its global sales and marketing network.

  Nardi sales for the 12 month period ending August 2016 amounted to approximately US$ 1.5 million (BRL 4.9 million).

  For further information on the acquisition of Nardi, see the Company's immediate report from October 13, 2016.

- **Acquisition of a controlling share in Piasa** – On November 9, 2016, subsequent to the date of the Financial Report, the Company signed an agreement for the purchase of 75% of the shares in the Mexican company Proveedores De Ingenieria Alimentaria, S.A. De C.V. ("**Piasa**") and the real estate housing Piasa's main production site and headquarters in the city of Monterrey, Mexico, in exchange for an overall consideration (including debt) of US$ 20.5 million[4] (MXN 405 million). The purchase agreement includes a mechanism for future consideration contingent on Piasa's future business performance and an option for the purchase of the balance of Piasa shares beginning five years after the date of completion of the transaction at a price based on Piasa's business performance during this period. The transaction will be financed through bank debt and will be completed within the next several weeks.

  Piasa's sales for the 12 month period ending September 2016 amounted to approximately US$ 45 million[5] (approx. MXN 800 million) after achieving an average annual growth rate of 8% over the past five years.

  Piasa was founded in 1996 in the city of Monterrey, situated in the Mexican state of Nuevo León. Piasa has a leading position in Mexico's savory solutions market and its broad portfolio of solutions includes: flavors, unique spice mixes, sauces, seasonings, marinades, casings, chili based products, functional ingredients for meat products, and vegetable components aimed at the Mexican meat and snacks industries and the country's dining sector, which will be integrated into the Flavors activity. In addition, about one quarter of Piasa's activity is trade & marketing activity in the framework of which, as part of the service provided to customers and providing of overall solutions, Piasa markets ingredients that it doesn't itself produce and this activity will be integrated into Frutarom's Trade & Marketing activity (which is not one of its core activities).

  Piasa has three production sites with significant excess capacity and employs about 300 workers. Piasa has a broad sales and marketing network encompassing 30 employees, an R&D platform of 50 employees, and hundreds of longtime customers that include leading international restaurant chains and top Mexican meat and snacks manufacturers.

  The CEO of Piasa, one of its founders, will continue serving in his role and will join the global management of Frutarom's flavors activity along with remaining a shareholder in Piasa.

  For further information on the acquisition of Piasa, see the Company's immediate report from November 10, 2016.

[4] According to the exchange rate at the time of signing the agreement.
[5] According to the average exchange rate for the period.

Frutarom is well positioned to continue implementing its rapid and profitable growth strategy also through carrying out further strategic acquisitions in its core business fields and main target markets. Frutarom's proven track record in successfully executing and integrating its acquisitions and capitalizing on their inherent cross-selling opportunities and synergies, together with a strong acquisition pipeline, will allow it to continue meeting its strategic goals, expand its portfolio of natural and specialty products combining taste and health solutions, continue to expand its activity in emerging markets and North America and to improve the operational efficiency of its resources.

- **Increase in Profit and Profit Margins** – Over recent years Frutarom has succeeded in attaining, along with its growth in revenues, significant increases in profits and in its gross and operating margins. Frutarom is working and will continue to work on strengthening its competitiveness while boosting profits and profitability by focusing, among other things, on the following objectives:
  - **Successful integration of acquisitions while maximizing synergies** – Integration of the 14 acquisitions made from 2011 to 2014 has been successfully completed, and according to plan has contributed and will keep contributing to growth in sales and to improved profits and margins. Frutarom continues working towards capitalizing on the abundant cross-selling opportunities arising from these acquisitions, gaining maximum advantage from the many technological capabilities brought to the Company, and realizing the savings resulting from the integration of R&D, sales, marketing, supply chain, operations and purchasing systems. The successful integration of the 19 acquisitions performed since the beginning of 2015 will also contribute towards the continuing trend of improvement in Frutarom's results. Following are highlights of the progress being made in the merging of companies recently acquired by Frutarom:
    - The overall drive towards expanding activity and production capacity through optimization and operational efficiency among the natural plant extract facilities of the Specialty Fine Ingredients division is proceeding successfully and according to plan. The significant increase in production capacity for natural extracts following the acquisitions of Vitiva, Ingrenat and Nutrafur has provided for substantial streamlining, including the closure and sale of Frutarom's North Bergen plant in New Jersey and the transfer of its activity to its other plants. At the same time efforts continue for increasing production capacity at the Vitiva, Ingrenat and Nutrafur plants and for transferring production between the various sites according to their varying technological extracting specializations hand-in-hand with significant improvement in their operational efficiency. Also joining this array is the recently acquired Extrakt Chemie with its much larger than exploited capacity for production of GMP pharma products too. These measures, which will contribute towards a significant improvement in cost structure and competitiveness in the field of natural herbal extracts which are at the core of Frutarom's growth strategy,

are expected to bring savings estimated at over US$ 6 million (on an annual basis) that will start being seen during the second half of 2017[6].

- Following the acquisition of Wiberg, Frutarom continues working towards consolidating and streamlining its management, R&D, sales, marketing, purchasing and production frameworks in Germany and various countries in order to reinforce its market leadership and achieve maximum operational efficiency and savings which are estimated[7] at over US$ 12 million (on an annual basis), and will already largely be reflected in the results for Q1 2017. As part of these measures, the managements of the activities have been merged and the transfer of production of Frutarom's central production plant for savory products at Stuttgart, Germany to Wiberg's efficient plant in Germany has already been completed. The merger process is moving ahead successfully and according to plan.
- Frutarom's flavors activity in Poland has been merged with AMCO such that for the first time Frutarom now has a local production site in Poland which enables it to improve its service and delivery times to customers. This quarter Wiberg's activity in Poland was also merged with AMCO's.
- Transfer of production at Hagelin (acquired in 2013) from New Jersey to Frutarom's factory in Cincinnati has been completed, and by the end of this year the merging of F&J's flavors activity with Frutarom's US flavors activity will be completed.
- Collaboration and the realization of synergies between Taura's New Zealand and Belgian activities and Frutarom's R&D and sales and marketing platforms in Europe, Asia, India and the US are starting to bear fruit and contributing to the acceleration of the growth of this activity which was acquired in June 2015.
- Steps continue being taken towards combining Inventive's activity in the Far East with those of Frutarom. Inventive's R&D laboratory and Shanghai sales and marketing center have already been moved to Frutarom's new plant in Shanghai and Inventive's flavors production is expected to move to Frutarom's plant in the first quarter of 2017.
- The merging of Scandia's activity with the activity of CitraSource (acquired in 2014) has been completed, with an excellence center for citrus established in Florida.
- The activity of Taiga International of Belgium has been merged with Frutarom's activities in Europe and the US, with production transferred and the plant in Belgium closed.
- Frutarom's flavors activity in India has integrated into Sonarome's Indian activity.

[6] See footnote 1 above.
[7] See footnote 1 above.

- **Investing in R&D for natural specialty products in the fields of taste and health** which contribute to improving the product mix and Frutarom's profitability.
- **Integration of R&D systems** – Frutarom is working to make maximum utilization of the many innovative R&D and technological capabilities gained over recent years through its acquisitions, as well as implementing its new customer relationship management (CRM) system and cross-organizational joint R&D and applications projects for broadening its product portfolio, and improving the quality of solutions and level of service to customers, channeling the projects to the relevant know-how centers and leveraging the knowledge and expertise developed at the various Frutarom sites over recent decades.
- **Building up and strengthening the global purchasing system** – Frutarom continues to build and strengthen its global purchasing infrastructure with maximum utilization of its increased purchasing power gained following the recent acquisitions while expanding its pool of suppliers with emphasis on increased purchase of raw materials (especially natural raw materials) used in the manufacture of its products from their countries of origin. Integration of the Company's R&D systems is also a contributing factor towards the strengthening of the global purchasing capacities, capitalizing on the harmonization of the raw materials and suppliers for the development and manufacture of its products.
- **Resource optimization** – Frutarom is continuing to implement and successfully accomplish the projects for combining and consolidating activities and production and operational sites and towards achieving utmost efficiency which will contribute over the coming years as well to strengthening its competitive position and improving its profits and margins. These actions, which also include among others mentioned the streamlining of the savory facilities in Europe following the acquisition of Wiberg (expected to bring annual savings estimated at over US$ 12 million) and the streamlining of the natural extracts facilities of the Specialty Fine Ingredients division (expected to bring annual savings of over US$ 6 million), should lead to operational savings on an annual basis in the range of US$ 20-22 million in relation to Frutarom's cost structure in the second quarter of 2016[8].

  Frutarom is also continuing to work on building and on strengthening its global purchasing platform and capitalizing on its purchasing power which has grown significantly in recent years, and on switching to buying raw materials in their source countries, particularly natural raw materials. The global purchasing platform will also be a contributing factor to further improvement in Frutarom's profitability.

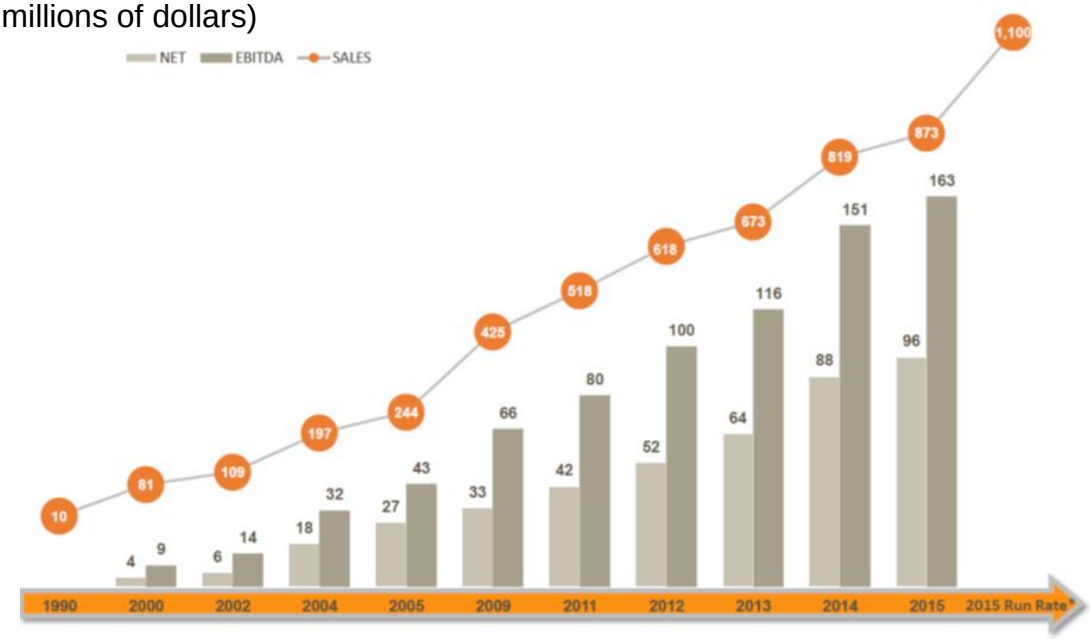
[8] See footnote 1 above.

As of September 30, 2016 Frutarom has total assets of US$ 1,592 million and equity of US$ 656 million, constituting 41% of the total balance sheet, and net debt (total loans minus cash) of US$ 442 million which reflects a net debt to EBITDA ratio (adjusted for non-recurring expenses) of 2.1. Frutarom's sturdy capital structure, supported by the strong cash flow it attains and together with bank backing, will allow it to continue implementing the rapid growth strategy it has followed in recent years, including by means of further strategic acquisitions, while strengthening its competitiveness and position as one of the leading growing companies in the world in the field of flavors and fine ingredients, and to realize its vision:

"To be the Preferred Partner for Tasty and Healthy Success"

Continuing growth in sales, in profits, and in profit margins

(In millions of dollars)



* Annual rate of sales assuming the acquisitions made by Frutarom during 2015 and until June 30, 2016 had been completed on January 1, 2015 and according to average exchange rates in 2015.

After reviewing its strong competitive position, its recent acquisitions and pipeline of future acquisitions, Frutarom updated its sales target for 2020 to at least US$ 2 billion along with an EBITDA margin of over 22% in its core businesses[9].

[9] The assessment concerning continued growth in sales, the improvement in profit and profit margin, and reaching the targets specified above as a result of fulfilling the Company's strategy, constitutes forward-looking statement, as defined in the Securities Law, that rests upon estimates by Company management. Such an assessment could fail to materialize, in full or in part, or materialize in a different manner, including materially differently than expected. There is no certainty that Frutarom can continue identifying suitable acquisitions under satisfactory conditions, obtain the financing required to fund them, and to manage its activity and the acquired activities in an efficient manner in order to ensure that the financial benefits, capitalization on the synergy and the economies of scale become realized.

B. FINANCIAL POSITION

Frutarom's total assets as of September 30, 2016 totaled US$ 1,591.7 million, compared with US$ 1,174.9 million as of September 30, 2015 and US$ 1,318.5 million as of December 31, 2015.

The Group's current assets as of September 30, 2016 totaled US$ 639.8 million, compared with US$ 490.0 million as of September 30, 2015 and US$ 476.8 million as of December 31, 2015.

Property, plant and equipment net of cumulative depreciation plus other net property as of September 30, 2016 totaled US$ 920.3 million, compared with US$ 680.8 million as of September 30, 2015 and US$ 706.6 million as of December 31, 2015.

