Frutarom Industries Ltd.

Annual Report
2015

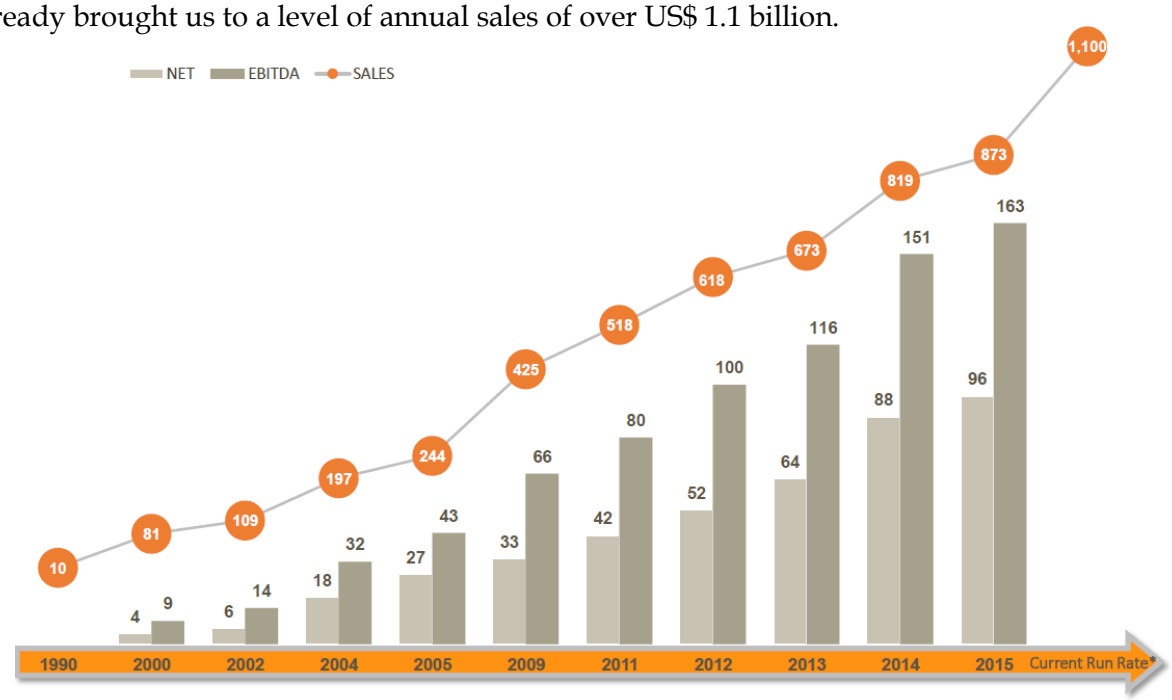
Frutarom Industries Ltd. 25 Hashaish St., P.O.B. 10067, Haifa 26110 Israel, Tel: +972-4-8462462, Fax: +972-4-8722517, www.frutarom.com

FRUTAROM
FOUNDED 1933

Dear Shareholder,

We are pleased to sum up another record year for Frutarom – a year in which we achieved another quantum leap in our journey of rapid and profitable growth, and in positioning ourselves as a leading global player in the fields of Flavors and specialty and natural Fine Ingredients.

The continued successful implementation of our strategy, combining profitable organic growth with strategic acquisitions, has led to our having grown from 2000 until today at an average annual rate of 19%, supported by rapid organic growth and the execution of 53 acquisitions, 29 of them in the past five years. Since 2000 our Flavors activity has grown at an average rate of 23% a year and Frutarom revenues and profits have increased more than ten-fold, from $81 million of revenues and an EBITDA of $9 million to record high revenues of approximately $870 million and EBITDA of $163 million, with net income reaching $96 million, more than doubling itself with respect to our net income in 2011.
From the beginning of 2015 until today we have quickened our pace of acquisitions by exploiting strategic opportunities, acquiring 15 companies. Adding these acquisitions has already brought us to a level of annual sales of over US$ 1.1 billion.



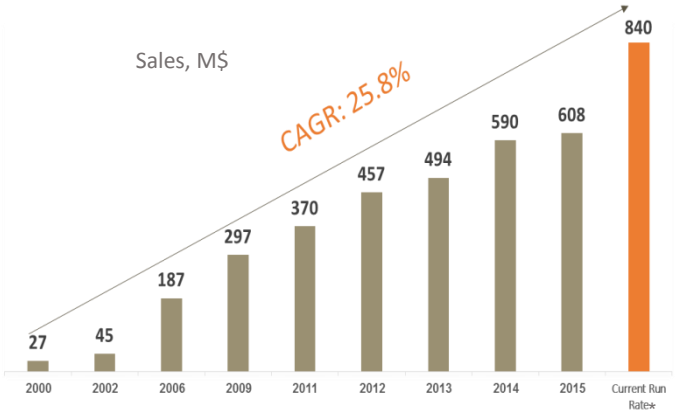
*Annual run rate of sales following the acquisitions and given current exchange rates

The trend of improvement in profits and profit margins of our core businesses, which include the Flavors and Specialty and Natural Fine Ingredients activities, is continuing. The ambitious goal we set for ourselves of reaching a 20% EBITDA margin in our core businesses by 2016 was already been reached in 2014 and profitability continued growing this year as well, reaching 21.1%. We are confident in our ability to continue fulfilling our ambitious strategic plans and strengthening our global position, to attain higher than market growth, and to continue improving our profits and profit margins. Following a thorough examination of our strategic plans for the next five years, our strong competitive position and our pipeline for future acquisitions, we decided to update and raise the sales target to US$ 2 billion with an EBITDA margin of over 22% from our core businesses by the year 2020.

Our strategic plan includes continuing to focus on five main areas:

a. Continued improvement of **our product mix** along with sustained rapid growth in the more profitable Flavors activity as well as in the Specialty Fine Ingredients activity, with a focus on unique and innovative natural products that combine taste and health and address the current and future preferences of billions of consumers worldwide;
b. Focusing on developing and providing unique added-value solutions to our **large multinational customers**, and providing a full and comprehensive portfolio of solutions in the fields of taste and health to **medium-sized and locally-based customers and to the private label sector**;
c. Continued improvement in our **geographic sales mix** while substantially increasing sales in North America and the expanding emerging markets (with emphasis on Southeast Asia, Latin America and Africa);
d. Reaping maximum benefit from the many **cross-selling opportunities** among our diverse operations, to which the acquisitions we performed and will perform also contribute;
e. Continued **improvement in our profit margins and profits** through maximum utilization of our resources, including resources gained through the acquisitions, along with the generating of significant operational savings, the building up a of global procurement system, and the reinforcing of our competitiveness.

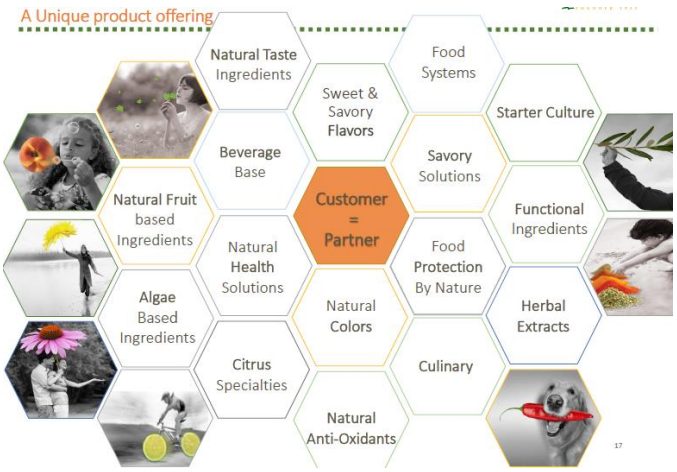
The successful implementation of our strategy to **significantly increase the share of the Flavors activity,** the more profitable of our activities, has led to Flavors making up a 70% share of total Frutarom sales in 2015 compared with 33% in 2000, while achieving higher than market organic growth rate, along with continued improvement in profits and margins.



*Annual run rate of sales following the acquisitions and given current exchange rates

Through the expansion of our Flavors activity and the contributions coming from the acquisitions we made in recent years, we have established market leadership in the field of savory taste solutions for which demand climbs as long as the shift to convenience foods continues.

In recent years we have focused on **developing and expanding the portfolio of natural products we offer our customers** 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 our unique capabilities in developing innovative and unique natural products geared to both taste and health give us a clear cut competitive edge:

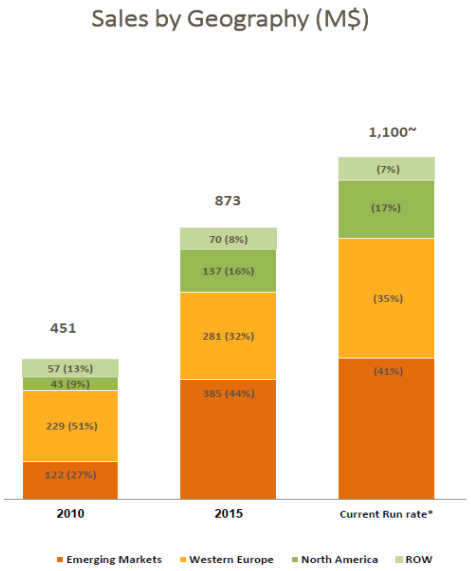


- We have continued expanding the portfolio of specialty natural products with healthy attributes that we offer our customers through our in-house R&D as well as through collaborations with universities, research institutes and startups, and also through acquisitions;
- We have entered the growing field of natural colors;
- We significantly expanded our activities in the growing field of Food Protection by Natural Solution (natural antioxidants that promote food protection);
- We have continued deepening our expertise in citrus-based products and in specialized biotechnologies for producing natural ingredients important in the production of flavors, foods and beverages, and have built an excellence center in Florida.
- We have invested in biotechnology to expand our product portfolio into functional foods, dietary supplements and natural algae-based products.

Today over 70% of Frutarom sales consist of natural products.

Frutarom's rapid expansion in North America and the fast-growing emerging markets was implemented with the support of profitable internal growth and strategic acquisitions, with a focus on improving Frutarom's geographic reach:

<u>Distribution of sales by geographic area 2010-2014:</u>



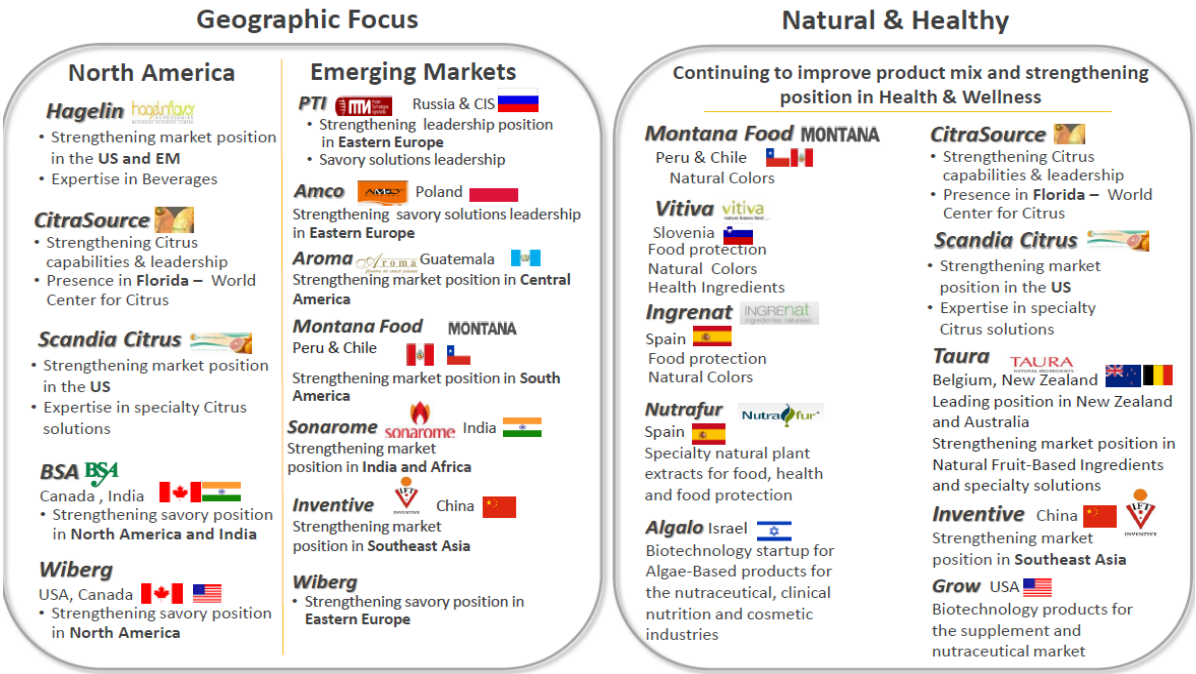
*Annual run rate following the acquisitions made

Over the last five years we have more than tripled our sales in emerging markets and their proportion of Frutarom's overall sales has risen from 27% in 2010 to 44% this year. At the same time we tripled our sales in North America, the world's largest market for flavors, while our Flavors activity in North America, on which we focused, grew six-fold. We built a growing activity in Flavors in Central and South America, Africa, India and in Southeast Asia, and have established market leadership in Eastern and Central Europe. We have also worked and will continue to work on focused reinforcement of our R&D, production, and sales and marketing platforms in our strategically targeted countries. Construction of Frutarom's new and advanced plant in China, which includes state-of-the-art laboratories for R&D and applications, has been completed and for the first time we will also be capable of developing and producing savory flavors locally in China. In addition, in the coming months the establishment of a new modern plant in South Africa that will serve the entire growing Sub-Saharan region is expected to be completed.