The increase in total, current and long-term assets derives mainly from the acquisitions completed in 2015 and in the first nine months of 2016, which have already been fully consolidated into Frutarom's balance sheet but some of whose operational results have only been partially reflected in Frutarom's results for the quarter and for the first nine months of 2016.

Currency effects

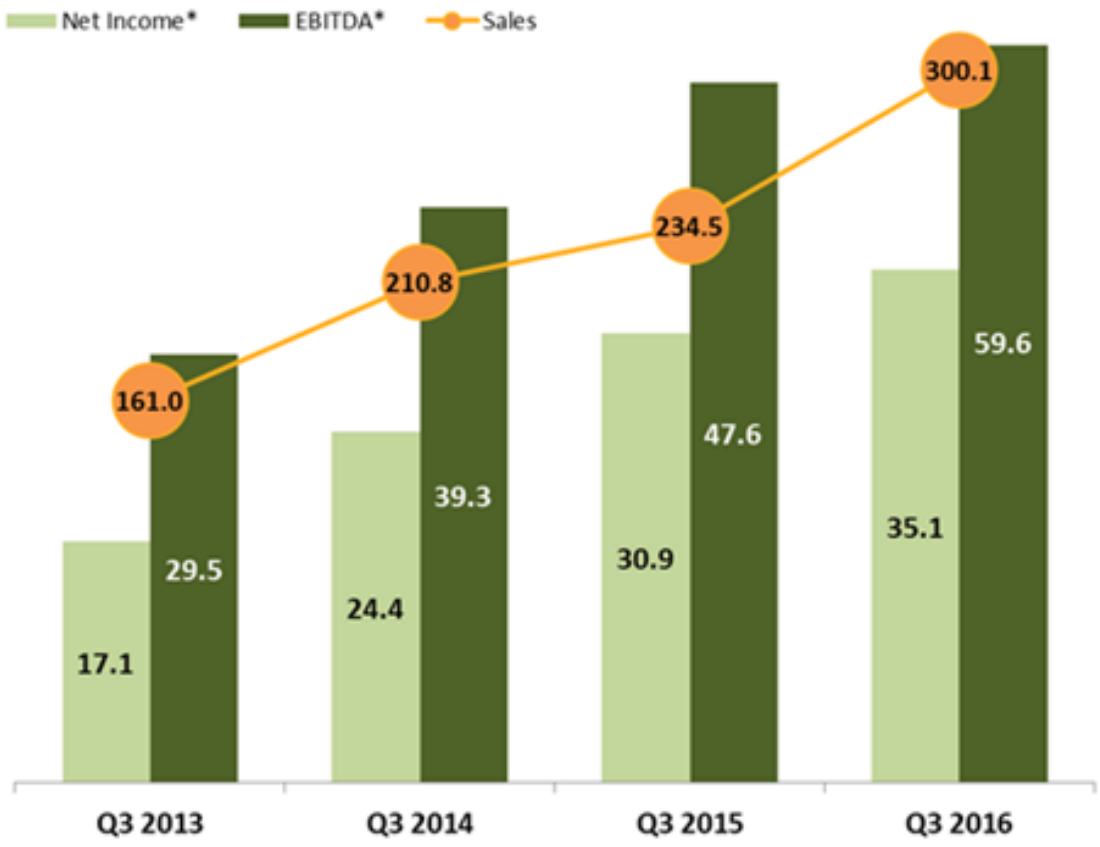
More than 70% of Frutarom's sales are conducted in currencies other than the US dollar (mainly the Euro, Pound Sterling, Swiss Franc, New Israeli Shekel, Russian Ruble, Chinese Yuan, Canadian Dollar, Brazilian Real, South African Rand and Peruvian Nuevo Sol). Changes in the exchange rates affect Frutarom's results as reported in US dollars.

However, Frutarom's exposure to currency fluctuations is reduced by the fact that part of its raw material purchases and operational expenditures in the various countries in which it operates are paid for in the respective local currencies so that most of the effect applies to the translation of sales revenues and profits into dollar terms.

The trend of a significant strengthening of the US dollar against most other global currencies began taking shape in the fourth quarter of 2014. This trend strengthened in 2015 and significantly weakened in the first nine months of 2016. The strengthening of the US dollar against most other world currencies brought about a reduction in reported sales and profits of 13.3% (in pro-forma terms) in 2015, 2.8% in the first nine months of 2016, and 1.7% in the third quarter of 2016.

C. RESULTS OF OPERATIONS FOR THIRD QUARTER 2016

(In millions of dollars)



* The figures are adjusted for non-recurring expenses

The third quarter was another record quarter for Frutarom in sales which reached US$ 300.1 million and in gross profit, operating profit, EBITDA, net income, earnings per share and cash flow.

The accelerated growth in revenues this quarter resulted from accelerated internal growth in the Flavors division activity and from the acquisitions that have been successfully merged.

Non-recurring expenses were recorded this quarter concerning the actions being taken by Frutarom towards optimizing its resources, amalgamating plants, and towards attaining maximal operational efficiency, and include non-recurring expenses for reorganization measures being taken by the Company in its savory activity in Germany following the acquisition of Wiberg, and these center around the closure by the end of the year of Frutarom's main production site at Stuttgart, Germany and the transfer of its production activity to Wiberg's modern plant in Germany, along with the steps taken for unifying the R&D and sales and marketing platforms for the savory activity in Europe. Also recorded this quarter were expenses concerning the operational optimization of the natural extracts activities in the

Specialty Fine Ingredients division and concerning acquisitions. These non-recurring factors reduced reported gross profit for the quarter by US$ 3.1 million, operating profit by US$ 4 million and net income by US$ 2.9 million.

The acquisitions carried out contributed to increased sales and profits, but the quarterly results do not yet reflect the profitability expected following the merger and streamlining actions being taken by the Company. Most of the savings expected from completing the mergers of the activities and from realizing the substantial savings arising from consolidating production sites and the R&D, sales and marketing, supply chain, operations and purchasing platforms of the acquired companies will manifest themselves in Frutarom's results in the course of 2017.

Sales

Sales in the third quarter of 2016 rose 28% to a third quarter record of US$ 300.1 million compared with US$ 234.5 million in the parallel period, reflecting year-over-year constant currency growth of 4.3% in pro-forma terms.

Changes in the exchange rates of currencies in which the Company operates as against the US dollar had a 1.7% negative impact on sales growth in pro-forma terms vs. Q3 2015.

Sales from **Frutarom's core activities** (the Flavors and Specialty Fine Ingredients activities) in the third quarter of 2016 rose 31.7% to reach a record US$ 280.0 million compared with US$ 212.7 million in Q3 2015, reflecting tear-over-year constant currency growth in pro-forma terms of 5.1%. Currency effects negatively impacted results in pro-forma terms by 1.7%.

Sales from the **Flavors activity** in the third quarter of 2016 rose 36.0% to reach a record US$ 225.0 million as against US$ 165.4 million in Q3 2015, reflecting constant currency growth in pro-forma terms of 6.2% against the parallel period. Currency effects negatively impacted results in pro-forma terms by 1.9%.

Sales from **Specialty Fine Ingredients** activity in the third quarter of 2016 rose 16.2% to US$ 56.1 million compared with US$ 48.3 million in Q3 2015 and reflect constant currency growth in pro-forma terms of 1% against the parallel period. Currency effects negatively impacted results in pro-forma terms by 0.7%.

As part of the overall effort towards optimization and efficiency in the natural herbal extracts configuration in the Specialty Fine Ingredients division it was decided to end the production and marketing of a number of products which Frutarom doesn't see as having future strategic importance.

Sales from **Trade and Marketing** (which does not constitute part of Frutarom's core activity) declined 5.5% on a constant currency basis. Without adjusting for currency effects, sales in Q3 2016 declined by 8.0% to US$ 20.0 million compared with US$ 21.8 million in Q3 2015. Currency effects negatively impacted sales by 2.5%.

Sales Breakdown by Activity in Q3 for 2006 - 2016 (US$ millions and %):

		Q3 2006	Q3 2007	Q3 2008	Q3 2009	Q3 2010	Q3 2011	Q3 2012	Q3 2013	Q3 2014	Q3 2015	Q3 2016
Flavor Activity	**Sales**	47.2	57.6	86.1	77.3	75.4	96.9	114.2	119.4	151.1	165.4	225.0
	%	66.3%	65.7%	71.7%	69.3%	67.9%	71.7%	72.7%	74.2%	71.7%	70.5%	75%
Fine Ingredient Activity	**Sales**	23.9	28.1	31.1	33.5	34.6	37.8	37.2	36.7	40.8	48.3	56.1
	%	33.6%	32.0%	25.9%	30.1%	31.1%	27.9%	23.7%	22.8%	19.4%	20.6%	18.7%
Inter-company sales	**Sales**	-1.7	-1.3	-1.0	-0.7	-0.5	-0.7	-0.6	-2.4	-1.3	-1.0	-1.1
	%	-2.4%	-1.4%	-0.9%	-0.7%	-0.5%	-0.5%	-0.4%	-1.5%	-0.6%	-0.4%	-0.4%
Total Core Activity	**Sales**	69.4	84.4	116.2	110.1	109.5	134.0	150.8	153.7	190.7	212.7	280.0
	%	97.5%	96.3%	96.8%	98.7%	98.6%	99.0%	96.0%	95.5%	90.5%	90.7%	93.3%
Trade & Marketing	**Sales**	1.8	3.3	3.8	1.5	1.5	1.3	6.3	7.3	20.1	21.8	20.0
	%	2.5%	3.7%	3.2%	1.3%	1.4%	1.0%	4.0%	4.6%	9.5%	9.3%	6.7%
Total Sales		71.3	87.7	120.0	111.6	111.0	135.3	157.1	161.0	210.8	234.5	300.1

Profit and Profitability

In Q3 2016 Frutarom achieved third quarter record results in sales, gross profit, operating profit, EBITDA, net income, earnings per share and cash flow.

Shifts in the exchange rates of currencies in which the Company operates against the US dollar had a 1.7% negative impact on the sales and profit reported in USD (in pro-forma terms).

As stated above, during the quarter non-recurring expenses were recorded for steps being taken by Frutarom towards optimizing its resources, for amalgamating plants, for attaining maximal operational efficiency and in connection with acquisitions. Overall non-recurring effects reduced reported gross profit for the quarter by US$ 3.1 million, operating profit by US$ 4 million and net income by US$ 2.9 million.

Adjusted for non-recurring expenses, gross profit for the core businesses rose in Q3 2016 by 28.4% to reach US$ 112.1 million (gross margin of 40.0%), operating profit for the core businesses rose by 24.7% to reach US$ 48.6 million (operating margin of 17.4%), and EBITDA for the core businesses grew by 25.4% to reach US$ 59.1 million (EBITDA margin of 21.1%).

The operating profit for the **Flavors activity** in the third quarter adjusted for non-recurring expenses rose 29.8% to US$ 41.4 million (operating margin of 18.4%) and EBITDA rose 29.9% to US$ 49.2 million (EBITDA margin of 21.9%).

Operating profit for the **Specialty Fine Ingredients activity** adjusted for non-recurring expenses rose 1% to US$ 7.1 million (operating margin of 12.7%) and EBITDA rose 6.7% to US$ 9.8 million (EBITDA margin of 17.5%).

The steps being taken by Frutarom, including completion of the merging of acquired companies and the measures it is taking to combine its plants, optimize its production resources and consolidate its R&D, sales, operations, production and purchasing platforms, which are progressing according to plan, will bring substantial operational savings and strengthen its competitiveness with maximum utilization of its sites around the world. These measures (including the savings anticipated from merging with Wiberg and the operational streamlining in the natural extracts from plants platform of the Specialty Fine Ingredients division) should[10] bring operational savings on an annual basis in the range of US$ 20-22 million in relation to Frutarom's cost structure in the second quarter of this year.

In addition, the building and strengthening of the global purchasing platform for raw materials used by Frutarom in manufacturing its products is continuing according to plan. This platform will exploit Frutarom's purchasing power which has grown significantly in recent years, shifting to direct purchasing from producers in source countries, mainly for natural raw materials (which account for over 70% of the raw materials used by Frutarom). The global purchasing platform will be another contributing factor to further improvement in purchasing costs and gross margins.

Tables summarizing profits and margins in the 3rd quarter:

In millions of US dollars	**Core Businesses** Flavors and Specialty Fine Ingredients			**Total Frutarom Group**		
	Adjusted for non-recurring expenses		**% increase**	**Adjusted for non-recurring expenses**		**% increase**
	Q3 2015	**Q3 2016**		**Q3 2015**	**Q3 2016**	
Gross profit	87.3	112.1	28.4%	92.1	117.1	27.2%
Margin	*41.0%*	*40%*		*39.3%*	*39.0%*	
Operating profit	39.0	48.6	24.7%	39.4	49.0	24.4%
Margin	*18.3%*	*17.4%*		*16.8%*	*16.3%*	
EBITDA	47.1	59.1	25.4%	47.6	59.6	25.2%
Margin	*22.1%*	*21.1%*		*20.3%*	*19.9%*	
Net income				30.9	35.1	13.8%
Margin				*13.2%*	*11.7%*	

10 See footnote 1 above.

Reported results in US dollars:

In millions of US dollars	Core Businesses Flavors and Specialty Fine Ingredients		Total Frutarom Group	
	Q3 2015	Q3 2016	Q3 2015	Q3 2016
Sales	212.7	280.0	234.5	300.1
Gross profit	87.1	109.0	91.9	114.0
Margin	*40.9%*	*38.9%*	*39.2%*	*38.0%*
Operating profit	36.6	44.6	37.0	45.0
Margin	*17.2%*	*15.9%*	*15.8%*	*15.0%*
EBITDA	44.7	55.1	45.2	55.6
Margin	*21.0%*	*19.7%*	*19.3%*	*18.5%*
Net income			25.0	32.2
Margin			*10.7%*	*10.7%*

Financial Expenses / Income

Financial expenses for Q3 2016 amounted to US$ 5.1 million (1.7% of sales) compared with US$ 6.0 million (2.6% of sales) in Q3 2015 (including a nonrecurring expense of US$ 4.3 million for updating the purchase option on PTI). The increase in financial expenses, not including nonrecurring expenses, arose as a result of an increase in interest expenses from US$ 1.5 million to US$ 2.8 million following an increase in the amount of loans for financing the acquisitions and from exchange-rate differences reaching US$ 2.2 million compared to negligible financial expenses last year from exchange-rate differences.

Taxes on Income

Taxes on income for Q3 2016 totaled US$ 8 million (19.9% of profit before tax) compared with US$ 6 million (19.2% of profit before tax) in Q3 2015.

Net Income

Net income in Q3 2016 (adjusted for the non-recurring expenses) grew by 13.8% to reach a record US$ 35.1 million. Reported net income rose 28.7% to US$ 32.2 million, compared with US$ 25 million in Q3 2015.

Earnings per Share

Earnings per share in Q3 2016 (adjusted for the non-recurring expenses) rose 13.2% to reach a record US$ 0.59 compared with US$ 0.52 for the same quarter last year.

Reported earnings per share rose 28.3% to US$ 0.54 compared with US$ 0.42 in the parallel period.

Liquidity

Frutarom continues to generate a strong cash flow from operating activities which helps it reduce its level of debt and continue making strategic acquisitions while keeping debt to a reasonable level.

In the third quarter of 2016 cash flows from operating activities rose by 41.3%, reaching a record US$ 41.6 million as against US$ 29.4 million the year before.

Frutarom strives and will continue to strive towards maintaining an optimal level of working capital appropriate for its forecasted growth while taking seasonality under consideration as well as the availability of the various raw materials and their current and expected future prices.

Seasonality

In recent years, with Frutarom's internal growth and acquisitions, seasonal effects on its results have diminished. Nonetheless, increased demand for beverages, yogurts, ice cream and other food products during the summer months brings about higher sales and improvement to a certain extent in Frutarom's profitability margins in the second and third quarters of the year.

D. RESULTS OF OPERATIONS FOR THE FIRST NINE MONTHS OF 2016

In the first nine months of 2016 Frutarom achieved record results in sales, gross profit, operating profit, EBITDA, net income, earnings per share and cash flow.

The effects of shifts in the exchange rates of currencies in which the Company operates against the US dollar had a negative 2.8% impact on the sales and profit reported in USD (in pro-forma terms).

Sales

Frutarom sales in the first nine months of 2016 rose 32.6% to reach a record high of US$ 858 million, reflecting year-over-year constant currency growth of 5.8% in pro-forma terms. Changes to the exchange rates of currencies in which the Company operates as against the US dollar negatively impacted sales growth in pro-forma terms by 2.8% compared to the same period in 2015.

Sales from **Frutarom's core activities** (the Flavors and Specialty Fine Ingredients activities) in the first nine months of 2016 rose 37.2% to reach a record US$ 800.6 million compared with US$ 583.7 million in the same period last year, reflecting tear-over-year constant currency growth in pro-forma terms of 6.4% compared to the parallel period.

Sales from **Flavors activity** in the first nine months of 2016 rose 40.2% and reached US$ 631.7 million as opposed to US$ 450.6 million the previous year, reflecting growth in pro-forma terms on a constant currency basis of 6.5% vs. prior year. Currency effects negatively impacted sales in pro-forma terms by 2.9%.

Sales from **Specialty Fine Ingredients activity** in the first nine months of 2016 rose 27.3% and reached US$ 174.0 million compared with US$ 136.7 million in the first nine months of 2015, reflecting growth in pro-forma terms on a constant currency basis of 7.2% vs. prior year. Currency effects had a negative 0.7% impact on results in pro-forma terms.

Sales from **Trade and Marketing activity** (not a core activity for Frutarom) declined 2.1% from the same period last year in pro-forma terms on a constant currency basis. Without adjusting for currencies, sales in the first nine months of 2016 declined 9.5% to US$ 57.4 million compared with US$ 63.5 million the year before. Currency effects had a negative 7.4% impact on sales.

Sales Breakdown by Activity for First 9 Months of 2006 - 2016 (US$ millions and %):

		1-9 2006	1-9 2007	1-9 2008	1-9 2009	1-9 2010	1-9 2011	1-9 2012	1-9 2013	1-9 2014	1-9 2015	1-9 2016
Flavor Activity	**Sales**	141.5	169.2	268.6	220.4	228.2	269.8	345.6	355.1	442.0	450.6	631.7
	%	65.9%	65.1%	71.7%	69.6%	67.4%	69.7%	73.0%	73.7%	71.6%	69.6%	73.6%
Fine Ingredient Activity	**Sales**	72.0	86.1	98.9	92.9	108.3	114.1	111.2	111.8	124.4	136.7	174.0
	%	33.5%	33.1%	26.4%	29.3%	32.0%	29.5%	23.5%	23.2%	20.1%	21.1%	20.3%
Inter-company sales	**Sales**	-3.5	-3.4	-3.3	-2.3	-1.7	-2.2	-1.7	-4.8	-5.6	-3.6	-5.2
	%	-1.6%	-1.3%	-0.9%	-0.7%	-0.5%	-0.6%	-0.4%	-1.0%	-0.9%	-0.6%	-0.6%
Total Core Activity	**Sales**	210.0	251.9	364.2	311.0	334.8	381.7	455.1	462.1	560.8	583.7	800.6
	%	97.8%	96.9%	97.2%	98.2%	98.9%	98.6%	96.2%	95.9%	90.8%	90.1%	93.3%
Trade & Marketing	**Sales**	4.7	7.9	10.4	5.7	3.9	5.2	18.0	19.8	56.5	63.5	57.4
	%	2.2%	3.1%	2.8%	1.8%	1.1%	1.4%	3.8%	4.1%	9.2%	9.8%	6.7%
Total Sales		214.6	260.0	374.6	316.7	338.7	386.9	473.1	481.9	617.3	647.2	858.0

Profit and Profitability

Non-recurring expenses were recorded in the first nine months of 2016 concerning steps being taken by Frutarom towards optimizing its resources, amalgamating plants, attaining maximal operational efficiency and in connection with merging the acquisitions. Non-recurring income from the sale of Frutarom's North Bergen site in New Jersey was also recorded. These non-recurring factors reduced reported gross profit for the first nine months of 2016 by US$ 7.2 million, operating profit by US$ 15.4 million and net income by US$ 11.2 million.

Adjusted for non-recurring expenses, gross profit for the core businesses rose in the first nine months of 2016 by 34.9% to reach US$ 322.3 million (gross margin of 40.3%), operating profit for the core businesses rose by 28.2% to reach US$ 130.9 million (operating margin of 16.3%), and EBITDA for the core businesses grew by 29.7% to reach US$ 162.3 million (EBITDA margin of 20.3%).

Adjusted for non-recurring expenses, operating profit for the **Flavors activity** rose 29.3% to US$ 109.9 million (operating margin of 17.4%) and EBITDA rose 31.6% to US$ 134.3 million (EBITDA margin of 21.3%).

Adjusted for non-recurring expenses, operating profit for the Specialty Fine Ingredients activity in the first half rose 20.5% to US$ 20.9 million (operating margin of 12.0%) and EBITDA rose 19.4% to US$ 27.9 million (EBITDA margin of 16.1%). The optimization measures and operational streamlining in the natural herbal extracts configuration of the Specialty Fine Ingredients division will, as noted, contribute to improved profitability.

Tables summarizing profits and margins in the first nine months of 2015-2016:

In millions of US dollars	Core Businesses Flavors and Specialty Fine Ingredients			Total Frutarom Group		
	Adjusted for non-recurring expenses		% increase	Adjusted for non-recurring expenses		% increase
	2015	2016		2015	2016	
Gross profit	239.0	322.3	34.9%	252.6	334.6	32.5%
Margin	*40.9%*	*40.3%*		*39.0%*	*39.0%*	
Operating profit	102.0	130.9	28.2%	104.0	132.0	26.9%
Margin	*17.5%*	*16.3%*		*16.1%*	*15.4%*	
EBITDA	125.1	162.3	29.7%	127.4	163.8	28.6%
Margin	*21.4%*	*20.3%*		*19.7%*	*19.1%*	
Net income				80.0	95.3	19.1%
Margin				*12.4%*	*11.1%*	

Reported results in US dollars for the first nine months of 2015-2016:

In millions of US dollars	Core Businesses Flavors and Specialty Fine Ingredients		Total Frutarom Group	
	2015	2016	2015	2016
Sales	583.7	800.6	647.2	858.0
Gross profit	237.5	315.1	251.1	327.4
Margin	*40.7%*	*39.4%*	*38.8%*	*38.2%*
Operating profit	97.4	115.5	99.4	116.6
Margin	*16.7%*	*14.4%*	*15.4%*	*13.6%*
EBITDA	120.5	148.4	122.8	149.9
Margin	*20.6%*	*18.5%*	*19.0%*	*17.5%*
Net income			72.6	84.0
Margin			*11.2%*	*9.8%*

Financial Expenses / Income

Financial expenses for the first nine months of 2016 amounted to US$ 12.8 million (1.5% of sales) compared with US$ 9.5 million (1.5% of sales) the previous year (including a nonrecurring expense of US$ 4.3 million for updating the purchase option on PTI). The increase in financial expenses, not including nonrecurring expenses, arose as a result of an increase in interest expenses from US$ 3.9 million to US$ 7.9 million following an increase in the amount of loans for financing the acquisitions and from an increase in exchange-rate differences from US$ 1.2 million to US$ 5.5 million.

Taxes on Income

Taxes on income for the first nine months of 2016 totaled US$ 20.6 million (19.7% of profit before tax) compared with US$ 17.3 million (19.3% of profit before tax) in the first nine months of 2015.

Net Income

Net income in the first nine months of 2016 (adjusted for the non-recurring expenses) grew by 19.1% to reach a record US$ 95.3 million. Reported net income rose 15.8% to reach US$ 84.0 million, compared with US$ 72.6 million in the first nine months of 2015.

Earnings per Share

Earnings per share in the first nine months of 2016 (adjusted for the non-recurring expenses) rose 17.7% to reach a record US$ 1.60 compared with US$ 1.36 for the same period last year.

Reported earnings per share climbed 14.3% to US$ 1.41 compared with US$ 1.23 in the parallel period.

Liquidity

Cash flow from operating activities in the first nine months of 2016 grew 44.4% to a record US$ 96.4 million compared with US$ 66.8 million in the parallel period.

E. SOURCES OF FINANCING

Sources of Capital

Frutarom's capital equity as of September 30, 2016 totaled US$ 655.6 million (41.2% of the balance sheet) compared with US$ 542.2 million (46.1% of the balance sheet) as of September 30, 2015 and US$ 551.7 million (41.8% of the balance sheet) as of December 31, 2015.

Loans (Average) -

- *Long-Term (Including Current Maturities of Long-Term Loans)*

  Average long-term credit from banks and financial institutions in Q3 2016 totaled US$ 480.8 million as compared with US$ 314.7 million in Q3 2015. The increase in credit derives from loans taken during the period to finance the acquisitions carried out.

- *Short-Term (Excluding Current Maturities of Long-Term Loans)*

  Average short-term credit extended to the Company by banks and financial institutions in Q3 2016 totaled US$ 84.7 million as compared with US$ 57.9 million during Q3 2015.

Frutarom's cash balances on September 30, 2016 totaled US$ 125.5 million compared with US$ 75.5 million on September 30, 2015 and US$ 69.0 million on December 31, 2015.

Frutarom's net debt on September 30, 2016 totaled US$ 441.9 million compared with US$ 289.3 million on September 30, 2015 and US$ 414.9 million on December 31, 2015. The increase in the net amount of debt derives from the loans taken by Frutarom for financing the acquisitions it made.

Accounts Payable and Accounts Receivable (Average)

In Q3 2016 the Company used US$ 218.2 million in credit from suppliers and other trade creditors compared with US$ 132.3 million in the parallel period, and extended US$ 208.5 million in credit to its customers compared with US$ 173.4 million the year before. The increase in suppliers' and customers' trade credit is largely due to the increase in the overall scope of activity following the acquisitions performed by Frutarom.

In accordance with the information presented in this report with respect to the Company's financial position, liquidity, positive cash flow generated from operating activities, and its sources of financing, and provided that there will not be any significant deterioration in its sales and/or profitability, the Company believes the cash flow it generates from current operations can be expected to cover the full repayment of its anticipated liabilities without any need for external sources of funds.

EXPOSURE TO AND MANAGEMENT OF MARKET RISKS

In the third quarter of 2016 and during the overall period from December 31, 2015 until the publication date of this report there were no substantial changes concerning exposure to market risks or the ways in which they are managed.

CURRENCY EXPOSURE PER PRIMARY LINKAGE BASES

There were no significant changes from the figures presented in the periodic report for 2015.