Strategic acquisitions and their contribution towards achieving profitable growth – Over the years we have developed extensive and successful experience performing mergers and acquisitions, and are working towards integrating the acquisitions and exploiting the many commercial and operational synergies they provide in order to achieve maximum benefit from the cross-selling opportunities, cost savings and improvement to our profit margins and competitive capabilities.

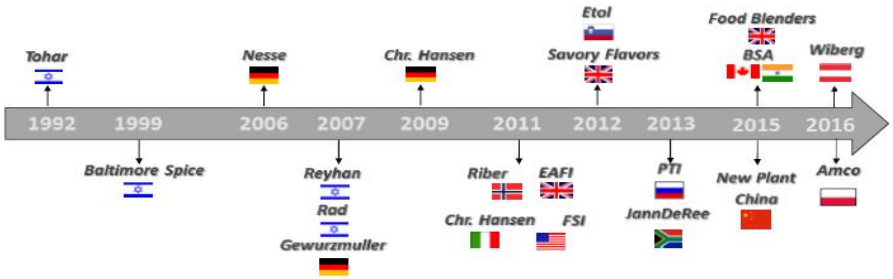
After carrying out 14 acquisitions from 2011 to 2014 which have been successfully integrated into our global activities and are contributing to sales growth as well as to improved profits and margins, we have continued pursuing our acquisitions strategy by purchasing 15 more companies since the beginning of 2015. In choosing which companies to acquire, we focused on penetrating new territories, on strengthening our position in strategically important territories of operation, and on increasing our market share in North America and in growing emerging markets. We also focused on acquisitions that enable us to expand our Flavors activity and our new and unique product and technology offerings, putting the emphasis on natural products that combine taste and health, natural colors and Food Protection by Natural Solutions.

Strategy Implementation – Expanding Geographic Reach and Focus on Natural Products in Carrying out Acquisitions (2013-2016)



As part of the expansion of our Flavors activity, we have followed a planned course over the past decade to build up global market leadership in the field of savory taste solutions as an important and strategic growth engine for us. We have acquired leading companies in their fields which have natural, healthy, innovative and unique solution and high added-value products, along with strong positioning in strategic target markets. The global savory taste solutions market is growing due to the rising standard of living and lifestyle and changes in consumer habits which have brought an increase in demand for processed and convenience foods both in home consumption and in eating out.

Creating Savory Solutions Leadership



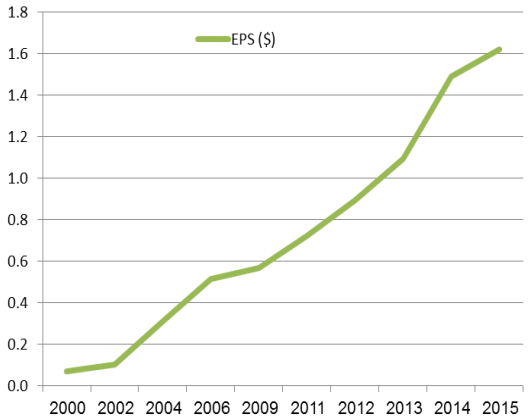
The acquisition of Wiberg at the beginning of 2016 provides significant reinforcement for our activity in this field. Wiberg is a leading international group with an excellent reputation and strong brand name in savory taste solutions, with special emphasis in the area of processed meats and convenience foods, along with growing activity focusing on innovative culinary solutions geared to the interesting and distinctive premium market of restaurants, catering firms and chefs. Wiberg has sales and marketing platforms in about 70 countries with a presence in Europe, North America, Africa and Asia, and a broad customer base that includes thousands of food manufacturers, including some of the leaders in their fields.

Frutarom's rapid sales growth in recent years has also translated into a significant increase in profits, profit margins and a strong cash flow:

In 2015 the gross margin for core activities (Flavors and Specialty Fine Ingredients) reached 40.9%. Operating profits for core activities rose 28.9% and reached a record level $134.2 million with an operating margin of 17%. EBITDA rose 25.6% to a record $166.6 million on a margin of 21.1%[1].

Net income and earnings per share climbed 32.3% and 32.6% respectively to reach $108.2 million and $1.87 per share compared with $93.0 million and $1.50 per share in 2014. Net margin reached 12.7%[1].

We are continuing to generate a strong cash flow from operating activities: The cash flow this year grew by 13.4% to reach a record $91.7 million.



[1] Included in the figures in this paragraph are figures on a constant currency basis and adjusted for nonrecurring expenses.

Contributing to the significant improvement in the profits and profit margins of the core businesses are the organic sales growth, the improvement in the product mix and measures we are taking to achieve maximum operational efficiency. We will continue working towards implementing and accomplishing additional projects for merging and joining together production sites and activities and for also attaining maximum efficiency in the areas of procurement, logistics and supply chain that will also contribute in the years ahead to strengthening our competitiveness and improving our margins and profits. These actions should bring about operational savings in the range of $20-22 million on an annual basis which will manifest themselves partly during 2016 and partly in 2017.
Work is also continuing according to plan on building and strengthening a global procurement platform that will exploit the purchasing power that has grown significantly over recent years, with a shift to purchasing directly from producers in source countries, mainly of natural raw materials (that make up more than 70% of our raw materials) which will also contribute to an improvement in purchasing costs and in gross margin.
Today Frutarom is a one of the leading global players in its field, positioned at the crossroads of the growing worlds of taste and health with a unique variety of products, a wide global reach, and a diversity of excellent customers, in keeping with its vision:

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

We have succeeded in achieving the ambitious goals we set for ourselves and have made a quantum leap in our activities. The continued successful implementation of our strategy, deeper penetration into North America and into emerging markets having higher than the average global growth rates, the steps we are taking to consolidate and optimize our operational resources and procurement, and the successful integration of our acquisitions, along with our excellent pipeline of future acquisitions and robust financial structure, will lead to a another quantum leap in Frutarom's revenues, profits and profit margins. We believe in our ability to continue accomplishing our strategic plan and our ambitious targets and reach sales turnover of at least $2 billion along with an EBITDA margin of 22% from our core businesses (Flavors and Specialty Fine Ingredients) by 2020, and to continue driving up value for our shareholders.

We are certain that with the cooperation of our employees, led by Frutarom's management and with the ongoing support of the members of the Board of Directors and from you, our shareholders, we can continue to develop, expand and successfully meet the ambitious goals and challenges ahead.

Sincerely Yours,

Dr. John Farber — Chairman of the Board of Directors

Ori Yehudai — President & CEO

March 17, 2016

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FORWARD-LOOKING STATEMENTS

This report includes forward-looking statements. Forward looking statements, as the term is defined in the Securities Law – 1968, include data, forecasts, evaluations, estimations or other information relating to future events or circumstances the occurrence of which is not certain and which are not solely in the Group's control. Forward-looking statements can be identified, among other things, by the fact that they include terms such as "it is the Group's estimate" or "the Group's management estimates", "the Group intends", "the Group believes" and other similar expressions. Forward looking statements include, among other things, discussions on strategy, plans, objectives, goals, projections, future events and intentions, including revenue, profit and profitability targets and plans relating to acquisitions the Company has made, and to the integration and utilization of business and operational synergies resulting from such.

By their nature, forward-looking statements are subject to uncertainties and risks. The actual results of the Group's activity, its financial state and development, including the realization of its strategy and goals, could be materially different to those described or discussed in this report.

The forward-looking statements appearing in this report are based on estimations made by the Group's management which are based, among other things, on the information available to the Group's management at the time of publication, including estimation regarding Frutarom's area of activities, goals, objectives, strategy, and future events and intentions.

The main factors which could cause the results of the Group's activities, financial status and development, including realization of its strategy and goals, to materially differ from those described in this report include, among other things, effects of the global economy; competition in markets in which the Group operates; changes in demand for the Group's products; the Group's failure to successfully identify or carry out future acquisitions of companies or activities; the impact of laws, regulations and standards, especially in the areas of environmental protection; health and safety; changes in currency exchange rates; and fluctuations in the prices of raw materials used by the Group and its ability to acquire these.

SECTION A

DESCRIPTION OF THE COMPANY'S BUSINESS

A

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The following terms will have the meaning ascribed to them:

"Algalo"	Algalo Industries Ltd.
"AMCO"	AMCO spółka z ograniczoną odpowiedzialnością of Poland
“Aroma”	The Panamanian company International Aroma Group which holds the Guatemalan Aroma group
"**BSA**"	Investissements BSA Inc.
“CitraSource”	The business activity and assets of CitraSource LLC and 100% of the issued share capital of CitraSource LLC Holdings of Florida, USA
“Directors' Report”	Report of the Board of Directors of the Company as of Dec. 31, 2015, attached as Chapter 2 to this report.
"EAFI"	East Anglian Food Ingredients Ltd.
"Etol"	FRUTAROM ETOL Tovarna arom in eteričnih olj d.o.
"Financial Statements"	The financial statements of the company as of December 31, 2015, attached as Chapter 3 to this report
"**FoodBlenders**"	FoodBlenders Limited (UK)
"**F&J**"	The US-based flavors company Crestmont Investment, which holds the entire share capital of The Foote & Jenks Corporation and Eden Essentials Inc.
"GDRs"	Global Depositary Receipts
"Grow"	Grow Company Inc. (USA)
"Hagelin"	Hagelin & Company Inc. and BRC Operating Company LLC
"Ingrenat"	Ingredientes Naturales Seleccionados, S.L
"Inventive"	Inventive Technology Ltd. and Prowin International Ltd. of Hong Kong and their subsidiaries
"JannDeRee"	JannDeRee(Pty)
	The flavors and natural colors for food division of the

"Montana Food"	Peruvian company Montana S.A.
Mylner	Mylner Indústria E Comércio Ltda and its parent company, Vila Osório Participações s/a
"**Nutrafur**"	Nutrafur S.A.
“PTI”	The Russian Protein Technologies Ingredients Group
"Savoury Flavours"	Savoury Flavours (Holding) Limited and its subsidiaries
“Scandia”	Scandia Citrus LLC (USA)
"Share"	Ordinary share par value NIS 1.00 of the Company - Frutarom Industries Ltd.
"Sonarome"	Sonarome Private Ltd. of India
"Taiga International"	Taiga International of Belgium
"Taura"	Taura Natural Ingredients Holding Pty Ltd. of Australia
The "Company"	Frutarom Industries Limited
The "Group" or "Frutarom"	Frutarom Industries Limited, including its consolidated companies
The "Companies Law"	The Companies Law, 1999
The "Ordinance"	Income Tax Ordinance (New Version)
The "Securities Law"	The Securities Law, 1968
"US$" or "USD"	United States dollar(s)
"Vitiva"	VITIVA proizvodnja in storitve d.d of Slovenia
"Wiberg"	100% of the shares of the Austrian company (holding, among others, 50% in Canadian subsidiary Wiberg Corporation and 51% in Turkish subsidiary WIBERG BAHARAT SANAYİ VE TİCARET ANONİM SİRKETİ formerly SAGEMA GmbH) and 100% of the shares of the German company Wiberg GmbH

All financial data in this report is in US dollars unless stated otherwise.

CHAPTER 1 – THE COMPANY'S BUSINESS AND ITS DEVELOPMENT

1. The Group's Activity and Description of its Business Development

General

1.1. Frutarom was incorporated in Israel in 1995 as a private limited stock company under the name Frutarom NewCo (1995) Ltd. In 1996 the Company's shares were listed for trading on the Tel Aviv Stock Exchange, and the name of the Company was changed to Frutarom Industries Ltd.

1.2. Frutarom Ltd., a wholly owned subsidiary of the Company through which the Company's business and production activities are held, was established in 1933 as Frutarom Palestine Ltd. Frutarom's operations initially consisted of the cultivation of aromatic plants and flowers for the extraction and distillation of flavor and fragrance substances and essential oils.

1.3. In February 2005 the Company raised capital from investment institutions in Israel and abroad by issuing shares and registering GDRs for trading on the London Stock Exchange Official List.

1.4. Frutarom is now a growing global company, one of the world's top ten companies in the field of flavors and specialty fine ingredients. Frutarom develops, produces and markets comprehensive solutions in the fields of flavors and specialty fine ingredients used for the production of food, beverages, flavor and fragrance extracts, pharmaceutical/nutraceutical products, cosmetics and personal care products, and other products. On December 31, 2015 Frutarom operated 46 production sites, 62 research and development laboratories, and 78 sales offices in Europe, North America, Latin America, Israel, Asia, Africa and New Zealand, marketed and sold over 43,000 products to more than 22,000 customers in more than 150 countries and employed about 3,700 people throughout the world. As of the date of this report, Frutarom operates 52 production sites, 66 research and development laboratories, and 84 sales offices, and markets and sells over 49,000 products to more than 28,000 customers in more than 150 countries and employs approx. 4,500 people throughout the world.

1.5. Frutarom operates in the framework of two main activities that constitute its core activities: its Flavors activity and its Specialty Fine Ingredients activity (the "**Core Businesses"**):

1.5.1. **Flavors activity** – In the framework of its Flavors activity, Frutarom develops, produces, markets and sells sweet and savory flavor solutions, including flavors 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, as well as new products to suit varying consumer preferences. In accordance with the Company's strategy, Frutarom's Flavors activity has grown rapidly and profitably by combining organic growth and acquisitions, and accounts for approx. 77% of the Company's total core activity sales and 70% of its overall sales (as opposed to 33% of overall sales in 2000).

This rapid growth is the result of (a) a focus on the fast growing area of natural flavors; (b) the development of unique innovative solutions combining taste and health for the market segment of large multinationals; (c) a focus on mid-size and local customers in emerging and developed markets – and private label manufacturers in particular, with emphasis on customized service as normally provided to large multinational customers, including technological and marketing support, assistance in developing products, and the offering of tailor-made products; and (d) the execution of strategic acquisitions which have and continue to be successfully integrated into Frutarom's global activities.

1.5.2. **Specialty Fine Ingredients activity** – In the framework of its 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 for food, natural antioxidants that help in providing solutions in the fields 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 added-value products which give it a competitive edge over its competitors. Most of the specialty fine ingredients in taste and health are natural products which enjoy higher-than-average growth in demand compared to non-natural products. In recent years Frutarom has been focusing on continuing to expand 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 about 23% of Frutarom's core activity sales and 21% of its total sales.

1.5.3. **Trade & Marketing activity** – 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 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 expanded following the acquisitions of Etol, PTI and Montana Food (as described below), focused mainly towards Central and Eastern Europe, Latin America and Israel. Sales in this field constitute approx. 9% of total Frutarom activity.

1.6. **Rapid Growth Strategy – Combining profitable internal growth with strategic acquisitions**

Frutarom has adopted a strategy which combines rapid and profitable internal growth together with acquisitions and the leveraging of the resulting synergies. In the framework of this strategy, Frutarom has focused in recent years on the following objectives:

- **Expanding and deepening the geographic reach** of its activities while stepping up its growth and deepening its market share in North America and in growing emerging markets such as in China and Southeast Asia, India, Central and South America, Central and Eastern Europe and Africa in order to capitalize on the growth potential and the abundance of business opportunities to be found there.

- **Increasing the proportion of its Flavors' Activity** – The successful implementation of Frutarom's rapid and profitable growth strategy has allowed Frutarom to significantly increase the share of its Flavors activity, the more profitable of its activities, achieving a higher growth rate than that of the markets in which it operates. Since 2000 Frutarom's Flavors activity has grown at an average annual rate (CAGR) of 23%. Sales in the field of Flavors now constitute about 70% of total Frutarom sales (as compared to 33% of total sales in 2000).

- **Developing new products and solutions combining taste and health** – Frutarom develops innovative taste and health solutions to suit its customers' requirements and their future needs. These solutions address the main needs and major trends in the global food market which include combining taste and health, medical supplements, anti-aging products and food products designated for certain populations and age groups. The added value offered by

Frutarom to its customers and its unique abilities in combining solutions for taste, natural colors, natural preservatives for Food Protection (see section 14.2), texture and ingredients with supplementary health qualities give the Company an important competitive edge among customers in both developed and emerging markets. Most of these new products carry higher margins and therefore contribute not only to sales growth but also towards improvement in Frutarom's product mix and its profitability.

- **Focus on natural products** – Frutarom is working towards developing and expanding its portfolio of natural products in response to consumer demand and to major trends in the global food market for healthier and more natural foods. This field is growing at a rapid pace and Frutarom's unique capabilities give it a competitive edge. In line with this strategy, Frutarom continues to expand the portfolio of specialty natural products that it offers its customers through internal R&D, through collaborations with universities, research institutes and startups, and through acquisitions. As part of the strategy of focusing on natural products with health-promoting attributes, last year Nutrafur and Vitiva were acquired and in 2016 Grow was acquired and an investment was made in Algalo. Frutarom further expanded its activity in natural products in recent years by entering the natural food colors field (by acquiring Montana Food, Vitiva, and Ingrenat) and by substantially increasing its activity in the area of natural antioxidants that promote Food Protection (through the acquisition of Vitiva, Ingrenat and Nutrafur). In addition, Frutarom has further strengthened its activity in the field of specialty citrus products, an important natural raw material in the development and production of flavors and many food and beverage products, and established a citrus excellence center in Florida, USA, one of the world centers for citrus (through its acquisitions of CitraSource and the activity of Scandia). Frutarom also increased its activity in the field of innovative natural solutions for incorporating fruit components into food products (by acquiring Taura and Inventive). As of the date of this report over 70% of Frutarom sales consist of natural products.

- **Focus on providing quality service and product development to large multinational customers and medium sized local customers** – Frutarom continues to expand the services it provides its customers as well as its portfolio of products and solutions, for both large multinational customers and mid-size local customers, with special emphasis on the fast growing private label market.

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

- In the mid-size and local customer segment of the market, which makes up the greater part (about 60%) of the food manufacturers market and includes the private label manufacturers, Frutarom offers the same high level of service as generally provided to large multi-national customers, with products and solutions tailored to the customer's specific requirements. Frutarom also offers mid-size and local customers as well as its private label customers, usually with more limited resources than large and multinational customers, assistance in the development of their products while providing marketing support and flexibility on minimum order quantities and delivery dates.

- **Acquisitions and mergers and their contribution towards achieving profitable growth** – Frutarom has extensive experience with successful execution of mergers and acquisitions, 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 operational savings opportunities and to achieve continued improvement in its profit margins.

  After executing 14 strategic acquisitions from 2011 to 2014 which have been successfully integrated with its global activities and contribute to both revenues growth and improved profitability, Frutarom continued carrying out its acquisition strategy, acquiring 11 companies in 2015 and completing the acquisition of four more at the beginning of 2016 with a focus on:
  (1) expanding its sales and market share in North America and 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 the portfolio of natural solutions it offers its customers in the areas of Flavors, Health, Colors, and Food Protection.
  Accordingly, in 2015 Frutarom acquired: Vitiva in Slovenia, FoodBlenders in the UK, Ingrenat and Nutrafur in Spain, Taiga in Belgium, Sonarome in India with activity also in Africa, BSA in Canada with activity also in India, Taura of Australia with production plants in Belgium and New Zealand along with activity in Europe, Asia and the US, US-based F&J and Scandia, and Inventive of Hong Kong with activity also in China. In addition, since the beginning of 2016 Frutarom completed the acquisitions of AMCO of Poland, of the Austrian company Wiberg, a world leader in savory taste solutions, and of US-based Grow. Frutarom also entered into a strategic collaboration with Algalo which develops specialty algae-based ingredients.

  Frutarom is working on successfully integrating the 15 acquisitions performed since the beginning of 2015 and fully extracting 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 integration of acquired activities and their monitoring while realizing synergies in the areas of R&D, sales and marketing, purchasing, production and logistics.

Frutarom sees 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 extraction of cross-selling opportunities and the many marketing and technological synergies contributed by these acquisitions, and for attaining the significant operational savings expected to start being reflected in its results in upcoming quarters[1].

For further information on the Company's growth strategy, see section 37 of this report.

1.7. The Company's main shareholder is the ICC Group[2] with holdings as of the date of this report of 21,358,034 shares, representing approx. 36.19% of the Company's share capital and 36.37% of its voting rights.

The Group Structure as of the date of publication of this report[3]:

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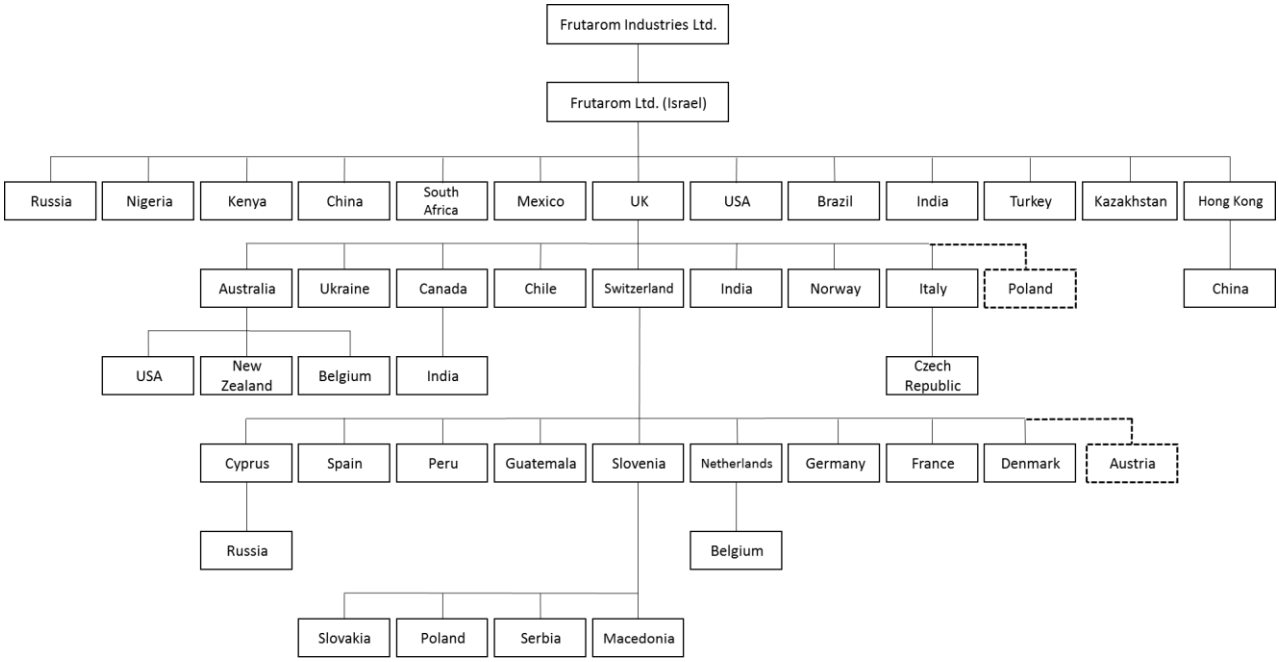
[1] The above-stated assessment concerning the synergetic potential of the acquisitions and attaining significant operational savings and the ancillary savings, including in connection with the Wiberg acquisition, constitutes forward-looking statement, as defined in the Securities Law,that rests upon 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.