SENSITIVITY TESTS

Sensitivity to Changes in the US Dollar – New Israeli Shekel Exchange Rate

	Profit (Loss) from changes		Fair value	Profit (Loss) from changes	
% of change	**+10%**	**+5%**	**-**	**-5%**	**-10%**
Exchange rate	**4.134**	**3.946**	**3.758**	**3.570**	**3.382**
	US$ 000s				
Cash and cash equivalents	(18)	(9)	178	9	18
Customers	(1,014)	(507)	10,142	507	1,014
Other accounts receivable	(41)	(20)	405	20	41
Other long-term receivables	-	-	2	-	-
	(1,073)	**(536)**	**10,727**	**536**	**1,073**
Bank credit	-	-	-	-	-
Suppliers and service providers	428	214	4,282	(214)	(428)
Other payables	845	423	8,454	(423)	(845)
	1,273	**637**	**12,736**	**(637)**	**(1,273)**
Total exposure, net	**200**	**101**	**(2,009)**	**(101)**	**(200)**

Sensitivity to Changes in the US Dollar - Pound Sterling Exchange Rate

	Profit (Loss) from changes		Fair value	Profit (Loss) from changes	
% of change	**+10%**	**+5%**	**-**	**-5%**	**-10%**
Exchange rate	**0.849**	**0.810**	**0.771**	**0.733**	**0.694**
	US$ 000s				
Cash and cash equivalents	(685)	(343)	6,853	343	685
Customers	(1,235)	(617)	12,349	617	1,235
Other accounts receivable	(203)	(101)	2,027	101	203
	(2,123)	**(1,061)**	**21,229**	**1,061**	**2,123**
Bank credit	6,375	3,187	63,746	(3,187)	(6,375)
Suppliers and service providers	569	284	5,687	(284)	(569)
Other payables	903	451	9,026	(451)	(903)
	7,847	**3,922**	**78,459**	**(3,922)**	**(7,847)**
Total exposure, net	**5,724**	**2,861**	**(57,230)**	**(2,861)**	**(5,724)**

Sensitivity to Changes in the US Dollar – Euro Exchange Rate

	Profit (Loss) from changes		Fair value	Profit (Loss) from changes	
% of change	**+10%**	**+5%**	**-**	**-5%**	**-10%**
Exchange rate	**0.984**	**0.939**	**0.894**	**0.849**	**0.805**
	US$ 000s				
Cash and cash equivalents	(6,033)	(3,017)	60,333	3,017	6,033
Customers	(7,453)	(3,726)	74,528	3,726	7,453
Other accounts receivable	(932)	(466)	9,321	466	932
Other long-term receivables	(9)	(5)	93	5	9
	(14,427)	**(7,214)**	**144,275**	**7,214**	**14,427**
Bank credit	28,506	14,253	285,062	(14,253)	(28,506)
Suppliers and service providers	3,056	1,528	30,556	(1,528)	(3,056)
Other payables	7,979	3,990	79,791	(3,990)	(7,979)
	39,541	**19,771**	**395,409**	**(19,771)**	**(39,541)**
Total exposure, net	**25,114**	**12,557**	**(251,134)**	**(12,557)**	**(25,114)**

Sensitivity to Changes in the US Dollar - Swiss Franc Exchange Rate

	Profit (Loss) from changes		Fair value	Profit (Loss) from changes	
% of change	**+10%**	**+5%**	**-**	**-5%**	**-10%**
Exchange rate	**1.065**	**1.017**	**0.968**	**0.920**	**0.872**
	US$ 000s				
Cash and cash equivalents	(529)	(265)	5,293	265	529
Customers	(502)	(251)	5,018	251	502
Other accounts receivable	(194)	(97)	1,940	97	194
	(1,225)	**(613)**	**12,251**	**613**	**1,225**
Bank credit	8,076	4,038	80,757	(4,038)	(8,076)
Suppliers and service providers	302	151	3,019	(151)	(302)
Other payables	514	257	5,141	(257)	(514)
	8,892	**4,446**	**88,917**	**(4,446)**	**(8,892)**
Total exposure, net	**7,667**	**3,833**	**(76,666)**	**(3,833)**	**(7,667)**

Sensitivity to Changes in the US Dollar - Ruble

	Profit (Loss) from changes		Fair value	Profit (Loss) from changes	
% of change	**+10%**	**+5%**	**-**	**-5%**	**-10%**
Exchange rate	**69.357**	**66.204**	**63.052**	**59.899**	**56.747**
	US$ 000s				
Cash and cash equivalents	(836)	(418)	8,362	418	836
Customers	(1,664)	(832)	16,637	832	1,664
Other accounts receivable	(105)	(53)	1,051	53	105
	(2,605)	**(1,303)**	**26,050**	**1,303**	**2,605**
Suppliers and service providers	56	28	556	(28)	(56)
Other payables	378	189	3,776	(189)	(378)
	434	**217**	**4,332**	**(217)**	**(434)**
Total exposure, net	**(2,171)**	**(1,086)**	**21,718**	**1,086**	**2,171**

Sensitivity to Changes in the US Dollar - Other Currencies Exchange Rate

	Profit (Loss) from changes		Fair value	Profit (Loss) from changes	
% of change	**+10%**	**+5%**	**-**	**-5%**	**-10%**
	US$ 000s				
Cash and cash equivalents	(1,606)	(803)	16,058	803	1,606
Customers	(4,623)	(2,311)	46,226	2,311	4,623
Other accounts receivable	(483)	(241)	4,825	241	483
	(6,712)	**(3,355)**	**67,109**	**3,355**	**6,712**
Bank credit	279	139	2,787	(139)	(279)
Suppliers and service providers	1,688	844	16,879	(844)	(1,688)
Other long-term liabilities	4,329	2,165	43,292	(2,165)	(4,329)
	7,463	**3,731**	**74,627**	**(3,731)**	**(7,463)**
Total exposure, net	**751**	**376**	**(7,518)**	**(376)**	**(751)**

Sensitivity to Changes in Interest Rate on Fixed Rate Loans – Fair Value Risk

	Profit (Loss) from changes		Fair value	Profit (Loss) from changes	
% of change	**+10%**	**+5%**	**-**	**-5%**	**-10%**
	US$ 000s				
Short-term loans - CNY	7	3	1,319	(5)	(9)
Total exposure to change in fair value	**7**	**3**	**1,319**	**(5)**	**(9)**

F. SUMMARY OF SENSITIVITY TEST TABLES

The functional currency of most Group companies is the local currency in each of their respective countries, therefore currency translations of monetary balances of these companies have no effect on the Company's Profit and Loss Statement and are directly attributed to the Company's shareholders' equity (currency translation capital fund).

Sensitivity to Changes in the US Dollar - Israeli Shekel Exchange Rate:

	Profit (Loss) from changes		Fair value	Profit (Loss) from changes	
% of change	+10%	+5%	-	-5%	-10%
Exchange rate	**4.134**	**3.946**	**3.758**	**3.570**	**3.382**
	US$ 000				
Total Exposure, net	**200**	**101**	**(2,009)**	**(101)**	**(200)**

Sensitivity to Changes in the US Dollar - Pound Sterling Exchange Rate:

	Profit (Loss) from changes		Fair value	Profit (Loss) from changes	
% of change	+10%	+5%	-	-5%	-10%
Exchange rate	**0.849**	**0.810**	**0.771**	**0.733**	**0.694**
	US$ 000				
Total Exposure, net	**5,724**	**2,861**	**(57,230)**	**(2,861)**	**(5,724)**

Sensitivity to Changes in the US Dollar - Euro Exchange Rate:

	Profit (Loss) from changes		Fair value	Profit (Loss) from changes	
% of change	+10%	+5%	-	-5%	-10%
Exchange rate	**0.984**	**0.939**	**0.894**	**0.849**	**0.805**
	US$ 000				
Total exposure, net	**25,114**	**12,557**	**(251,134)**	**(12,557)**	**(25,114)**

Sensitivity to Changes in the US Dollar - Swiss Franc Exchange Rate:

	Profit (Loss) from changes		Fair value	Profit (Loss) from changes	
% of change	+10%	+5%	-	-5%	-10%
Exchange rate	**1.065**	**1.017**	**0.968**	**0.920**	**0.872**
	US$ 000				
Total exposure, net	**7,667**	**3,833**	**(76,666)**	**(3,833)**	**(7,667)**

Sensitivity to Changes in the US Dollar-Russian Ruble Exchange Rate:

	Profit (Loss) from changes		Fair value	Profit (Loss) from changes	
% of change	+10%	+5%	-	-5%	-10%
Exchange rate	**69.357**	**66.204**	**63.052**	**59.899**	**56.747**
	US$ 000				
Total exposure, net	**(2,171)**	**(1,086)**	**21,718**	**1,086**	**2,171**

Sensitivity to Changes in the US Dollar - Other Currencies Exchange Rate:

	Profit (Loss) from changes		Fair value	Profit (Loss) from changes	
% of change	+10%	+5%	-	-5%	-10%
	US$ 000				
Total exposure, net	**751**	**376**	**(7,518)**	**(376)**	**(751)**

Sensitivity to Changes in Interest Rate on Fixed-Rate Loans – Fair Value Risk:

	Profit (Loss) from changes		Fair value	Profit (Loss) from changes	
% of change	+10%	+5%	-	-5%	-10%
	US$ 000				
Total exposure to change in fair value	**7**	**3**	**1,319**	**(5)**	**(9)**

MATERIAL EVENTS DURING THE REPORTED PERIOD

A. Regarding a subsidiary of the Company entering into an agreement for the purchase 100% of the shares of the Austrian company SAGEMA GmbH and for the purchase of 100% of the shares of the German company Wiberg GmbH, see Section A above.

B. On April 3, 2016 a subsidiary of the Company entered into a loan agreement with a foreign financial corporation. For details, see the Company's report from April 3, 2016.

C. On May 24, 2016 a subsidiary of the Company entered into a loan agreement with a foreign financial corporation. For details, see the Company's report from May 25, 2016.

D. In the course of the second quarter of 2016 the Company received the approval of lenders from whom the Company had taken loans to amend the financial covenants to which the Company had committed itself towards its lenders. For further information, see Note 8 to the financial statements.

ASPECTS OF CORPORATE GOVERNANCE

Senior Office Holders' Remuneration

A. On March 16, 2016 the Company's Board of Directors approved, following approval of the Compensation Committee on March 13, 2016, payment of bonuses to senior office holders in the Company for 2015 in conformance with the Company's compensation policy. On the same date the Company's Board of Directors also approved the repurchase of Company shares for the purpose of granting them to office holders and others in the framework of the 2012 Option Plan. For further details regarding this resolution and the grant made pursuant thereto, see the Company's immediate reports from March 17, 2016.

B. On April 20, 2016 the Company granted options to employees and office holders. For further details see the outline and immediate report issued by the Company on April 4, 2016 and April 24, 2016 respectively. On August 10 and August 14 the Compensation Committee and the Board of Directors approved, respectively, the granting of options to employees and office holders. For further details see the outline issued by the Company on August 15, 2016. In addition, on August 14, 2016 the Company's Board of Directors approved a plan for the repurchase of Company shares for the purpose of granting them to employees and office holders. For further details, see the Company's immediate reports from August 15, 2016, from October 5, 2016 and from November 1, 2016, as well as section 3.2 of the Company's Periodic Report.

C. On May 8, 2016 the Annual and Special General Meeting of the Company's shareholders convened. For details on the General Meeting see the Company's immediate reports from March 31, 2016 on the calling of the General Meeting and from May 15, 2016 on the results of the General Meeting. In the framework of the abovementioned meeting the General Meeting approved, *inter alia*, changes in the Company's compensation policy.

D. On May 23, 2016 the Company's Board of Directors approved, following approval from the Company's Compensation Committee and the General Meeting, the purchase of insurance policies to directors and office holders who are not the controlling shareholders or a relative thereof, the applicability of such insurance policies also to directors and office holders who are the Company's controlling shareholders or their relatives, as well as to the Company's President & CEO. For further information see the Company's immediate report from May 24, 2016.

Change to the Company's Articles of Association

E. On May 8, 2016 the General Meeting of the Company's shareholders approved, *inter alia*, the amending of the Company's Articles of Association with regards to the signing of stock certificates. For further information see the Company's immediate reports from March 31, 2016 on the calling of the General Meeting and from May 15, 2016 on the results of the General Meeting, and the Company's report from May 9, 2016 on the change to the Articles of Association.

DISCLOSURE RELATING TO THE CORPORATE FINANCIAL REPORTING

REPORT ON LIABILITIES BY REPAYMENT DATE

Details on the Company's liabilities by their repayment dates are included here by way of reference to a separate immediate report issued by the Company concurrently with the issuance of this report.

. DIVIDEND DISTRIBUTION

On March 16, 2016, concurrently with the approval of the financial statements for December 31, 2015, the Company's Board of Directors decided on the distribution of a dividend of NIS 0.41 per share. On May 8, 2016 the dividend totaling US$ 6,380 thousand was paid out to shareholders.

EXCLUSION OF THE COMPANY'S SEPARATE FINANCIAL REPORT UNDER REGULATION 38(D) OF THE REGULATIONS ("Solo Report")

The Company did not include in the quarterly report separate financial information as set forth in Regulation 38(D) of the Securities Regulations (Periodic and Immediate Reports) 1970 (the **"Solo Report"** and the **"Regulations",** respectively) due to the negligibility of the additional information of such report and the fact that the Solo Report would not add any material information for a reasonable investor, to that contained in the Company's consolidated reports.

The Company's decision that the information is negligible is based on the fact that the Company does not have any commercial activities of any kind and therefore the Company's results of operations have no effect on the Group's consolidated profit and loss reports. The Company does not employ workers and it does not have any sales or expenses to third parties.

All the Company's revenues (dividends and financing income on revaluation of capital notes with Frutarom Ltd.) derive from Frutarom Ltd.

As far as the balance sheet is concerned, apart from the settling of accounts with the Income Tax Authority, the Company does not have any balances vis-à-vis third parties. Its only balances are loans and balances vis-à-vis the (wholly owned) companies in the Group, and land property in the amount of US$ 139 thousand.

The Company's management determined that as long as income from externals or from companies not wholly owned by the Company are lower than 5% of the total revenues in the consolidated financial statements, and as long as the expenses to externals or from companies not wholly owned by the Company are lower than 5% of the total expenses in the consolidated financial statements, the Company's separate financial information as set forth in Regulation 38(D) of the Regulations is negligible and its absence will not affect the prospects of investors in the Company's shares to estimate the Company's liquidity prospects, and will not add any material information for a reasonable investor.

. EVENTS SUBSEQUENT TO THE DATE OF THE REPORT ON THE FINANCIAL POSITION THAT ARE MENTIONED IN THE FINANCIAL REPORTS

For details on the acquisition of Nardi and of Piasa see section A above.

The Board of Directors thanks Frutarom's management and employees for the Company's fine achievements.

_____	_____
Dr. John J. Farber	Ori Yehudai
Chairman of the Board	President & CEO

November 21, 2016

Below are details in accordance with the Securities Regulations (Periodic and Immediate Reports), 1970.

Valuation subject	Purchase Price Allocation of Wiberg and Valuation of Intangible assets and proposed assignment of goodwill-Temporary appraisal
Valuator	Ernst & Young Israel Ltd.
Valuation requester	Frutarom Industries Ltd., by Mr. Guy Gill, VP Finance
Engagement date	May 2016
Approval to attach to reports	The valuator gave written approval to attach the valuation to the Company's reports
Valuation timing	Allocation of cost acquisition as of January 29, 2016. Valuation was conducted during May 2016.
Value of valuation subject prior to valuation date	€ 119,125 thousand
Value of valuation subject according to valuation	€ 119,125 thousand
Identification of evaluator and its characterization	Ernst & Young Israel Ltd. Is part of the global Ernst & Young network and provides consulting and management services in a wide variety of areas for companies operating in different areas. The company has rich experience in the following areas: valuations, due diligence (financial and accounting) valuation of goodwill and intellectual assets, performance of financial analysis, current analysis of Israeli public companies, business plans, mergers and acquisitions, operational transaction services and more. Evaluator: Tal Klein Evaluator's education • BA in Economics and business administration, Ben Gurion University; • MA in economics and finance, Tel Aviv University. Experience and expertise: • Purchase Price Allocation and valuation of intangible assets. • Valuations of companies and enterprises, impairment testing and performance of financial assessments. • Valuation of financial derivatives and performance of complex finance models. • Working capital and debt advisory. The valuator is has no dependence on Frutarom and there are no indemnification agreements with the valuator.
Valuation Model	• MEEM (Multi Excess Earnings Method) • Relief from royalties.

	• DCF
Valuation Assumptions	• Customer relations discount rate: ▶ Europe: 13%. ▶ Canada: 14%. • Know-how discount rate: ▶ Europe: 13.5%. ▶ Canada: 14.5%. • Customer relations attrition rate: 9.2% • Know-how attrition rate: 5%. • Know-how royalties rate: 3.2% • Long term growth rate: ▶ Europe: 1.9% ▶ Canada: 2.1% Data used as a basis for comparison: results of operations in recent years and forecasts.
Prior Valuation	Not conducted

*The process hasn't been completed as of the date of these financial statements

FRUTAROM INDUSTRIES LTD.

INTERIM FINANCIAL INFORMATION

(Unaudited)

30 September, 2016

FRUTAROM INDUSTRIES LTD.

INTERIM FINANCIAL INFORMATION

(Unaudited)

30 September, 2016

TABLE OF CONTENTS

Review Report of Interim Financial Information to the Shareholders of Frutarom Industries LTD.

Introduction

We have reviewed the accompanying financial information of Frutarom Industries Ltd. and its subsidiaries (hereafter - the group), which includes the condensed consolidated statement of financial position as of September 30, 2016 and the related condensed consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the nine and three-month periods then ended. The Board of Directors and management are responsible for preparation and presentation of the financial information for this reporting period in accordance with International Accounting Standard 34 – "Interim Financial Reporting"; our responsibility is to express a conclusion of the financial data for this interim period based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". 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 International Standards on Auditing 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, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements do not present fairly, in all material respects, the financial position of the Company as of September 30, 2016, and the result of its operations, changes in shareholders' equity and cash flows for the nine and three-month periods then ended in accordance with International Accounting Standard 34, "Interim Financial Reporting".

Haifa, Israel
November 21, 2016

Kesselman & Kesselman
Certified Public Accountants (lsr.)
A member firm of PricewaterhouseCoopers International Limited

Kesselman & Kesselman, Building 25, MATAM, P.O BOX 15084 Haifa, 3190500, Israel
Telephone: +972 -4- 8605000, Fax:+972 -4- 8605001, www.pwc.com/il

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 September 2016

	30 September		31 December
	2016	2015	2015
	(Unaudited)		(Audited)
	U.S. dollars in thousands		
A s s e t s			
CURRENT ASSETS:			
Cash and cash equivalents	125,536	75,476	68,997
Accounts receivable:			
Trade	210,847	173,001	155,871
Other	24,552	17,207	24,290
Prepaid expenses and advances to suppliers	24,111	13,923	14,305
Inventory	254,766	210,420	213,297
	639,812	490,027	476,760
NON-CURRENT ASSETS:			
Property, plant and equipment	271,946	230,292	232,786
Intangible assets	648,395	450,495	473,807
Investment in associates	25,636	-	-
Payments on account of acquisition of subsidiary	-	-	131,838
Deferred income tax assets	3,487	2,724	3,063
Other	2,428	1,378	228
	951,892	684,889	841,722
Total assets	1,591,704	1,174,916	1,318,482

Dr. John Farber)
Chairman of the Board)

Ori Yehudai)
President and CEO)

Alon Granot)
Executive Vice
President and CFO)

Date of approval of the interim financial information by the board of directors November 21, 2016.

	30 September		31 December
	2016	2015	2015
	(Unaudited)		(Audited)
	U.S. dollars in thousands		
Liabilities and shareholders' equity			
CURRENT LIABILITIES:			
Short-term bank credit and loans and current maturities of long-term loans	222,151	121,903	264,480
Accounts payable:			
Trade	78,234	81,320	70,799
Other	114,514	56,383	57,259
Liability for put option for the shareholders of a subsidiary	40,601	-	-
	455,500	259,606	392,538
NON-CURRENT LIABILITIES:			
Long-term loans, net of current maturities	345,280	242,874	219,449
Retirement benefit obligations, net	34,132	31,389	32,220
Deferred income tax liabilities	44,575	38,577	40,550
Liability for put option for the shareholders of a subsidiaries and other	56,648	60,268	82,041
	480,635	373,108	374,260
Total liabilities	936,135	632,714	766,798
EQUITY:			
Equity attributable to owners of the parent:			
Ordinary shares	16,959	16,892	16,912
Other capital surplus	112,711	109,556	110,466
Translation differences	(88,448)	(98,792)	(113,249)
Retained earnings	610,239	511,818	533,880
Less - cost of company shares held by the company	(3,843)	(3,222)	(3,111)
	647,618	536,252	544,898
Non-controlling interests	7,951	5,950	6,786
Total equity	655,569	542,202	551,684
Total equity and liabilities	1,591,704	1,174,916	1,318,482

The accompanying notes are an integral part of these financial statements.

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED STATEMENT OF INCOME

FOR THE NINE AND THREE-MONTH PERIOD ENDED 30 SEPTEMBER 2016

	9 months ended 30 September		3 months ended 30 September		Year ended 31 December
	2016	2015	2016	2015	2015
	(Unaudited)				(Audited)
	U.S. dollars in thousands				
	(except for income per share data)				
SALES	858,019	647,186	300,058	234,475	872,796
COST OF SALES	530,668	396,090	186,088	142,592	534,737
GROSS PROFIT	327,351	251,096	113,970	91,883	338,059
Selling, marketing, research and development expenses – net	144,608	102,683	48,540	36,656	141,237
General and administrative expenses	59,782	46,881	20,428	16,682	63,742
Other expenses - net	6,325	2,144	8	1,571	2,826
INCOME FROM OPERATIONS	116,636	99,388	44,994	36,974	130,254
Income from investment in associates net of tax	806	-	302	-	-
FINANCIAL EXPENSES - net	12,804	9,503	5,057	5,988	12,197
INCOME BEFORE TAX ON INCOME	104,638	89,885	40,239	30,986	118,057
INCOME TAX	20,590	17,334	8,016	5,957	21,972
NET INCOME FOR THE PERIOD	84,048	72,551	32,223	25,029	96,085
PROFIT ATTRIBUTED TO:					
OWNERS OF THE PARENT COMPANY	82,739	71,939	31,895	24,750	94,859
NON-CONTROLLING INTERESTS	1,309	612	328	279	1,226
TOTAL INCOME	84,048	72,551	32,223	25,029	96,085
EARNINGS PER SHARE:					
Basic	1.41	1.23	0.54	0.42	1.62
Fully diluted	1.40	1.21	0.54	0.42	1.60

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE NINE AND THREE-MONTH PERIOD ENDED 30 SEPTEMBER 2016

	9 months ended 30 September		3 months ended 30 September		Year ended 31 December
	2016	2015	2016	2015	2015
	(Unaudited)		(Unaudited)		(Audited)
	U.S. dollars in thousands				
INCOME FOR THE PERIOD	84,048	72,551	32,223	25,029	96,085
Other Comprehensive Income:					
Items that will not be reclassified subsequently to profit or loss -					
Remeasurement of net defined benefit Liability	-	-	-	-	(858)
Items that could be reclassified subsequently To profit or loss-					
Translation differences	24,820	(50,697)	4,537	(17,665)	(65,293)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	108,868	21,854	36,760	7,364	29,934
COMPREHENSIVE INCOME ATTRIBUTABLE TO:					
OWNERS OF THE PARENT	107,540	21,306	36,428	7,189	28,911
NON-CONTROLING INTERESTS	1,328	548	332	175	1,023
TOTAL INCOME	108,868	21,854	36,760	7,364	29,934

The accompanying notes are an integral part of these condensed financial statements.

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE NINE PERIOD ENDED 30 SEPTEMBER, 2016

	EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT							
	Ordinary shares	**Other capital surplus**	**Translation differences**	**Retained earnings**	**Cost of company shares held by the company**	**Total attributed to Owners parent company**	**Non-controlling interests**	**Total**
	U.S. dollars in thousands							
BALANCE AT 1 JANUARY 2016 (audited)	16,912	110,466	(113,249)	533,880	(3,111)	544,898	6,786	551,684
CHANGES DURING THE 9 MONTH PERIOD ENDED 30 September 2016 (unaudited):								
Comprehensive income:								
Income for the period	-	-	-	82,739	-	82,739	1,309	84,048
Other comprehensive income for the period	-	-	24,801	-	-	24,801	19	24,820
Total comprehensive income for the period	-	-	24,801	82,739	-	107,540	1,328	108,868
Plans for allotment of company shares to employees of subsidiary:								
Acquisition of the Company shares by the Company	-	-	-	-	(1,395)	(1,395)	-	(1,395)
Receipts in respect of allotment of company shares to employees	-	(442)	-	-	663	221	-	221
Allotment of shares and options to senior employees:								
Recognition of compensation related to employee stock and options grants	-	1,145	-	-	-	1,145	-	1,145
Proceeds from issuance of shares to senior employees	47	1,460	-	-	-	1,507	-	1,507
Changes of ownership rights in subsidiary	-	82	-	-	-	82	(973)	(891)
Dividend paid to the non-controlling interests in subsidiary	-	-	-	-	-	-	(63)	(63)
Dividend, including erosion	-	-	-	(6,380)	-	(6,380)	-	(6,380)
	47	2,245	-	(6,380)	(732)	(4,820)	(1,036)	(5,856)
Non-controlling interest from business combination	-	-	-	-	-	-	873	873
BALANCE AT 30 SEPTEMBER, 2016 (unaudited)	16,959	112,711	(88,448)	610,239	(3,843)	647,618	7,951	655,569

The accompanying notes are an integral part of these condensed financial statements.