[2] The above is held through subsidiaries of ICC Industries Inc. In addition to these shares, 48,888 shares (approx. 0.08% of the Company's issued and paid up share capital) are directly held by Dr. John J. Farber and his wife, Mrs. Maya Farber, the principal owners of ICC Industries Inc. who also serve respectively as chairman of the Company's board of directors and director of the Company. Their daughter, Ms. Sandra Farber, also serves as a director of the Company.

[3] The Group Structure is presented according to the main countries in which Frutarom operates (the **"Main Countries**"). Except for subsidiaries in South Africa, Turkey, Ukraine, Cyprus, India, Canada, Spain and Poland, the percentage held in all Group companies in the Main Countries is 100%. For further details regarding Frutarom's significant subsidiaries see Note 23 to the financial statements. The countries appearing in dotted lines are those where the relevant activity was acquired in 2016.



1.8. During the second half of the 1980s, upon the change of Frutarom's management, a new business strategy was adopted promoting substantial growth in the Company's international activities to turn Frutarom into a leading global company in its field by significantly expanding its Flavor operations, the Company's most profitable activity.

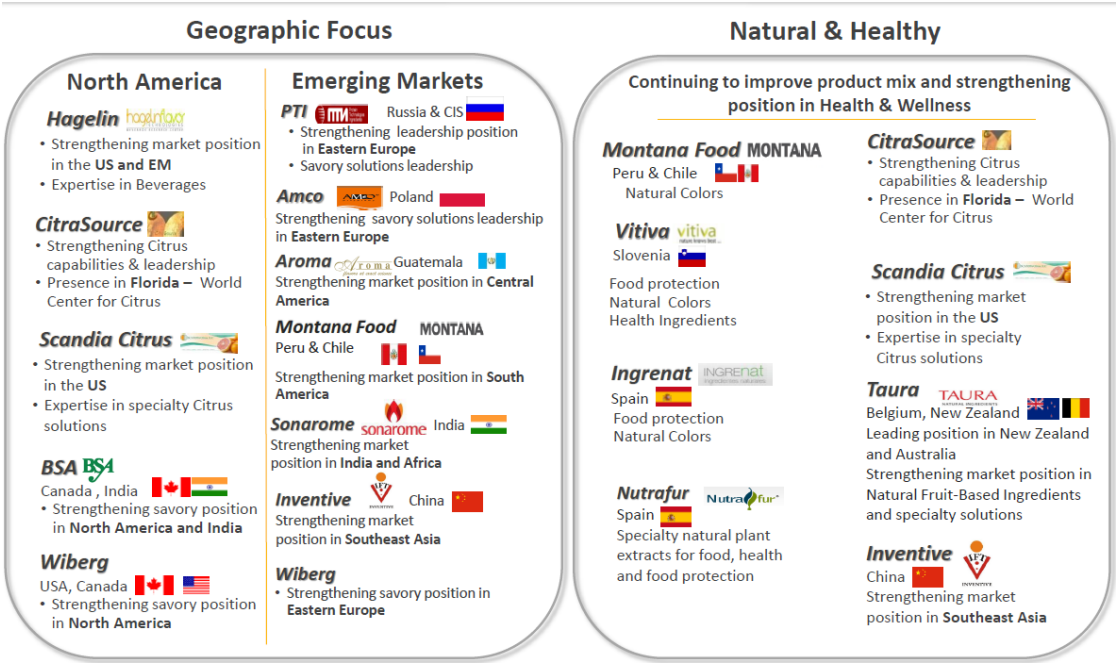
In the early 1990s Frutarom's management decided to expand its global activity by acquiring companies and operations within its fields of activity.

Since 2001 Frutarom has accelerated its growth by implementing a strategy combining profitable organic growth and the execution of strategic acquisitions in order to expand its business opportunities in both emerging and developed markets. Frutarom has significantly increased its mergers and acquisitions activity over these years, performing 42 acquisitions as of December 31, 2015 of which 25 were carried out over the past five years.

1.9. **Strategic acquisitions**

Frutarom is focused on identifying acquisitions that contribute to the realization of its rapid and profitable growth strategy, and primarily: (1) widening its market share in North America and in growing and emerging markets; (2) expansion in the field of flavors, while exploiting synergies with Frutarom's Flavors activity; (3) broadening Frutarom's portfolio of natural products and solutions, with particular emphasis on the area of taste, health, natural colors, and the area of Food Protection and the lengthening of shelf life based on natural ingredients.

Latest Acquisitions and their Support for Frutarom's Growth Strategy



1.10. Following are details of acquisitions executed by the Company over the past three years. 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.

1.10.1. **Acquisition of JannDeRee** – On May 2, 2013 Frutarom signed an agreement to acquire 100% of the share capital of the South African flavors company JannDeRee for approx. US$ 5 million (44.4 million Rand) and 5% of the share capital of Frutarom South Africa (Proprietary) Ltd. (valued at US$ 0.61 million). The acquisition was completed upon signing and was independently financed.

JannDeRee has a development, production and marketing site in Johannesburg, South Africa. JannDeRee also has a wide customer base in South Africa and other important developing countries in the sub-Sahara region such as Malawi, Zimbabwe and Mozambique. The acquisition of JannDeRee reflected Frutarom's strategy for boosting its activity in Africa's growing markets.

JannDeRee's sales in 2012 amounted to US$ 5 million[4].

The merging of Frutarom's activities in South Africa was completed in the third quarter of 2013. This included the consolidating of Frutarom's South African activities at the

[4] Sales figures in US dollars shown for each of the purchased activities relate to the average USD exchange rate for the period reported, and the purchase amount relates to the USD exchange rate on the day the transaction took place.

JannDeRee site along with the integration of management and the purchasing, production, supply chain, R&D and sales and marketing functions. A new modern production site will be opening in Johannesburg, South Africa towards mid 2016 containing advanced R&D and applications labs, from which Frutarom's activity in South Africa and the sub-Sahara region will be conducted.

For further information on the acquisition of JannDeRee, see the Company's immediate report from May 2, 2013 and Note 5l to the financial statements.

1.10.2. **Acquisition of control in PTI** – On November 18, 2013 Frutarom signed an agreement for the acquisition of 75% of the share capital of the Cypriot company Vantodio Holdings Limited ("**Vantodio**"), owner of the Russian PTI group, for US$ 50.3 million (based on a company value of US$ 67 million[3]). The acquisition agreement includes an option for the purchase of the remaining 25% of Vantodio's share capital by Frutarom starting after three years from closure of the transaction until the end of the fifth year based on a multiplier of between six and seven on the average EBITDA achieved over the three years preceding the option exercise and on other performance factors. The acquisition was completed on November 20, 2013 and was financed using bank credit.

PTI, established in 1996, engaged in the development, manufacture and marketing of unique and innovative savory solutions including flavors, seasoning blends and functional ingredients for the food industry (including specialty protein-based ingredients produced through advanced technology), with special focus on processed meat and convenience foods. PTI also has trade and marketing activity, providing customers with ingredients that it does not itself manufacture as part of the services it offers them in furnishing comprehensive solutions.

Frutarom's is taking action to capitalize on PTI's R&D, marketing and sales infrastructure in Russia and Eastern European markets where it operates, as well as its own global sales and marketing infrastructure, in order to leverage and realize the many cross-selling opportunities this acquisition brings by expanding both the customer base and its product portfolio according to plan. Frutarom has combined its activities with those of PTI in countries where both companies operate, exploiting synergies between the activities and achieving operational savings. The acquisition enabled Frutarom to reinforce and deepen its presence and market share in the key markets of Eastern Europe while expanding its product offerings and its R&D and sales and marketing platforms, reinforcing its local production capacity and improving service to customers in the region. Through this acquisition, Frutarom became one of the only global

manufacturers with a substantial production site in Russia and possessing one of the top R&D, sales, marketing and distribution infrastructures in the region and in the industry. Also contributing to raising Frutarom's market share in the region were sanctions imposed on the import of foodstuffs into Russia, changes in the exchange rate of local currency, and a preference by consumers for buying locally-made products.

For further information on the acquisition of PTI, see the Company's immediate reports from November 18, 2013 and November 20, 2013 and Note 5l to the financial statements.

1.10.3. **Acquisition of Aroma** – On November 25, 2013 Frutarom signed an agreement for the acquisition of 100% of the share capital of the International Aroma Group, a Panamanian company holding the Guatemalan Aroma group, for a net cash payment of US$ 12.5 million (US$ 13 million less Aroma's balance of cash and cash equivalents amounting to US$ 0.5 million). A future payment mechanism in the purchase agreement provides for an additional sum to be paid equal to the EBITDA in excess of US$ 2.25 million achieved over the years 2013 to 2015 under which the Company has paid so far an additional US$ 0.65 million. The transaction was completed upon signing and was independently financed.
Aroma, established in 1990, engages in the development, manufacture and marketing of flavor solutions, including mainly sweet flavors for beverages, dairy products, confectionery, snacks and convenience foods. Aroma has a production, development and marketing site in Guatemala City and a wide customer base which includes leading international food and beverage manufacturers as well as local food and beverage manufacturers in Guatemala, Honduras, Costa Rica, El Salvador and other developing countries, mainly in Central America.

This acquisition enabled Frutarom to strengthen and entrench its presence and market share in the important markets of Central and South America while expanding its product offerings and enlarging its R&D, sales and marketing infrastructure, strengthening local production capabilities and improving customer service in the region.

For further information on the acquisition of Aroma, see the Company's immediate report from November 25, 2013 and Note 5l to the financial statements.

1.10.4. **Acquisition of Hagelin** – On December 11, 2013 Frutarom signed an agreement for the acquisition of 100% of the share capital of the US flavors company Hagelin in return for US$ 52.4 million. The acquisition was completed upon signing and was financed through bank debt.

Hagelin develops, produces and markets flavors and unique flavor technologies for the food industry, with a focus on the growing segment of beverage flavors. Hagelin also specializes, among other things, in the development of advanced flavor technologies in the areas of sodium reduction, sugar and calorie reduction and flavor enhancement, and its customer base includes leading international food and beverage manufacturers as well as local food and beverage manufacturers in the US, the UK and in emerging markets, mainly Central and South America and Africa, with high growth rates.

Hagelin's activities in the United States and the UK have been integrated with Frutarom's activity in each of those countries with the merging of their production sites and utilization of the many synergies in the areas of sales and marketing, R&D and purchasing.

For further information on the acquisition of Hagelin, see the Company's immediate report from December 12, 2013 and Note 5l to the financial statements.

1.10.5. **Acquisition of CitraSource** – On February 24, 2014 Frutarom acquired the American company CitraSource, whose assets include, among others things, a plant for processing specialty citrus ingredients, as well as a refrigerated tank farm. The acquisition was made in return for a cash payment of US$ 7.1 million and was financed through bank debt. The purchase agreement also includes a mechanism for the payment of additional future consideration based upon CitraSource's results for 2014-2018. In accordance with this mechanism and in light of CitraSource's favorable results in 2014, the sum of US$ 968 thousand was paid in 2015. Following the acquisition of Scandia on July 28, 2015 the mechanism for additional future consideration was extended until 2019 and adjusted to reflect the merger of Scandia activity with that of CitraSource (see also Section 1.10.15).

CitraSource, founded in 2003, specializes in research and development, production, marketing and the sale of specialty citrus solutions to leading international customers in the flavor and fragrance and food and beverage markets. CitraSource's longstanding knowhow and excellent capabilities in producing unique natural substances and flavors from a variety of citrus sources (particularly oranges, lemons, grapefruits, and tangerines) are helping Frutarom to expand its natural products portfolio. CitraSource also has global purchasing capabilities in citrus and, in combination with Frutarom's capabilities, further strengthen Frutarom's position as a leading player in R&D, production and sales of specialty citrus solutions which are an important component in the development and production of many flavors and food and beverage products.

Sales for CitraSource in 2013 amounted to US$ 7 million.

For further information on the acquisition of CitraSource, see the Company's immediate report from February 25, 2014 and Note 5m to the financial statements.

1.10.6. **Acquisition of Montana Food** – On November 28, 2014 the Company completed the acquisition of Montana Food, the flavors and natural food colors division of the Peruvian company Montana S.A, for a cash payment of US$ 24.9 million plus the assumption of US$ 7.1 million in debt. The acquisition was financed using bank debt. The purchase agreement includes a mechanism for future consideration under which an additional payment will be made in the amount of twice the improvement in gross profit of the acquired activity in the 18 months following the closing of the transaction over the representing gross profit at the time of the acquisition.

Montana Food is one of South America's leading companies in the field of flavors and natural food colors. Its customers include some of the world's leading global food, beverages and flavor companies as well as manufacturers based locally in South America and Central America.

In addition to its flavors and natural colors activities which constitute its ***Core Business*** and reached US$ 29.5 million[3] in sales in 2013, Montana Food also engages in trade and marketing activity through which, as part of its service and the providing of comprehensive solutions to its customers, it markets ingredients that it does not produce itself. Sales from its trade and marketing activity in 2013 reached US$ 23 million[3].

Montana Food maintains a R&D, sales and marketing center and a modern, efficient production site in Lima, Peru with substantial capacity and the possibility for further extensive production expansion. The acquisition also included Montana Food's activity in Chile which includes an R&D and marketing center and a sales team for the Chilean market.

Following the acquisition Frutarom became the only global player in its field with a sizable production site in Peru as well as having one of the top leading R&D, sales, marketing and distribution platforms in the region.

Frutarom is working towards utilizing and integrating the R&D, sales and marketing infrastructure of the acquired activities with Frutarom's global R&D, sales and marketing infrastructure in order to leverage and capitalize on the abundance of cross selling opportunities generated by the acquisition, both through expanding the customer base and expanding the product

portfolio. The acquisition also constitutes a major boost to Frutarom's global activity in the growing field of natural colors for foods which Frutarom views as an area for strategic growth.

For further information on the acquisition of Montana Food, see the Company's immediate reports from September 30, 2014, October 14, 2014 and November 29, 2014 and Note 5m to the financial statements.

1.10.7. **Acquisition of FoodBlenders** – On February 2, 2015 Frutarom signed an agreement for the purchase of 100% of the shares of UK-based FoodBlenders for payment of approx. £1.6 million (approx. US$ 2.4 million) plus an additional performance-based) payment of approx. £574 thousand (approx. US$ 870 thousand). The transaction was independently financed.

FoodBlenders develops, manufactures, and markets savory solutions. Sales for FoodBlenders in 2014 amounted to about US$ 3 million.

FoodBlenders has a site in England where it develops, manufactures and markets its products which is located in close proximity to Frutarom's Wellingborough site, and it has a wide customer base which includes British food and private label manufacturers. FoodBlenders' product line and technologies complement the product portfolios and activities of UK-based Savoury Flavours and EAFI which were acquired by Frutarom in 2012 and 2011 respectively and which also specialize in savory flavor solutions. The operations of FoodBlenders have been merged with Frutarom's growing flavors activity in the UK.

For further information on the acquisition of FoodBlenders, see the Company's immediate report from February 3, 2015 and Note 5 to the financial statements.

1.10.8. **Acquisition of Ingrenat** – On February 2, 2015 Frutarom signed an agreement for the purchase of 100% of the share capital of the Spanish company Ingrenat in exchange for a cash payment of approx. € 4.3 million (approx. US$ 4.8 million) and the assumption of debt amounting to € 2.5 million (approx. US$ 2.8 million). The agreement includes a mechanism for future consideration that the Company expects will stand at approx. € 250 thousand (approx. US$ 279 thousand). The transaction was completed upon signing and was financed through bank debt.

Ingrenat specializes in the research and development, production, and sales and marketing of natural plant extracts which provide taste, color, and antioxidant activity solutions for the food industry. Numbering among its customers are food manufacturers and leading flavor, fragrance, and natural color producers. Ingrenat has an R&D and sales and marketing center, and a production

site in Murcia, Spain with large production capacity and the possibility of extensive expansion which Frutarom is taking steps to utilize towards significant operational savings. (For a description of Frutarom's activity in merging its natural extracts production systems, see section 1.10.16 on the Nutrafur acquisition). Frutarom is also working towards realizing the cross-selling opportunities inherent in the acquisition.

The acquisition of Ingrenat is a continuation of the implementation of the strategy of deepening and expanding Frutarom's activity in the growing fields of natural colors and antioxidants for food and Frutarom intends to continue investing in expanding its global activity in this important and growing field.

Ingrenat's revenues in 2004 stood at approx. US$ 9.8 million[3]. Its activity has been integrated into the activities of Frutarom's Specialty Fine Ingredients activity.

For further information on the acquisition of Ingrenat, see the Company's immediate report from February 3, 2015 and Note 5b to the financial statements.

1.10.9. **Acquisition of Vitiva** – On December 23, 2014 Frutarom signed an agreement for the purchase of 92% of the share capital of the Slovenian company Vitiva, and on April 23, 2015 completed the acquisition of the balance of Vitiva's share capital, in exchange for an overall cash payment of approx. € 8.0 million (approx. US$ 10.0 million). The transaction was independently financed.

Vitiva specializes in the research and development, production, marketing and sales of specialty natural plant extracts exhibiting antioxidant activity or scientifically proven health attributes backed up by clinical studies and of natural colors for customers in the food, pharmaceutical, nutraceutical, and cosmetics markets. Among its customers are some of the world's top food, pharmaceuticals, and cosmetics manufacturers. In addition, Vitiva has R&D abilities and a longstanding knowledge base of research for continuing to expand its current product portfolio and toward entry into other fields such as the field of pet food and livestock feed preservation. The natural food colors activity has added to the natural food colors activity of Montana Food which was acquired by Frutarom in September 2014 and with that of Ingrenat which was acquired by Frutarom in February 2015 in continuation of the implementation of Frutarom's strategy of penetration into the growing field of natural colors with the intention of continuing to invest in a major expansion of its global activity in this growing area.

Vitiva serves as a center for development and applications for Frutarom in Food Protection. Its natural colors activities has been merged with the Company's colors activity in Spain and Peru.

Vitiva's revenues in 2014 stood at US$ 11.0 million[3]. Its activity has been integrated into Frutarom's Specialty Fine Ingredients division.

For further information on the acquisition of Vitiva, see the Company's immediate reports from December 23, 2014, February 4, 2015 and April 26, 2015, and Note 5d to the financial statements.

1.10.10. **Acquisition of Taiga International** – On March 16, 2015 Frutarom signed an agreement for the purchase of 100% of the shares of the Belgian flavors company Taiga International in exchange for a cash payment of approx. € 2.7 million (approx. US$ 3 million). The transaction was completed at the time of signing and was financed using the Company's own resources.

Taiga has a broad customer base in North America and Europe and a site in Belgium for its production, research and development and marketing which has been integrated with Frutarom's existing production sites in Europe with the achieving of operational savings.

Taiga International's sales turnover in 2014 amounted to US$ 4.9 million[3].

For further information on the acquisition of Taiga International, see the Company's immediate report from March 18, 2015 and Note 5c to the financial statements.

1.10.11. **Acquisition of control in Sonarome** – On May 14, 2015 Frutarom signed an agreement for the purchase of 60% of the share capital of the Indian flavors and fragrances company Sonarome in exchange for approx. 1,104 million Indian Rupees (approx. US$ 17.7 million). The purchase agreement includes an option for Frutarom to acquire the remaining balance of shares beginning two years following completion of the transaction at a price based on Sonarome's business performance. The transaction was completed upon signing and was financed through bank debt.

Sonarome, which was founded in 1981, engages in the development, production and marketing of flavors and fragrances. Sales of Sonarome grew in recent years at a double-digit annual rate, reaching approx. US$ 12 million in 2014[3].

Sonarome's manufacturing, marketing, and research and development are based in Bangalore, India where it has additional production capacity. In addition to its activities in India, Sonarome has extensive activity in about 20 African markets, particularly in Nigeria, South Africa, Ethiopia, Kenya and Mozambique, which also constitute key growing target markets in Frutarom's growth

strategy. Sonarome has a broad customer base that includes global and local food and beverages manufacturers.

The acquisition of Sonarome constitutes another important step for Frutarom towards attaining its goal of expanding its activity in the emerging high-growth markets of India and Africa, both through internal growth and by means of acquisitions. Frutarom is continuing to develop and deepen its presence in the important markets of India and Africa and is integrating Sonarome's R&D and sales and marketing platform with its own global R&D and sales and marketing infrastructure in order to leverage and realize the many cross-selling opportunities arising from this acquisition. Frutarom is also working towards leveraging Sonarome's production capabilities and supply chain in order to expedite its growth in India. The acquisition provides Frutarom with the advantages of a global manufacturer having a local R&D and production platform for shortening delivery time and improving service level to customers in the region. In addition to its flavors activity, Sonarome maintains a growing activity in the field of fragrances, particularly in India and the emerging markets of Africa, and Frutarom is working towards utilizing this platform for penetrating additional emerging markets.

For further information on the acquisition of Sonarome, see the Company's immediate report from May 14, 2015 and Note 5e to the financial statements.

1.10.12. **Acquisition of BSA** – On May 15, 2015 Frutarom signed an agreement for the purchase of 95% of the share capital of Canadian company BSA for a cash payment of approx. CAD 45 million (approx. US$ 36 million). The purchase agreement includes an option for Frutarom to acquire the remaining balance of shares beginning two years following the transaction at a price based on BSA's future business performance. The transaction was completed on June 1, 2015 and financed through bank debt.

BSA has a large and efficient production site in Montreal and employs around 140 people. BSA's primary activity is the development, production and marketing of unique and innovative savory flavor solutions that include seasoning blends and functional ingredients for the food industry, with particular focus on the areas of processed meats and convenience foods. The company also conducts activity in India. BSA sales in 2014 (for the 12 months ended August 2014) stood at approx. US$ 34 million[3].

For further information on the acquisition of BSA, see the Company's immediate report from May 17, 2015 and the report from June 2, 2015 on the completion of the transaction, and Note 5f to the financial statements.

1.10.13. **Acquisition of Taura** – On June 18, 2015 Frutarom signed an agreement for the purchase of 100% of the share capital of the Australian company Taura for a cash payment of approx. € 62.7 million (approx. US$ 71.0 million). The purchase agreement includes additional future consideration of approx. € 3 million (approx. US$ 3.5 million) conditional upon Taura's business performance for the 12-month period ending June 30, 2016. The transaction was completed at the time of signing and was financed through bank debt. Taura's sales for the 12-month period ending March 31, 2015 amounted to about US$ 40 million[3].