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE THREE MONTH PERIOD ENDED SEPTEMBER 30, 2016

	EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT							
	Ordinary Shares	**Other capital Surplus**	**Translation Differences**	**Retained earnings**	**Cost of company shares held by the company**	**Total attributed to Owners parent company**	**Non-controlling interests**	**Total**
	U.S. dollars in thousands							
BALANCE AT 1 JULY 2016 (unaudited)	16,952	112,220	(92,981)	578,344	(3,210)	611,325	7,619	618,944
CHANGES DURING THE 3 MONTH PERIOD ENDED 30 SEPTEMBER 2016 (unaudited):								
Comprehensive income:								
Income for the period	-	-	-	31,895	-	31,895	328	32,223
Other comprehensive income for the period	-	-	4,533	-	-	4,533	4	4,537
Total comprehensive income for the period	-	-	4,533	31,895	-	36,428	332	36,760
Plans for allotment of company shares to employees of subsidiary:								
Acquisition of the Company shares by the Company	-	-	-	-	(735)	(735)	-	(735)
Receipts in respect of allotment of company shares to employees	-	(68)	-	-	102	34	-	34
Allotment of shares and options to senior employees:								
Recognition of compensation related to employee stock and options grants	-	412	-	-	-	412	-	412
Dividend, including erosion	7	147	-	-	-	154	-	154
	7	491	-	-	(633)	(135)	-	(135)
BALANCE AT 30 SEPTEMBER, 2016 (unaudited)	16,959	112,711	(88,448)	610,239	(3,843)	647,618	7,951	655,569

The accompanying notes are an integral part of these condensed financial statements.

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER, 2015

	EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT							
	Ordinary shares	**Other capital surplus**	**Translation differences**	**Retained earnings**	**Cost of company shares held by the company**	**Total attributed to owners parent company**	**Non-controlling interests**	**Total**
	U.S. dollars in thousands							
BALANCE AT 1 JANUARY 2015 (audited)	16,822	106,664	(48,159)	445,653	(2,587)	518,393	3,626	522,019
CHANGES DURING THE 9 MONTH PERIOD ENDED 30 September, 2015 (unaudited):								
COMPREHENSIVE INCOME:								
Income for the period	-	-	-	71,939	-	71,939	612	72,551
Other comprehensive losses for the period	-	-	(50,633)	-	-	(50,633)	(64)	(50,697)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	-	-	(50,633)	71,939	-	21,306	548	21,854
Plans for allotment of company shares to employees of subsidiary:								
Acquisition of the Company shares by the Company	-	-	-	-	(1,085)	(1,085)	-	(1,085)
Receipts in respect of allotment of company shares to employees	-	(300)	-	-	450	150	-	150
Allotment of shares and options to senior employees:								
Recognition of compensation related to employee stock and options grants	-	1,171	-	-	-	1,171	-	1,171
Proceeds from issuance of shares to senior employees	70	2,021	-	-	-	2,091	-	2,091
Non-controlling interest arising on business combination	-	-	-	-	-	-	1,834	1,834
Dividend paid to the non-controlling interests in subsidiary	-	-	-	-	-	-	(58)	(58)
Dividend, including erosion	-	-	-	(5,774)	-	(5,774)	-	(5,774)
	70	2,892	-	(5,774)	(635)	(3,447)	1,776	(1,671)
BALANCE AT 30 SEPTEMBER, 2015 (unaudited)	16,892	109,556	(98,792)	511,818	(3,222)	536,252	5,950	542,202

The accompanying notes are an integral part of these condensed financial statements.

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE THREE MONTH PERIOD ENDED 30 SEPTEMBER, 2015

	EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT							
	Ordinary shares	**Other capital Surplus**	**Translation differences**	**Retained earnings**	**Cost of company shares held by the company**	**Total attributed to owners parent company**	**Non-controlling interests**	**Total**
	U.S. dollars in thousands							
BALANCE AT 1 JULY 2015 (unaudited)	16,888	109,149	(81,231)	487,068	(2,613)	529,261	3,941	533,202
CHANGES DURING THE 3 MONTH PERIOD ENDED 30 SEPTEMBER 2015 (unaudited):								
COMPREHENSIVE INCOME:								
Income for the period	-	-	-	24,750	-	24,750	279	25,029
Other comprehensive losses for the period	-	-	(17,561)	-	-	(17,561)	(104)	(17,665)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	-	-	(17,561)	24,750	-	7,189	175	7,364
Plans for allotment of company shares to employees of subsidiary:								
Acquisition of the Company shares by the Company	-	-	-	-	(729)	(729)	-	(729)
Receipts in respect of allotment of company shares to Employees	-	(80)	-	-	120	40	-	40
Allotment of shares and options to senior employees:								
Recognition of compensation related to employee stock and options grants	-	372	-	-	-	372	-	372
Proceeds from issuance of shares to senior employees	4	115	-	-	-	119	-	119
Non-controlling interest arising on business combination	-	-	-	-	-	-	1,834	1,834
	4	407	-	-	(609)	(198)	1,834	1,636
BALANCE AT 30 SEPTEMBER , 2015 (unaudited)	16,892	109,556	(98,792)	511,818	(3,222)	536,252	5,950	542,202

The accompanying notes are an integral part of these condensed financial statements.

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2015

	EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT							
	Ordinary shares	**Other Capital Surplus**	**Translation differences**	**Retained earnings**	**Cost of company shares held by the company**	**Total attributed to Owners parent company**	**Non-controlling interests**	**Total**
	U.S. dollars in thousands (audited)							
BALANCE AT 1 JANUARY 2015 (audited)	16,822	106,664	(48,159)	445,653	(2,587)	518,393	3,626	522,019
CHANGES DURING THE YEAR ENDED 31 DECEBMBER 2015:								
Comprehensive income:								
Income for the year	-	-	-	94,859	-	94,859	1,226	96,085
Other comprehensive losses	-	-	(65,090)	(858)	-	(65,948)	(203)	(66,151)
Total comprehensive income for the year	-	-	(65,090)	94,001	-	28,911	1,023	29,934
Plan for allotment of company shares to employees of subsidiary:								
Acquisition of the Company shares by the Company	-	-	-	-	(1,085)	(1,085)	-	(1,085)
Receipts in respect of allotment of company shares to employees	-	(374)	-	-	561	187	-	187
Allotment of shares and options to senior employees -								
Recognition of compensation related to employee stock and options grants	-	1,541	-	-	-	1,541	-	1,541
Proceeds from issuance of shares to senior employees	90	2,635	-	-	-	2,725	-	2,725
Dividend paid to the non-controlling interests in subsidiary	-	-	-	-	-	-	(58)	(58)
Dividend paid			-	(5,774)	-	(5,774)	-	(5,774)
	90	3,802	-	(5,774)	(524)	(2,406)	(58)	(2,464)
Non-controlling interest from business combination	-	-	-	-	-	-	2,195	2,195
BALANCE AT 31 DECEMBER, 2015	16,912	110,466	(113,249)	533,880	(3,111)	544,898	6,786	551,684

The accompanying notes are an integral part of these condensed financial statements.

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE NINE AND THREE-MONTH PERIODS ENDED 30 SEPTEMBER 2016

	9 months ended 30 September		3 months ended 30 September		Year ended 31 December
	2016	2015	2016	2015	2015
	U.S. dollars in thousands				
	(Unaudited)		(Unaudited)		(Audited)
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash generated from operations (See appendix)	104,837	78,905	42,755	34,537	112,625
Income tax paid - net	(8,424)	(12,140)	(1,171)	(5,110)	(20,963)
Net cash provided by operating activities	96,413	66,765	41,584	29,427	91,662
CASH FLOWS USED IN INVESTING ACTIVITIES:					
Purchase of property, plant and equipment	(19,400)	(16,099)	(8,507)	(4,320)	(23,900)
Purchase of intangibles	(747)	(648)	(97)	(290)	(717)
Interest received	358	335	(42)	8	428
Acquisition of subsidiaries - net of cash acquired (see note 4)	(87,578)	(129,759)	(44,120)	(15,231)	(143,777)
Payments on account of acquisition of subsidiary	-	-	-	-	(131,838)
Proceeds from sale of property	9,794	821	6,943	(73)	2,191
Net cash used in investing activities	(97,573)	(145,350)	(45,823)	(19,906)	(297,613)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Dividend paid to the non-controlling interests in subsidiary	(1,062)	(300)	(375)	(121)	(542)
Receipts from senior employees in respect of allotment of shares	1,507	2,091	154	119	2,725
Interest paid	(5,345)	(2,788)	(1,820)	(952)	(3,973)
Receipt of long-term bank loans	135,254	149,616	73,360	80,737	185,616
Acquisition of non-controlling interests in subsidiary	(893)	-	-	-	-
Repayment of long-term bank loans	(61,577)	(35,263)	(19,277)	(15,838)	(48,638)
Receipt (repayment) of short-term bank loans and credit-net	(3,492)	(13,569)	(40,829)	(60,517)	87,463
Acquisition of the Company shares by the Company - net of receipts in respect of the shares	(1,174)	(935)	(701)	(689)	(898)
Dividend paid	(6,380)	(5,774)	-	-	(5,774)
Net cash used by financing activities	56,838	93,078	10,512	2,739	215,979
INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS AND BANK CREDIT	55,678	14,493	6,273	12,260	10,028
Balance of cash and cash equivalents and bank credit at beginning of period	68,997	63,975	118,656	65,268	63,975
Profits (losses) from exchange differences on cash equivalents and bank credit	861	(2,992)	607	(2,052)	(5,006)
BALANCE OF CASH, CASH EQUIVALENTS AND BANK CREDIT AT END OF PERIOD	125,536	75,476	125,536	75,476	68,997

The accompanying notes are an integral part of these condensed financial statements.

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE NINE AND THREE-MONTH PERIODS ENDED 30 SEPTEMBER 2016

Appendix for Condensed Consolidated Statement of Cash Flows – net cash generated from operations:

	9 months ended 30 September		3 months ended 30 September		Year ended 31 December
	2016	2015	2016	2015	2015
	(Unaudited)		(Unaudited)		(Audited)
	U.S. dollars in thousands				
Income before tax	104,638	89,885	40,239	30,986	118,057
Adjustments required to reflect the cash flows from operating activities:					
Depreciation and amortization	32,157	22,216	10,179	7,830	31,385
Recognition of compensation related to employee stock and option grants	1,145	1,171	412	372	1,541
Liability for employee rights upon retirement – net	856	982	314	344	1,428
Loss (gain) from sale and write-off of fixed assets and other assets	(4,711)	(308)	(32)	1	(250)
Group's share of losses (earnings) of companies accounted for at equity, net	(806)	-	(302)	-	-
Erosion of long term loans	3,954	(2,819)	3,757	22	(3,096)
Erosion of Liability for put option for the shareholders of a subsidiary	(157)	12,805	(112)	5,612	13,118
Interest paid - net	4,987	2,453	1,862	944	3,545
	37,425	36,500	16,078	15,125	47,671
Change in operating assets and liability items:					
Decrease (increase) in accounts receivable:					
Trade	(25,613)	(15,486)	(3,008)	10,371	1,293
Other	(659)	(8,922)	1,323	(6,090)	(13,447)
Decrease (increase) in other long-term receivables	(2,196)	(405)	(1,234)	(45)	(106)
Increase (decrease) in accounts payable:					
Trade	(2,499)	6,724	(12,799)	355	(7,226)
Other	6,022	(6,641)	(1,105)	(6,505)	(5,484)
Increase (decrease) in other long-term Payables	2,197	(594)	940	1,507	321
Increase in inventory	(14,478)	(22,156)	2,321	(11,167)	(28,454)
	(37,226)	(47,480)	(13,562)	(11,574)	(53,103)
Net cash flows from operating activities	104,837	78,905	42,755	34,537	112,625

The accompanying notes are an integral part of these financial statements.

FRUTAROM INDUSTRIES LTD.

EXPLANATORY NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 SEPTEMBER 2016

(UNAUDITED)

NOTE 1 - GENERAL:

Frutarom Industries Ltd. is a global company, founded in 1933. The Company operates through the consolidated company (hereafter - Frutarom Ltd.) and the companies under its control (hereafter – the Group). The Group has two main operations: the Flavours activity and the Fine Ingredients activity, which are considered as core business by management.
In addition, the Company imports and markets raw materials produced by others as part of its services and strive to provide complete solutions for customers. This activity is presented as part of trade and marketing operations.
The Group develops, manufactures, markets and sells flavours and fine ingredients used by producers of food and beverage, pharma-nutraceutical, flavours and fragrances, and personal care and cosmetics products as well as other products.

NOTE 2 - BASIS OF PREPARATION OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS:

a. The interim condensed consolidated financial information of the group as of 30 September 2016 and for the 9 and 3 month periods ended on that date (hereinafter - the interim financial information) was prepared in accordance with International Accounting Standard No. 34 - "Interim Financial Reporting" (hereafter – "IAS 34"). The interim financial information should be read in conjunction with the annual financial statements as of 31 December, 2015 and for the year ended on that date and with the notes thereto, which were all prepared in accordance with International Financial Reporting Standards (hereafter – "IFRS").
The interim financial information is reviewed and is not audited.

b. Estimates

The preparation of interim financial statements requires management to exercise its judgment; it also requires the use of accounting estimates and assumptions that affect the application of the group's accounting policy and the amounts of reported assets, liabilities, income and expenses. Actual results may differ from those estimates.
In preparation of these condensed consolidated interim financial statements, the significant judgments that were exercised by the management in applying the group's accounting policy and the key sources of estimation uncertainty were similar to those applied in the consolidated annual financial statements for the year ended December 31, 2015.

NOTE 3 - PRINCIPAL ACCOUNTING POLICIES:

a. The significant accounting policies and computation methods used in preparing the interim financial information are consistent with those used in preparing the 2015 annual financial statements, except for the following:

Income tax in interim periods is recognized based on management's best estimate of the weighted average annual income tax rate expected.

b. The first-time implementation of additional new IFRSs and amendments to existing standards which are yet to be effective and the group did not elect to early adopt are detailed in the 2015 financial statements of the group.