Taura is a leading globel player in in its field with manufacturing facilities in New Zealand and Belgium along with sales offices in the United States and in the UK and a workforce numbering 130 employees. Its main activity is the development, production and marketing of innovative solutions through its unique Ultra Rapid Concentration (URC®) technology for delivering natural fruit ingredients to a wide range of food products, particularly health snacks, breakfast cereals, confectionery, convenience foods and baked goods. Taura's URC® ingredients raise the percentage of the final product's fruit content, improve and enhance their flavor and texture, and lengthen shelf life through the use of natural ingredients and flavors.

Taura has a broad customer base that includes leading global and national food and beverage makers in the United States, the Asia-Pacific region and Europe. Taura's activity is largely synergetic with Frutarom's global Flavors activity into which it was integrated, enabling Frutarom to broaden and reinforce its supply of natural products and offer a portfolio of products and solutions that combine fruit components, natural flavors and colors, and ingredients with high nutritional value while continuing to expand and deepen its activity and market share.

The acquisition accelerates the growth of Frutarom's activity in Asia-Pacific markets, with emphasis on Australia and New Zealand, as for the first time Frutarom has a production site and R&D and sales and marketing platforms in New Zealand. Taura has long-established relationships with leading customers in these countries that enable Frutarom to offer them the full range of its products. Frutarom is working towards merging its sales platforms with Taura's, and customers throughout the world are offered the full variety of Frutarom's and Taura's innovative, unique and comprehensive capabilities and technologies in the fields of taste and health.

For further information on the acquisition of Taura, see the Company's immediate report from June 18, 2015 and Note 5g to the financial statements.

1.10.14. **Acquisition of F&J** – On June 29, 2015 Frutarom signed an agreement for the purchase of 100% of the share capital of F&J in exchange for a cash payment of approx. US$ 4.2 million. F&J's sales turnover in 2014 totaled approx. US$ 2.9 million. The transaction was completed at the time of signing and was financed through bank debt. Frutarom is taking steps towards transferring F&J's production activities to its plant in Cincinnati, Ohio to attain operational savings.

For further information on the acquisition of F&J, see the Company's immediate report from June 30, 2015 and Note 5h to the financial statements.

1.10.15. **Acquisition of the business activity and assets of Scandia** – On July 28, 2015 Frutarom signed an agreement for the purchase of the business operations and assets of Scandia located in the US state of Florida in exchange for a cash payment of approx. US$ 6 million. The transaction was completed at the time of signing and was financed through bank debt.

Scandia specializes in the research and development, manufacture, and sales and marketing of specialty solutions in the field of citrus for leading global customers in the flavor, food and beverages markets, and its activity is largely synergetic with that of CitraSource which was acquired by Frutarom in 2014. Scandia's sales in 2014 totaled approx. US$ 8 million. Scandia's activity has been successfully merged with that of CitraSource.

For further information on the acquisition of Scandia's activity, see the Company's immediate report from July 29, 2015 and Note 5i to the financial statements.

1.10.16. **Acquisition of control in Nutrafur** – On September 3, 2015 Frutarom signed an agreement for the purchase of 79% of the share capital of the Spanish company Nutrafur for approx. € 7.9 million (US$ 8.8 million). The transaction was completed upon signing and financed through bank debt.

Nutrafur specializes in the research and development, manufacture, and sales and marketing of specialty natural plant extracts bearing antioxidant properties or scientifically proven healthy qualities and supported by clinical studies for the food, pharma, nutraceutical and cosmetics markets. Nutrafur sales for the 12-month period ending June 2015 amounted to approx. US$ 13 million[3].

Nutrafur has an R&D and sales center and an efficient manufacturing site in Murcia, Spain with large production capacity and the possibility for considerable expansion. The company has around 67 employees, of which about 10 are engaged in R&D and have advanced academic degrees and expertise in various fields.

Nutrafur's production site is in close proximity to that of Ingrenat which was acquired in the first quarter of 2015, and this geographic proximity between the sites provides maximum operational flexibility in terms of the use of various extraction technologies as well as use of the various manufacturing systems in the framework of optimizing Frutarom's global supply chain. The acquisition, combined with the acquisitions of Vitiva and Ingrenat, allows for significant operational savings in Frutarom's global manufacturing structure in the area of natural extracts and in the fields of purchasing, production, logistics, and marketing of the Company's solutions in these fields, which Frutarom is working on realizing. In this regard, in the fourth quarter of 2015 Frutarom closed down its site in New Jersey, that until then was its largest site for natural extracts, and transferred its activity to it sites in Slovenia and Spain.

The acquisition fits in with Frutarom's strategy to continue the rapid development and production of natural functional solutions that combine taste and health in response to consumer demand and the major trends in the global food market towards healthier and more natural foods.

For further information on the acquisition of control of Nutrafur, see the Company's immediate report from September 6, 2015 and Note 5j to the financial statements.

1.10.17. **Acquisition of Inventive** – On December 8, 2015 Frutarom signed an agreement for the purchase of 100% of the share capital of Inventive for US$ 17 million (part of which includes assuming debts of Inventive). The purchase agreement includes a mechanism for future consideration conditional on Inventive's business performance over the three year period following the acquisition. The transaction was completed at the time of signing and financed independently and through bank debt.

Inventive engages in the development, manufacture and marketing of flavors and flavor inclusions through the application of innovative solutions and unique technologies for combining flavors with fruit components, chocolate, grains and nuts in many food products, particularly dairy products, ice creams, pastries and beverages.

Inventive has a manufacturing, research and development, and marketing site at Zhàoqìng in southern China with excess production capacity, as well as an R&D and sales center in Shanghai which will be merged with Frutarom's R&D and sales and marketing center at its new plant in Shanghai. Inventive also has sales and marketing offices in Hong Kong. Frutarom is working on merging its R&D, marketing and sales with those of Inventive.

Inventive has a broad customer base which includes blue-chip global food and beverage makers along with leading Chinese food and beverage manufacturers, and its products are sold in China, Southeast Asia, the Middle East and South America. Inventive's management maintains excellent long-lasting relationships with these customers and Frutarom is looking to utilizing relations in favor of the abundant cross-selling opportunities and to link together the R&D and sales and marketing platforms.

Sales for Inventive in the 12 months ending October 2015 reached US$ 13.7 million[3].

For further information on the acquisition of Inventive, see the Company's immediate report from December 9, 2015 and Note 5k to the financial statements.

1.10.18. **Acquisition of control in AMCO** – On November 10, 2015 Frutarom signed an agreement for the purchase of 75% of the share capital of the Polish company AMCO for approx. US$ 20.7 million (82.25 million PLN). The purchase agreement includes an option to acquire the remaining balance of shares starting two and a half years from the closing date of the transaction at a price based on Amco's future business performance. The transaction was completed on January 11, 2016 and was financed through bank debt.

AMCO has 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 70 employees, including 12 engaged in R&D with advanced academic degrees. AMCO's main activity is R&D, production and marketing of unique and innovative savory flavor solutions that include seasoning blends, marinades, and functional ingredients for the food industry.

AMCO sales in the 12-month period ending September 2015 reached approx. US$ 19.5 million (approx. 71 million PLN)[3].

The activity of AMCO is synergetic to a large extent with Frutarom's activities and enables Frutarom to strengthen its product portfolio in the field of savory and to continue expanding and deepening its activity and market share in Poland and neighboring countries.

Following the acquisition, Frutarom's flavor activities in Poland is being merged with AMCO's, while for the first time Frutarom has a local production site in Poland that enables Frutarom to improve service and delivery times to customers. AMCO's founders who have been running it 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 report from November 11, 2015 and the immediate report from January 12, 2016 on the completion of the transaction, and Note 22a to the financial statements.

Acquisition of Wiberg – On December 14, 2015 Frutarom signed agreements for the purchase of 100% of the share capital of Wiberg for approx. US$ 130.4 million (€ 119.1 million). The transaction was completed on January 28, 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 specialty and innovative savory taste solutions that include flavor extracts, seasoning blends and functional ingredients for the food industry, with special emphasis on processed meats and convenience foods as well as growing activity focused on innovative culinary solutions for restaurants, catering firms and chefs which together constitute a distinctive and premium market. Wiberg employs some 670 employees 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 as well. 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.

Wiberg's activity is largely synergetic with Frutarom's activity in savory taste solutions and is expected to enable Frutarom to reinforce its supply of products in this field with emphasis on the field of culinary solutions and on offering Wiberg's wide selection of products and solutions to its customers throughout the world. Frutarom intends to utilize its global sales and marketing infrastructure to leverage and realize the many cross-selling opportunities generated by this acquisition by expanding both the customer base and the product portfolio.

Frutarom also intends to take steps to maximize the reaping of operational synergies between its own activities and those of Wiberg in the various countries in order to achieve operational efficiencies and maximal savings estimated[5] at more than US$ 12 million (on an annual basis), most of which is expected to be attained towards the end of 2016 and part in 2017. As part of this effort, Frutarom intends to close its site at Stuttgart. In addition, steps have already begun being taken in merging the R&D,

[5] See footnote no. 1 above with respect to forward-looking statement.

marketing, sales and raw material purchasing platforms in various countries. The substantial Wiberg activity is also now expected to join the global purchasing system being built by Frutarom, with emphasis on the purchase in source countries of raw materials for the manufacture of its products as well as on maximum future exploitation of the economies of scale built up by Frutarom in recent years.

Wiberg has highly qualified and professional personnel who will contribute much towards the successful business integration between Frutarom and Wiberg and help accelerate Frutarom's growth in the area of savory.

According to Wiberg's managerial reports, its sales in 2015[6] amounted to approx. US$ 172 million (approx. € 155 million)[3].

The acquisition was funded through short-term bank financing from local banks at annual interest of 0.95% - 1.2%. The Company is working on replacing this financing with a long-term loan.

For further information on the acquisition of Wiberg, see the Company's immediate report from December 14, 2015 and the immediate report from January 31, 2016 on the completion of the transaction, and Note 22b to the financial statements.

1.10.19. **Investment in Algalo** – On January 3, 2016 Frutarom signed an agreement for investing in Algalo whereby Frutarom will invest a total of NIS 10 million (approx. US$ 2.56 million) to be used mainly 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 has been granted worldwide exclusive marketing rights for Algalo products. NIS 5 million of the overall amount was paid in cash, with the balance to be paid subject to the attaining of milestones set in the agreement. The transaction was completed at the time the agreement was signed and was financed through bank debt.

Algalo is a biotech startup that has developed a unique and innovative 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.

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

The unique growing method developed by Algalo provides for the efficient and competitive cultivation of algae containing high concentrations of active elements.

Algalo's activity will join Frutarom's well-established activity in the area of algae cultivation and production of active ingredients (polysaccharides) being sold to some of the world's leading cosmetics companies for use in skin protection and skin care products.

For further information on the investment in Algalo, see the Company's immediate report from January 4, 2016 and Note 22c to the financial statements.

1.10.20. **Acquisition of Grow** – On January 11, 2016 Frutarom signed an agreement for the purchase of 100% of the share capital of Grow in exchange for approx. US$ 20 million. The purchase agreement includes a mechanism for future consideration conditional on 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 debt.

Grow has many years of accumulated know-how and unique biotechnological production methods for producing natural nutritious ingredients with health-promoting qualities that are scientifically-proven and 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 will work towards capitalizing on the many cross-selling opportunities arising from the acquisition and supporting 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 food items. This is a fast-growing area in which Frutarom's unique capabilities give it a competitive edge.

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

For further information on the acquisition of Grow, see the Company's immediate report from January 12, 2016 and Note 22d to the financial statements.

Frutarom is well positioned business-wise and competitively to continue implementing its rapid and profitable growth strategy through, among other things, 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 while tapping their inherent cross-selling opportunities and synergies, together with a strong acquisition pipeline, will allow the Company to continue meeting its strategic goals, expand its portfolio of natural and specialty products combining taste and health solutions, and to continue expanding its activity in North America and in emerging markets and improve the operational efficiency of its resources.

The consolidation trend in the industry where Frutarom operates is continuing. Frutarom, one of the world's 10 largest companies in flavors and specialty fine ingredients,[7] continues to be among the market's leading and most active companies in performing acquisitions. Frutarom's management will continue investing substantial resources in locating and pursuing additional acquisitions which suit its strategy of rapid and profitable growth.