NOTE 4 – BUSINESS COMBINATIONS:

a. Acquisition of control in Amco SP.Z.O.O

On January 11, 2016 Frutarom completed the acquisition of 75% of the share capital of the Polish Company Amco Sp. z.o.o, (hereafter – "Amco") in consideration for $ 22.4 million (88.5 million PLN). The purchase agreement includes a mutual option for acquiring the remaining shares starting two and a half years from the closing date of the transaction at a price based on the Amco's business performance. As of acquisition date the price of the option is estimated in the amount of $ 7.5 million and is presented as a non-current liability. The transaction was financed using bank debt.

Amco has an R&D and sales and marketing center along with an efficient production site in Warsaw, Poland. Amco employs a staff of 70, including 12 engaged in R&D with advanced academic degrees. Amco's main activity is the development, production and marketing of unique and innovative savory flavor solutions include seasoning blends, marinades, and functional ingredients for the food industry.

The cost of acquisition was allocated to tangible assets, intangible assets and liabilities which were acquired based on their fair value at the time of the acquisition. The intangible assets which were recognized include: product formulas, customer relations and goodwill. The product formulas and customer relations are amortized over economic useful lives of 20 years and 10 years, respectively. The determination of the fair value of the assets and liabilities is subject to a final appraisal of the allocation of the purchase prices to the fair value of the assets and liabilities; this appraisal has not yet been completed as of the date of approval of these financial statements.

NOTE 4 – BUSINESS COMBINATIONS (continued):

a. Acquisition of control in Amco SP.Z.O.O (continued)

Set forth below are the assets and liabilities of Amco at date of acquisition:

	Fair value
	U.S. dollars In thousands
Current assets:	
Cash and cash equivalents	1,232
Trade	3,325
Inventory	2,434
Others	51
Non-current assets:	
Property, plant and equipment	3,330
Intangible assets	23,661
Others	4
Current liabilities :	
Bank credit and loans	(532)
Trade payables	(1,547)
Other account payables	(265)
Non-current liabilities:	
Deferred income taxes	(1,485)
Other	(7,788)
	22,420

From the date it was consolidated with the financial statements of the Company through September 30, 2016, the acquired operations have yielded revenues of $ 13,786 thousands and net profit of $ 1,017 thousands (net of acquisition costs).

b. Acquisition of Wiberg

On January 28, 2016 Frutarom completed the acquisition of 100% of the shares of Sagema GmbH of Austria and Wiberg GmbH of Germany (including Wiberg's 50% ownership share in a Canadian subsidiary (Wiberg Corporation) and 51% ownership share in a Turkish subsidiary (WIBERG BAHARAT SANAYİ VE TİCARET ANONİM SİRKETİ which subsequently fully acquired) (hereafter collectively: "Wiberg") in consideration for approx. $ 129.9 million (€ 119.1 million). The purchase was fully funded using bank funding.

Founded in 1947, Wiberg now ranks as a top international group in its field, boasting a superb reputation and strong brand name in the specialty and innovative savory solutions that include flavor extracts, seasoning blends and functional ingredients for the food industry.

NOTE 4 – BUSINESS COMBINATIONS (continued):

b. Acquisition of Wiberg (continued)

Wiberg employs approx. 670 personnel throughout the world and operates five production sites, the largest of which is a modern and efficient state-of-the art facility in Germany with extensive production capacity and substantial room for expansion, and in Austria, Turkey, Canada, and Los Angeles in the USA. Wiberg headquarters in Salzburg, Austria includes a modern R&D center and advanced laboratories. Wiberg has sales and marketing functions in some 70 countries in Europe, North America, Africa and Asia.

The cost of acquisition was allocated to tangible assets, intangible assets and liabilities which were acquired based on their fair value at the time of the acquisition. The intangible assets which were recognized include: product formulas, customer relations and goodwill. The product formulas and customer relations are amortized over economic useful lives of 20 years and 10 years, respectively. Set forth below are the assets and liabilities of Wiberg at date of acquisition. The determination of the fair value of the assets and liabilities is subject to a final appraisal of the allocation of the purchase prices to the fair value of the assets and liabilities; this appraisal has not yet been completed as of the date of approval of these financial statements.
:

	Fair value
	U.S. dollars In thousands
Current assets:	
Cash and cash equivalents	8,322
Trade	20,871
Inventory	19,300
Others	6,396
Non-current assets:	
Property, plant and equipment	32,357
Investment in associates	21,504
Intangible assets	69,071
Current liabilities :	
Trade payables	(14,907)
Other account payables	(7,544)
Bank credit and loans	(4,334)
Non-current liabilities:	
Loans	(10,123)
Non-controlling interests	(873)
Deferred income taxes	(5,888)
Other	(4,214)
	129,938

From the date it was consolidated with the financial statements of the Company through September 30, 2016, the acquired operations have yielded revenues of $ 112,664 thousands and net profit of $ 5,432 thousands (net of acquisition costs).

NOTE 4 – BUSINESS COMBINATIONS (continued):

c. Acquisition of Grow Company Inc.

Onc January 11, 2016 the Company signed an agreement for the acquisition of 100% of the shares of the US-based company Grow Company Inc. (hereafter – "Grow") in consideration for $ 20 million. The purchase agreement includes a mechanism for future consideration estimated by the Company in the amount of $ 25 million conditional on the Company's business performance during the year following the purchase date. The transaction was completed on the date of signing the agreement and was financed using a bank debt.

Grow has accumulated many years of know-how and unique biotechnological production methods for producing natural nutritious ingredients possessing health benefits that are scientifically-proven and backed up by clinical studies. These ingredients significantly improve the body's absorption of vitamins, minerals and other vital nutrients.
Grow has an R&D, sales and marketing center along with an efficient production site in New Jersey USA.

The cost of acquisition was allocated to tangible assets, intangible assets and liabilities which were acquired based on their fair value at the time of the acquisition. The intangible assets which were recognized include: product formulas, customer relations and goodwill. The product formulas and customer relations are amortized over economic useful lives of 20 years and 10 years, respectively. The determination of the fair value of the assets and liabilities is subject to a final appraisal of the allocation of the purchase prices to the fair value of the assets and liabilities; this appraisal has not yet been completed as of the date of approval of these financial statements.

Set forth below are the assets and liabilities of Grow at date of acquisition:

	Fair value
	U.S. dollars In thousands
Current assets:	
Cash and cash equivalents	37
Trade	1,431
Inventory	1,330
Others	366
Non-current assets:	
Property, plant and equipment	1,220
Intangible assets	40,613
Current liabilities :	
Trade payables	(239)
Other account payables	(97)
Others	(24,959)
	19,702

NOTE 4 – BUSINESS COMBINATIONS (continued):

c. Acquisition of Grow Company Inc. (continued)

From the date it was consolidated with the financial statements of the Company through September 30, 2016, the acquired operations have yielded revenues of $ 7,793 thousands and net profit of $ 2,030 thousands (net of acquisition costs).

d. Investment in Algalo

On January 3, 2016 the Company signed an agreement to invest in Algalo Industries Ltd. (hereafter - "Algalo"). Frutarom will invest a total of NIS 10 million (approx. $ 2.56 million) in exchange for the allocation of 50% of Algalo shares to build a modern biotechnology facility that will specialize in cultivation, harvesting and processing algae using advanced and unique methods. Frutarom will have exclusive worldwide marketing rights for Algalo's products. The Company paid NIS 5 million of the consideration in cash. The remaining balance of the consideration will be paid subject to the achievement of milestones as set out in the agreement. The transaction was completed on the date of signing the agreement and was funded using a bank debt.

Algalo is a biotech startup company, which developed a unique and innovative method for efficient cultivation, harvesting and processing of a wide variety of algae that yield active ingredients for use in the food, dietary and clinical nutrition supplements and cosmetics industries.

e. Acquisition of Extrakt Chemie

on May 2, 2016, the Company signed an agreement for the acquisition of 100% of the rights and the general partner in the German partnership Extrakt Chemie Dr. Bruno Stellmach GmbH &Co. KG (hereafter - "Extrakt Chemie") as well as the property on which Extrakt Chemie's plant is situated in consideration for approx. $ 6.3 million in cash (approx. € 5.4 million) plus the assumption of debt (net) amounting to approx. $ 1.4 million (approx. € 1.2 million). The purchase agreement includes a mechanism for future consideration conditional on the business performance of Extrakt Chemie during 2016 and 2017. The transaction was completed on the date of signing the agreement and was financed through Company's own funds.

Extrakt Chemie was established in 1969 and has a knowhow in specialty ingredient extracts, primarily for pharma, natural medications, nutritional supplements, foods and cosmetics. The company develops, produces and markets specialty solutions of natural extracts, some of which incorporate plant-sourced enzymes, for use mainly as raw material (API) in the pharmaceutical market, with proven benefits in, among other things, the treatment of liver diseases, digestive problems and the prevention of infections. The company employs about 35 employees.

NOTE 4 – BUSINESS COMBINATIONS (continued):

e. Acquisition of Extrakt Chemie (continued):

The cost of acquisition was allocated to tangible assets, intangible assets and liabilities which were acquired based on their fair value at the time of the acquisition. The determination of the fair value of the assets and liabilities is subject to a final appraisal of the allocation of the purchase prices to the fair value of the assets and liabilities; this appraisal has not yet been completed as of the date of approval of these financial statements.

Set forth below are the assets and liabilities of Extrakt Chemie at date of acquisition:

	Fair value
	U.S. dollars In thousands
Current assets:	
Trade	860
Inventory	1,368
Others	188
Non-current assets:	
Property, plant and equipment	409
Intangible assets	5,843
Current liabilities :	
Trade payables	(699)
Other account payables	(224)
Short term loans	(48)
Non-current liabilities:	
Loans	(1,405)
	6,292

From the date it was consolidated with the financial statements of the Company through September 30, 2016, the acquired operations have yielded revenues of $ 3,884 thousands and net profit of $ 253 thousands (net of acquisition costs).

f. Acquisition of Redbrook Ingredient Services Limited

on August 2, 2016 the Company signed, through a subsidiary, an agreement for the purchase of 100% of the shares in the Irish company Redbrook Ingredient Services Limited ("Redbrook") in exchange for approximately USD 44.8 million (€ 40 million). The purchase agreement includes a mechanism for additional consideration based on Redbrook's future business performance. The transaction was completed at the time of signing and was financed through bank debt.

Redbrook was founded in 1987 and has an R&D, sales and marketing center and production site near Dublin, Ireland, as well as a production unit and R&D and sales and marketing center in Daventry, England, near Frutarom's site at Wellingborough, England. Redbrook has 39 employees.

NOTE 4 - BUSINESS COMBINATIONS (continued):

f. Acquisition of Redbrook Ingredient Services Limited (continued):

Redbrook's main activity is the development, production and marketing of innovative specialty savory taste solutions, which includes seasoning and functional blends, marinades, glazes, cures and specialty ingredients for food processors.

The cost of acquisition was allocated to tangible assets, intangible assets and liabilities which were acquired based on their fair value at the time of the acquisition. The determination of the fair value of the assets and liabilities is subject to a final appraisal of the allocation of the purchase prices to the fair value of the assets and liabilities; this appraisal has not yet been completed as of the date of approval of these financial statements.

Set forth below are the assets and liabilities of Redbrook at date of acquisition:

	Fair value
	U.S. dollars
	In thousands
Current assets:	
Cash	989
Trade	3,360
Inventory	2,378
Others	190
Non-current assets:	
Property, plant and equipment	380
Intangible assets	41,429
Current liabilities :	
Trade payables	(2,592)
Other account payables	(1,352)
Non-current liabilities:	
Deferred taxes	(4)
	44,778

From the date it was consolidated with the financial statements of the Company through September 30, 2016, the acquired operations have yielded revenues of $ 4,462 thousands and net profit of $ 752 thousands (net of acquisition costs).

g. On a proforma basis - assuming that the companies acquired in 2015 has been consolidated as from 1.1.2015 and the companies acquired in 2016 had been consolidated in the corresponding period in 2015 – the 9 months 2015 sale would have amounted to approx. $ 833.3 million. This figure is based on unaudited data provided by the owners of the acquired activities in accordance with the pre-acquisition accounting policies of the acquired activities.

NOTE 5 – DIVIDEND:

On March 16, 2016, the Company's Board of Directors declared the distribution of a dividend of NIS 0.41 per share. The dividend was paid to the shareholders on 8 of May, 2016 in the total amount of $ 6,380 thousands.

NOTE 6 – REORGANIZATION PROCESS

The Company recorded during the period non-recurring expenses concerning the actions being taken towards optimizing its resources, amalgamating plants, and towards attaining maximal operational efficiency. In addition, non-recurring income was recorded during the period by the sale of the Company's North Bergen site in New Jersey. These non-recurring events decreased the reported operating income by $ 15.4 million and the net income by $ 11.2 million.

NOTE 7 – SEGMENT REPORTING

For management purposes, the Group is organized on a worldwide basis into two major operating activities: Flavour and Fine Ingredients. Another operating activity is Trade and Marketing. Results of operation of the segments are being measured based on operating profit.