The Company believes that its robust equity structure, the strong cash flow it generates and the backing it enjoys from leading financial institutions will enable it to continue implementing its acquisitions strategy.

2. The Group's Fields of Operation

2.1. Frutarom is a global company that develops, manufactures, markets and sells comprehensive solutions in the fields of flavors and specialty fine ingredients used in the production of food and beverages, flavors and fragrance essences, pharmal/nutraceutical products, cosmetics, personal care and other products.

2.2. Frutarom has two main activities, each constituting a main field of operations which is reported as a business segment in the Company's consolidated financial statements (see also Note 6 to the financial statements) and considered by Company management as being Frutarom's Core Businesses: the Flavors activity and the Specialty Fine Ingredients activity. For information regarding their activities, see section 1.5 above.

2.3. Frutarom's growth strategy is based on identifying the future trends in consumer preferences and in the food and beverage markets, and adjusting its activity accordingly to quickly provide its customers comprehensive solutions that address consumer demand and preferences. Recent years have seen a rapid shift by food and

[7] Source: Leffingwell & Associates, January 2016

beverage companies to the use of natural flavors, ingredients and colors, with particular focus on functional foods and on reduced fat, sodium and sugar products, as well as clean-label products, that are viewed as having healthier and more nourishing and environmentally friendly qualities. This shift has also been due to the evolving of regulatory standards in many countries throughout the world that limit the use of certain materials and lead to improved nutritional properties in foods and beverages, resulting in manufacturers needing to employ innovative technologies and solutions based on natural products. Consumer awareness towards proper and healthy nutrition has not compromised demand that products remain tasty despite less sugar and salt being used and the addition of healthy ingredients that often leave an aftertaste.

Another notable trend over recent years is a rise in the number of hours the average consumer spends outside the home and, as a result, growing demand for ready-made and convenience food that is both tasty and healthy. This trend is supported by the rise in the scope of disposable income for consumers and their willingness to increase their spending on processed foods and convenience products, and on products perceived as healthier. A continuing trend of demand by consumers for healthier and more natural food can be seen in developed markets, and increasingly in emerging markets as well. Frutarom has identified these trends and uniquely positioned itself as a supplier of comprehensive solutions combining taste and health. Maximizing the synergies between its varied activities enables Frutarom to offer its customers excellent scientifically-based taste solutions along with added health qualities, with emphasis on the use of natural ingredients. The combination of its various activities also allows Frutarom to provide its customers with solutions for improving texture and prolonging the shelf life of their products (important qualities for processed food manufacturers in the production of convenience food) based on the inclusion of innovative, natural ingredients.

2.4. The ability to offer comprehensive and integrated solutions in the fields of flavors and health (as shown by the diagram below) means substantial added value for Frutarom customers, giving the Company a strategic advantage and differentiating it from its competitors.

3. ***Investments in the Company's Capital and Transactions in its Shares***

3.1. To the best of the Company's knowledge, no material investments in the Company's capital or any material transactions in the Company's shares were performed outside the stock exchange during the years 2014-2015 by any interested party in the Company.

3.2. For further information on the Company's repurchase of its own shares as part of the compensation plans for Company employees, see Note 12(b) to the financial statements.

4. ***Distribution of Dividends***

4.1. Following are details on dividends declared by the Company and distributed dividends to its shareholders in the past two years:

Year	Dividend Per Share (NIS)	Total Sum (NIS 000's)	Total Sum (US$ 000's)	Distribution Date
2014	0.28	16,292	4,712	May 4, 2014
2015	0.38	22,291	5,774	May 4, 2015

The above-stated dividend distributions did not require court approval.

4.2. Distributable retained earnings as of December 31, 2015 amount to US$ 533,880 thousand. Upon approval of the financial statements for the period ended December 31, 2015 the Board of Directors declared a dividend of NIS 0.41 per share, a 7.9% increase over the previous year's dividend.

4.3. The Company does not have a dividend distribution policy. The Company's decisions on dividend distribution depend on several factors including the Company's level of profitability, investment plans and strategic acquisition pipeline, among others. The Company intends to continue distributing dividends to its shareholders in the future. However, there can be no certainty that any such dividend will be declared and distributed in the future or that any dividend distributed in the future will be in accordance with the above.

4.4. On February 16, 2012 the Company undertook limiting its distribution of dividends in the framework of a revision to its financial covenants, which will permit it to distribute:

(A) Up to 50% of retained earnings accumulated up to December 31, 2011 as presented in the Company's 2011 balance sheet.

(B) Up to 50% of the Company's annual net income in each calendar year as presented in the Company's financial statement relating to the same calendar year in which this income was accrued.

For further information, see the Company's immediate report dated February 16, 2012.

CHAPTER 2 – OTHER INFORMATION

5. Financial Data Regarding the Company's Fields of Activity

5.1. Sales for Frutarom in 2015 as reported in USD grew 6.5% to reach an annual record of US$ 872.8 million and reflect constant currency growth in pro-forma terms[8] of 4.9% compared with 2014. Substantial changes in the exchange rates of currencies in which the Company operates as against the US dollar had a negative 13.3% impact on sales growth in pro-forma terms. Following the acquisitions performed in 2015 and 2016, Frutarom's current rate of annual sales as of the date of publication of this report[9] has reached approx. US$ 1.1 billion.

For a breakdown of Frutarom's sales by field of activity, see section C to the Board of Directors' discussions of the Company's state of business in the Directors' Report (Results of Operations in 2015).

5.2. Following are the Group's financial figures for 2013 through 2015 by field of activity:

2015 (US$000)		**Field of activity**		**Consolidation Adjustments**	**Total Core Business**	**Trade & Marketing**	**Consolidated**
		Flavors	**Fine Ingredients**				
Sales	From external customers	607,534	180,918	-	788,452	84,344	872,796
	From other fields of activity	-	4,026	(4,026)	-	-	-
Total Sales		607,534	184,944	(4,026)	788,452	84,344	872,796
Expenses	Expenses constituting sales for other fields of activity	4,026	-	(4,026)	-	-	-
	Expenses not constituting sales in other fields of activity	494,757	166,044	267	661,068	81.474	742,542
Total Expenses		498,783	166,044	(3,759)	661,068	81.474	742,542
Operating Income [10]		108,751	18,900	(267)	127,384	2,870	130,254
Operating income attributed to non-		1,580	503	-	2,083	-	2,083

[8] Assuming the Company's Profit & Loss Statements for 2014 were translated into USD terms according to its average exchange rates in 2015, and assuming the acquisitions performed in 2015 had been consolidated in the appropriate equivalent period of 2014 and that Montana Food, acquired during the fourth quarter of 2014, had been consolidated as of January 1, 2014 ("**Pro-forma Terms**").

[9] Including the acquisitions performed until the date of publication of this report and assuming the exchange rates known as of the date of publication of this report.

[10] Total consolidated operating income includes operating income attributed to non-controlling interests.

controlling interests						

2014 (US$000)		Field of activity		Consolidation Adjustments	Total Core Business	Trade & Marketing	Consolidated
		Flavors	**Fine Ingredients**				
Sales	From external customers	589,763	151,264	-	741,027	78,520	819,547
	From other fields of activity	-	7,111	(7,111)	-	-	-
Total Sales		589,763	158,375	(7,111)	741,027	78,520	819,547
Expenses	Expenses constituting sales for other fields of activity	7,111	-	(7,111)	-	-	-
	Expenses not constituting sales in other fields of activity	485,447	138,885	450	624,782	75,841	700,623
Total Expenses		492,558	138,885	(6,661)	624,782	75,841	700,623
Operating Income [11]		97,205	19,490	(450)	116,245	2,679	118,924
Operating income attributed to non-controlling interests		1,174	444	-	1,618	-	1,618

2013 (US$000)		Field of activity		Consolidation Adjustments	Total Core Business	Trade & Marketing	Consolidated
		Flavors	**Fine Ingredients**				
Sales	From external customers	494,389	139,597	-	633,986	39,707	673,693
	From other fields of activity	-	5,994	(5,994)	-	-	-
Total Sales		494,389	145,591	(5,994)	633,986	39,707	673,693
Expenses	Expenses constituting sales for other fields of activity	5,994	-	(5,994)	-	-	-
	Expenses not constituting sales in other fields of activity	419,641	128,354	150	548,145	38,791	586,936
Total Expenses		425,635	128,354	(5,844)	548,145	38,791	586,936
Operating Income [9]		68,754	17,237	(150)	85,841	916	86,757
Operating income attributed to non-controlling interests		232	618	-	850	-	850

[11] Total consolidated operating income includes operating income attributed to non-controlling interests.

5.3. Nature of consolidation adjustments: Intercompany purchases, sales, and profits and losses are eliminated in adjusting for consolidated results.

5.4. Explanation of developments: For an explanation on developments occurring in the data shown above, see the explanations appearing in the Directors' Report for the year ended December 31, 2015.

5.5. Allocation of costs shared jointly by the Flavor and Specialty Fine Ingredients activities is performed at the site level where resources are shared between both activities and according to the relevant load parameters for each of the shared resources. Any change to the load parameters requires the preapproval of Company management. There have been no significant changes in the allocation rates for shared costs in recent years.

6. Market Environment and the Effect of External Factors on Company Activity

Market Environment – Global Flavor and Fragrance Industry

Frutarom operates in the global flavors and specialty fine ingredients markets.

6.1. The global market for flavors, fragrances, and raw materials for these industries was estimated at US$ 25 billion[12] in 2013. Frutarom has nearly no activity in the fragrance market but does operate in the natural functional food ingredients market as well as the natural colors market (which are not included in the above estimate). Accordingly, the Company believes that the scope of sales in the markets in which it operates stands at approx. US$ 25 billion. Based on data from Leffingwell & Associates, Frutarom ranks among the top ten companies worldwide in the field of flavors and fragrances.

6.2. Market research firm IAL Consultants[13] projects sales in the flavors markets of industrialized countries (the USA and Western Europe) growing at an annual rate of about 2.4% from 2013 to 2018. According to these projections, the growth rate in emerging markets such as Asia, Central and South America, Eastern Europe and Africa is expected to be higher as a result of changes of consumer preferences in these markets and a shift to processed foods, and may reach an average annual rate of 4.0% between 2013 and 2018.

[12] Leffingwell & Associates, January 2016, and Frutarom estimations
[13] IAL Consultants, January 2015, and Frutarom estimations

6.3. It is common to view the Flavor and Fragrance (F&F) market as a single integral market. Manufacturers operating in the F&F market can be broken down into three main groups: (1) Large global companies; (2) Medium sized global companies; (3) Small and locally-based companies.

The large global companies operate throughout the world and have sales turnover of over US$ 2.5 billion. There are four such companies in the global F&F market: Givaudan, Firmenich, IFF Inc. and Symrise; and they generally focus on large multinational food and beverage manufacturers. Based on figures published by Leffingwell & Associates, it is believed this group represents about 56% of the market.

The medium-sized global companies, Frutarom among them, generate between US$ 400 million and US$ 1.2 billion in revenues. There are about eight medium-sized companies in the global F&F market, some primarily with a regional focus (such as Japan) while others like Frutarom operate in the global market. This group is believed to make up about 26% of the market based on figures published by Leffingwell & Associates.

It should be pointed out that the vast majority of small locally-based companies, which have sales turnover of less than US$ 400 million, are much smaller with sales ranging from several million to several tens of millions of US dollars. These companies generally focus on small local customers and have limited capabilities in the areas of R&D, innovation, and in providing customized services to their customers. This group numbers over 800 companies and is estimated to make up about 18% of the market based on figures published by Leffingwell & Associates.