Segment data provided to the President and the CEO in respect of the reported segments is as follows:

	Flavors operations	Fine ingredients operations	Trade and marketing operations	Eliminations	Total consolidated
	U.S. dollars in thousands				
9 months ended 30 September 2016: (unaudited):					
Revenues	631,749	174,007	57,428	(5,165)	858,019
Segment results	96,962	18,452	1,166	56	116,636
9 months ended 30 September 2015: (unaudited):					
Revenues	450,598	136,661	63,488	(3,561)	647,186
Segment results	82,656	15,060	1,982	(310)	99,388
3 months ended 30 September 2016 (unaudited):					
Revenues	224,955	56,145	20,044	(1,086)	300,058
Segment results	38,904	5,667	390	33	44,994
3 months ended 30 September 2015 (unaudited):					
Revenues	165,382	48,334	21,798	(1,039)	234,475
Segment results	31,061	5,500	412	1	36,974
Year ended 31 December 2015 (audited):					
Revenues	607,534	184,944	84,344	(4,026)	872,796
Segment results	108,751	18,900	2,870	(267)	130,254

The reconciliation of the reported profits and total profits before taxes for the reported periods is described below:

	9 months ended 30 September		3 months ended 30 September		Year ended 31 December
	2016	2015	2016	2015	2015
	(Unaudited)		(Unaudited)		(Audited)
	U.S. dollars in thousands				
Reported segment income	116,636	99,388	44,994	36,974	130,254
Income from investment in associates	806	-	302	-	-
Financing expenses (income)	12,804	9,503	5,057	5,988	12,197
Profit before taxes on income	104,638	89,885	40,239	30,986	118,057

NOTE 8 – Amend the financial covenants:

The Company received the approval of lenders from whom the Company had taken loans to amend the financial covenants to which the Company had committed itself towards its lenders, as follows:

a. The sum of the Company's [capital] equity shall not fall below USD 375,000 thousand.

b. The proportion of the Company's equity out of the overall balance sheet shall not fall below 25%.

c. The ratio of the Company's total financial liabilities, less cash, to its operating profit from operating plus depreciation and amortization before taking into account any non-recurring expenses on a pro-forma basis ("EBITDA") shall not surpass 4, whereby calculation of EBITDA shall be done on a pro-forma basis and net of non-recurring expenses.

The Company meets its revised all financial covenants before the changes.

Non-recurring expenses as agreed shall not be included in the calculation of EBITDA and, in the case of the purchase of a company and/or activity by a Group company, EBITDA shall be calculated on the basis of financial statements that include the results of the activity of the acquired company for the relevant period as if they had been consolidated from the start.

As of September 30, 2016 the Company meets its revised financial covenants as described above, and specifically:

The Company's [capital] equity stood at USD 655.6 million;

The proportion of the Company's equity out of the overall balance sheet stood at 41.2%;

The ratio of the Company's total financial liabilities, less cash, to EBITDA stood at 2.1 whereby the calculation of EBITDA was done on a pro-forma basis and net of non-recurring expenses.

No changes were made to any of the Company's other commitments towards said lenders, including with regards to any negative pledge on the Company's assets or restrictions on distribution that the Company has taken upon itself, and all as described in section 31.4 of the Annual Periodic Report for 2015 as issued by the Company on March 17, 2016 ("**the Periodic Report**") and in note 14 in the 2015 financial report.

NOTE 9 – SUBSEQUENT EVENTS:

a) On October 11, 2016 the Company signed, through a subsidiary, an agreement for the purchase of 100% of the shares in the Brazilian company Nardi Aromas Ltda. ("Nardi") in exchange for approximately USD 1.6 million (BRL 5.1 million). The transaction was completed at the time of signing and was financed through bank debt.
Nardi was founded in 1971 and has an efficient production site in vicinity of the city Sao Paulo and Frutarom's Brazilian production site. Nardi has 14 employees and specializes in the development, production and marketing of traditional Brazilian flavors and natural plant-based extracts for the alcoholic drinks and carbonated beverages markets.

b) On November 9, 2016 the Company signed, through a subsidiary, an agreement for the purchase of 75% of the shares in the Mexican company Proveedores De Ingenieria Alimentaria, S.A. De C.V ("Piasa") and the real estate housing Piasa's main production site and headquarters in the city of Monterrey, Mexico, in exchange for an overall consideration (including debt) of US $ 20.5 million. The transaction is expected to be completed within the next several weeks and will be financed through bank debt.

Quarterly Report Regarding Effectiveness of Internal Audit on Financial Reporting and on Disclosure under Regulation 38C(A)

The management of Frutarom Industries Ltd (the "**Company**"), supervised by the Company's Board of Directors is responsible for prescribing and conducting proper internal control on the Company's financial reporting and disclosure.

For this matter, the members of the management are:

1. Ori Yehudai, President and CEO
2. Alon Granot, Executive Vice President and CFO
3. Amos Anatot, Executive Vice President Global Supply Chain and Operations.
4. Sharon Ganot, Global Vice President, Human Resources
5. Guy Gill, Vice President Finance
6. Tali Mirsky-Lachman, Global Vice President, Legal Affairs and Corporate Secretary
7. Flora Lewin, Global Chief information officer

Internal control on financial reporting and disclosure includes controls and procedures which are conducted in the Company, which are planned by the Company's President and CEO and the highest ranking financial officer and under their supervision, or by whoever fills these positions in practice, under the supervision of the Company's Board of Directors. These controls and procedures are meant to provide a reasonable level of certainty regarding the reliability of the financial reporting and the preparation of the financial reports in accordance with the provision of the law, ensuring that the information the Company is required to disclose in the reports it publishes under the provisions of the law is gathered, processed, summarized and reported on the date and the manner prescribed by law.

Internal control includes, among other things, controls and procedures designed to ensure that the information the Company, as stated, is required to disclose is gathered and delivered to the Company's management including to the President and CEO, and to the highest ranking financial officer or to whoever fills these positions in practice, in order to allow timely decision making with regards to the disclosure requirement.

Due to its structural limitations, internal control on financial reporting and disclosure is not designed to provide absolute certainty that misrepresentation or omission of information in the reports will be avoided or revealed.

In the Quarterly Report Regarding Effectiveness of Internal Audit on Financial Reporting and on Disclosure attached to the Quarterly Report ending on June 30, 2016 (hereinafter: the "**Last Quarterly Report Regarding Effectiveness**") the Board of Directors and the Company's management assessed the internal audit in the Company; based on this assessment, the Board of Directors and the Company's management concluded that said internal audit, as at June 30, 2016, is effective.

No events or issues were brought to the attention of the Board of Directors and the Company's management which could change the assessment of effectiveness of the internal audit, as contained in the Last Quarterly Report Regarding Effectiveness.

Subject to the statements above and below, as of the date of the report, based on the assessment of effectiveness of internal control in the Last Quarterly Report Regarding Effectiveness and based on information brought to the attention of Management and the Board of Directors as stated above the internal audit is effective.

Acquisition of the Wiberg Company ("Wiberg")

Regarding the description of Wiberg and the acquisition transaction, see Note 4B to the Company's Quarterly Report.

Assessment of effectiveness of internal audit on the financial statement and the disclosure performed by the Company's management under the supervision of the Board of Directors did not include assessment of effectiveness of internal audit on the financial statement and disclosure of Wiberg.

In accordance with the guidelines of the Securities Authority from July 2010, FAQ (SOX)1, an acquired corporation may be excluded from the assessment of effectiveness of internal audit report until the period report of the year following the year in which control was gained in the acquired corporation.

The reasons for not including the acquired company in the report of assessment of effectiveness of internal audit for this quarter and the reasons the Company was not able to assess the effectiveness of the acquired company’s internal audit as of the date of the report are, in brief, the following:

(A) The date on which the transaction was concluded and the internal audit processes required for implementation - insufficient time had passed for assessment and mapping out internal audit processes existing at Wiberg from the date on which the transaction was completed until the date of the report, or for full implementation of the Company's internal audit processes at Wiberg.

(B) Accompanying processes for completion of the transaction - a number of processes were in play for the purpose of the Company's gaining control of the corporation, some complex, relating to handling and organizing work interfaces with the acquired company, including in the matter of the financial statements and the preparation of such, creating adaptations and adjustments between the Company's information systems and those of the acquired company, which, in addition to the aforesaid, extended the period required for implementation of the internal auditing process.

In order to assess the effectiveness of Wiberg's internal audit, the Company is in the final stages of testing the acquired company's existing processes and audits in the matter of financial reporting and disclosure.

The Company's management would like to emphasize that based on its work experience with Wiberg from the date of acquisition, based on the opinion of Wiberg's internal auditor and based on the opinion of the acquired company's auditing accountants, the exclusion of the acquired company from the Report Regarding Effectiveness of Internal Audit has low probability of affecting the Company's internal audit or the information presented in the financial statements.

Directors' Declarations

Declaration of the President and CEO

The undersigned, Mr. Ori Yehudai, hereby declares as follows:

1. I have reviewed the Quarterly Report of Frutarom Industries Ltd. (the "**Company**") for the third quarter of 2016 (the "**Reports**");
2. To my knowledge, the Reports do not include any false representations of any material fact and do not omit representation of any material fact required in order to ensure that the representations contained in these, in light of the circumstances under which they were included, are not misleading in relation to the period of the Reports;
3. To my knowledge, the financial reports and other financial information contained in the reports duly reflect the Company's financial situation, its results of operations and cash flow for the dates and periods to which the Reports relate in all material aspects;
4. I have disclosed to the Company's auditors, the Board of Directors and the Audit Committee of the Company's Board of Directors, based on my most updated assessment of the internal control on financial reporting and disclosure:
    a. All the material deficiencies and weaknesses in prescribing and implementing the internal control on the financial reporting and on the disclosure, if any, which may reasonably adversely affect the ability of the Company to gather, process or report on financial information in a manner which could raise concerns regarding the reliability of the financial reporting and the preparation of the financial reports in accordance to the provisions of the law; and –
    b. Any fraud, material or not material, which involves the president and CEO or anyone directly reporting to him or other employees who hold significant positions in the internal control on the financial reporting and on disclosure;
5. I, alone, or together with others in the Company:

a. Set controls and procedures, or ensured the existence and set up of controls and procedures under my supervision, designated to ensure that material information relating to the Company, including its consolidated companies as defined in the Securities Regulations (Annual Financial Reports), 5770-2010, is brought to my attention by others in the Company and the consolidated companies, particularly during the preparation of the Reports; and

b. I set controls and procedures, or ensured the enactment and performance of controls and procedures under my supervision, designed reasonably ensure the reliability of the financial reporting and the preparation of the financial reports in accordance with the provisions of law, including in accordance with accepted accounting principles:

c. No events or issues occurring during the period between the date of the last Quarterly Report (the report for the period ended June 30, 2016) and the date of this Report which could change the Board of Directors' and management's conclusion regarding effectiveness of the internal report on the Company's financial statement and on the disclosure have been brought to my attention.

The above does not derogate from my lawful responsibility, or from the lawful responsibility of any other person.

Date: November 21, 2016

_____

Ori Yehudai
President and CEO

Directors' Declarations

Declaration of the Executive Vice President and CFO

The undersigned, Alon Granot, hereby declares as follows:

1. I have reviewed the financial reports and other financial information contained in the interim reports of Frutarom Industries Ltd. (the "**Company**") for the third quarter of 2016 (the "**Reports**");
2. To my knowledge, the interim financial reports and other financial information contained in the interim Reports do not include any false representations of any material fact and do not omit representation of any material fact required in order to ensure that the representations contained in these, in light of the circumstances under which such representations were included, are not misleading in relation to the period of the Reports;
3. To my knowledge, the interim financial reports and other financial information contained in the interim reports duly reflect the Company's financial situation, its results of operations and cash flow for the dates and periods to which the Reports relate in all material aspects;
4. I have disclosed to the Company's auditors, the Board of Directors and the Audit Committee of the Company's Board of Directors, based on my most updated assessment of the internal control on financial reporting and disclosure:
    a. All the material deficiencies and weaknesses in prescribing and implementing the internal control on the financial reporting and on the disclosure, if any, which may reasonably adversely affect the ability of the Company to gather, process or report on financial information in a manner which could raise concerns regarding the reliability of the financial reporting and the preparation of the financial reports in accordance to the provisions of the law; and –
    b. Any fraud, material or not material, which involves the president and CEO or anyone directly reporting to him or other employees who hold

significant positions in the internal control on the financial reporting and on disclosure;

5. I, alone, or together with others in the Company:

   a. Set controls and procedures, or ensured the existence and set up of controls and procedures under my supervision, designated to ensure that material information relating to the Company, including its consolidated companies as defined in the Securities Regulations (Annual Financial Reports), 2010, as may be relevant to the financial reports and other financial information contained in the Reports, is brought to my attention by others in the Company and the consolidated companies, particularly during the preparation of the Reports; and

   b. Set controls and procedures, or ensured the enactment and performance of controls and procedures under my supervision, designed reasonably ensure the reliability of the financial reporting and the preparation of the financial reports in accordance with the provisions of law, including in accordance with accepted accounting principles;

   c. No events or issues occurring during the period between the date of the last Quarterly Report (the report for the period ended June 30, 2016) and the date of this report, relating to interim financial reports and to any other financial information contained in the interim report, which could, in my opinion, change the Board of Directors' and management's conclusion regarding effectiveness of the internal report on the Company's financial statement and on the disclosure have been brought to my attention.

The above does not derogate from my lawful responsibility, or from the lawful responsibility of any other person.

Date: November 21, 2016

_____

Alon Granot
Executive Vice President and CFO