6.4. The flavors and fine ingredients market in which the Company operates is characterized by high entry barriers such as:

- Long-term relationships: The market is characterized by long-term relationships between manufacturers and their customers, which include mostly the food and beverage, flavor and fragrance extracts and pharmaceutical/nutraceutical industries. Much importance is given in these industries to supplier reliability, quality of service, and the manufacturers' understanding of their customers' needs.
- Research and development: Since end user preferences are constantly changing and the markets in which customers operate are dynamic and competitive (particularly the foods and beverages market), the market is characterized by an abundance of new and innovative products. Manufacturers therefore need to invest heavily in R&D and offer a wide range of new products, either at the initiative of the flavor manufacturer or at the customer's initiative in collaboration with the flavor/ specialty fine ingredient manufacturer.

- Compliance with quality and regulatory standards: Flavor and fine ingredients products are mainly intended for use by the food and beverage and pharmaceutical/nutraceutical industries which are subject to strict quality and regulatory standards. Manufacturers are therefore required to meet the same strict standards. Recent years have seen a trend towards increasingly stringent quality and regulatory standards which could even further impair the competitiveness of small flavors manufacturers and raise the entry bar to new players.
- Importance of flavorings in the final product: Flavor additives determine the taste of the end product and therefore play a critical role in its success. Moreover, flavor additives cannot be precisely replicated and their cost is marginal compared with the end product's overall cost, so customers tend to avoid switching flavor manufacturers.
- Investment in production capacity for specialty ingredients: Considerable capital investment is required for building up production capacity for specialty ingredients. Such investment constitutes a significant entry barrier for new manufacturers in the industry.

In light of the entry barriers described above, penetration into the market by new manufacturers is mainly accomplished through mergers and acquisitions. Overall, the market is in the process of consolidation with a diminishing number of manufacturers.

CHAPTER 3 – DESCRIPTION OF THE COMPANY'S BUSINESS BY FIELD OF ACTIVITY

6.5. Frutarom is a global company that develops, manufactures, markets and sells comprehensive solutions in the field of flavors and specialty fine ingredients used in producing foods, beverages, flavor and fragrance extracts, pharma/nutraceuticals, cosmetics, and personal care and other products. Frutarom has two principal fields of operation, each constituting a main field of activity: Its Flavors activity and its Specialty Fine Ingredients activity. The Company considers these activities as constituting its Core Business.

6.6. In addition to its core activities, Frutarom also engages in the import and marketing of various raw materials that it doesn't produce on its own as part of the service and providing of comprehensive solutions to its customers. The trade and marketing activity is synergetic and supportive to Frutarom's Core Business, leveraging its sales, supply chain, global purchasing, and management systems. This allows the Company to offer its customers, particularly those in emerging markets that are medium-sized or locally-based, a wider variety of products, solutions, and added value and to deepen its partnership with these customers. This activity was expanded following the acquisitions of Etol, PTI and Montana Food, and is focused mainly towards Central and Eastern Europe, Latin America and Israel.

6.7. The Company's various activities are largely complementary and synergetic. This synergy is expressed in a number of areas:

- Sales and marketing: Frutarom's sales and marketing policy is having a single dedicated salesperson work with each customer and provide sales services for the full range of Frutarom products. Specialty Fine Ingredients activity products to the food and beverage industry are sold through the Flavors activity's sales personnel. The Trade & Marketing activity also plays a complementary role by leveraging Frutarom's sales, supply chain, and global purchase systems, allowing Frutarom's other activities to offer comprehensive solutions to customers.

- Research and development: The knowhow of the personnel in the Flavors activity and their familiarity with the needs of the food and beverage manufacturers and with consumer trends enables the Company to develop new and innovative specialty fine ingredients for the food and beverages industry.

- Operations: Some of Frutarom's production sites and supply chain system are jointly used by Frutarom's different activities.

- Specialty Fine ingredients: Most of the specialty fine ingredients produced by Frutarom are sold to third parties. However, part of the fine ingredients is used by Frutarom's own Flavors activity, and

some is used exclusively by Frutarom for the development and production of unique taste and health solutions, giving the Company a competitive advantage.

In light of the considerable synergy between its activities and Frutarom's focus on providing comprehensive solutions combining flavor solutions and specialty fine ingredients, some possessing healthful qualities, along with ingredients for helping create texture and richness of the food product, it is not always possible to separate the fields of activity on the basis of their various attributes.

Flavors Market

7. Overview of the Flavors Market

General

7.1. Flavor products are the key foundations for providing taste in processed foods and beverages, and as such play a significant role in determining consumer acceptance of the end products in which they are used.

7.2. Global sales in the field of flavors in 2014 amounted to approx. US$ 12.5 billion.[14] Flavor products are sold primarily to manufacturers of prepared foods, beverages, dairy products, bakery products, processed meat and fish products, confectionery products, oral hygiene products, pharmaceuticals, pet food and tobacco products.

7.3. The global market for flavors has expanded rapidly over the last 60 years, mainly a result of growing demand as well as an increasing variety of consumer end products containing flavors. Increasing demand for consumer goods containing flavor products is due to global population growth along with changing consumer preferences resulting from rising personal income, demographic changes, the rise of leisure pastimes, growing awareness of health issues and urbanization. These factors have led to an overall increase in the number of food and beverage products containing flavor additives and to significant growth in demand for convenience foods and products containing natural and health-promoting elements.

[14] Leffingwell & Associates, October 2015, and Frutarom's estimation

7.4. The following table shows 2013 sales in the flavors market by geographic region and their projected average annual growth rates:[15]

Region	Estimated world consumption in 2013 (US$ million)	Average annual growth expected for 2013-2018
Western Europe	2,187	2.4%
Eastern Europe	946	3.0%
North America	2,583	2.9%
Latin America	1,277	3.6%
Asia	3,885	4.8%
Mideast and Africa	727	4.7%
Total	**11,605**	**3.7%**

7.5. According to the above estimates, the largest market in flavors in 2013 was Asia which accounted for 33.5% of the global market, followed by North America with 22.3%. With regards to growth rates projections for 2013 to 2018, the Asian market is expected to grow the fastest (4.8%) followed by the African and Middle Eastern market with an expected annual growth rates of 4.7%.

Frutarom has successfully increased its penetration into the growing markets of Asia, North and South America, Eastern Europe, the Middle East and Africa, and will continue to work towards accelerating its penetration into these markets by, among other things, focused strengthening of its R&D, production, marketing and sales platforms in important target countries, taking advantage of the synergies from acquisitions completed over the past few years, along with continuing to carry out further strategic acquisitions. The Company is also working towards continuing to expand its activity in Western European markets by leveraging its broad product portfolio and continuing to capitalize on its cross-selling opportunities.

Characteristics of the Flavors Market

7.6. Reliable and quality service: Food and beverage producers, the main customers of flavor manufacturers, expect reliable and quality service to meet their needs in terms of support and lead time while also maintaining high quality, regulatory standards, and strict safety criteria. These expectations entail the formation of long-term relationships between flavor producers and their customers. As a result, large multinational customers as well as more and more medium-sized customers have been steadily reducing the number of their flavor suppliers to a select list of authorized suppliers, thereby creating an entry barrier for small manufacturers of flavors.

[15] IAL Consultants, January 2015

7.7. Research and development: Development of flavor products in general and of new flavor extracts in particular is a complex, creative and technological process that calls for knowledge and skills on the part of a flavor manufacturer's R&D personnel. Effective R&D is critical in ensuring a continuous stream of innovative new products and in maintaining profitability and growth for any flavor manufacturer.

The initiative for developing new flavor products can originate from the flavor manufacturer itself or from a customer in need of a certain flavor for an end product under development. So in order to anticipate market demand, the flavor manufacturer's R&D team needs to be very familiar with taste preferences in target markets as well as with the end products. In addition, as most flavors are tailor made for specific customers, close cooperation with the customer is required. The formulas for these flavor products are commercial secrets, usually remaining the property of the flavor manufacturer. Since most flavor products are customized for the needs of the specific customer, the customer usually refrains from switching flavor suppliers over the lifespan of the end product.

7.8. Low price sensitivity: Since flavor products determine how the end product tastes, they play a vital role towards its success. Flavor products also cannot be precisely copied, and their cost compared to the overall cost of the end product is negligible. Therefore, when selecting a flavor supplier, the customer will place greater emphasis on the reputation, innovation, service, quality and consistency of the supplier than on the price of the flavors extracts, so demand for flavor products is generally less sensitive to changes in their price.

7.9. Production processes: Flavor products in general and flavor extracts in particular tend to contain many different ingredients (typically more than dozens of ingredients per flavor) which are blended according to unique formulas created by the manufacturer's R&D team. The production processes involved in the manufacture of flavor products are less complex and capital intensive than those used in producing fine ingredients, but producing flavor products demands skill and knowhow to achieve the required level of quality and consistency.

7.10. High and relatively stable profitability: As the flavors market tends to be characterized by long-term relationships and relatively low price sensitivity, along with relatively uncomplicated production processes, it generally enjoys high and stable profit margins (also in comparison to the fine ingredients market).

7.11. Entry barriers: For details regarding the entry barriers characterizing the flavor market, see section 6.4 above.

Characteristics of the Food and Beverage Market

7.12. The main customers of flavors manufacturers are food and beverage producers, and therefore the flavors market is generally driven by trends characterizing the demands and needs of the end consumers in the food and beverages market. According to Data Monitor, global sales in the food and beverage market amounted to US$ 4,595 billion in 2014[16]. Frutarom estimates that medium-sized, local and small food and beverage producers (having annual turnover of less than US$ 1 billion) comprise over than 60% of global sales. Although there has been a general trend towards consolidation in the food and beverage industry, Frutarom believes that mid- and small sized food and beverage producers and local food and beverage producers will continue to comprise a considerable share in this market and play a significant role.

7.13. The large flavor manufacturers (having annual sales turnover exceeding US$ 2.5 billion) tend to focus mainly on large multinational food and beverage producers, offering these customers a high level of service and the development of flavors specifically tailor-made to their needs. Frutarom believes these flavor producers give less attention to medium-sized and local customers, offering such customers limited service, and do not devote many resources towards developing flavors customized to fit their needs. However, the Company believes medium-sized and local food and beverage producers require the same high level of service and the tailoring of products to their needs as the large multinational producers, as well as short lead times and flexibility in order quantities. Small and local flavor producers often do not have the product variety and service capabilities for providing the support needed to answer their varied needs. A specific example of this type of customer is the private label customer (see section 7.17 below). This situation creates a business opportunity for flavor producers not included in this group to focus more on servicing this large market segment. For details regarding Frutarom's Favors activity with medium-sized food and beverage producers, see section 8.3 below.

7.14. The food and beverages market is characterized by several main trends that affect the flavors market, as follows:

7.15. Local and global tastes: Taste preferences vary geographically and between different cultures so Flavor manufacturers must have a thorough knowledge of the local tastes in each of the countries where they operate. It is therefore important for a global flavor manufacturer to maintain a physical presence in its target markets and direct contact with local customers in order to understand local tastes and to be able to respond quickly and efficiently to changing consumer preferences. At the same time, globalization is also having an impact

[16] Datamonitor Jan. 2016, Euromonitor and Frutarom estimations

on the flavor industry as multinational food and beverage customers launch the same brand in a number of different markets simultaneously, often changing the taste profile to adapt it to the differing preferences of varied populations worldwide. For details regarding Frutarom's global geographic reach and familiarity with local flavors, see section 8.2 below.

7.16. Preference for natural products: Demand is on the rise for food and beverage products containing natural ingredients and possessing dietary and nutritional value (reduced fat, salt, sugar, etc.) since natural products are generally perceived by consumers as being of higher quality, healthier and more environmentally friendly. There has also been growing demand for "clean label" and organic products. As a result, natural food and beverage products are viewed as premium products that command higher prices. This trend has created new opportunities for flavor manufacturers in developing new and innovative natural flavor products that combine solutions for both natural colors and for use in natural substances for Food Protection solutions and extending shelf life. Frutarom focuses on developing and producing natural products and over 70% of its products are now natural. In developed markets most of the growth derives from a shift by consumers to products considered healthier and more natural and their willingness to continue purchasing such products even during an economic slowdown.

Food Industry Goes Natural

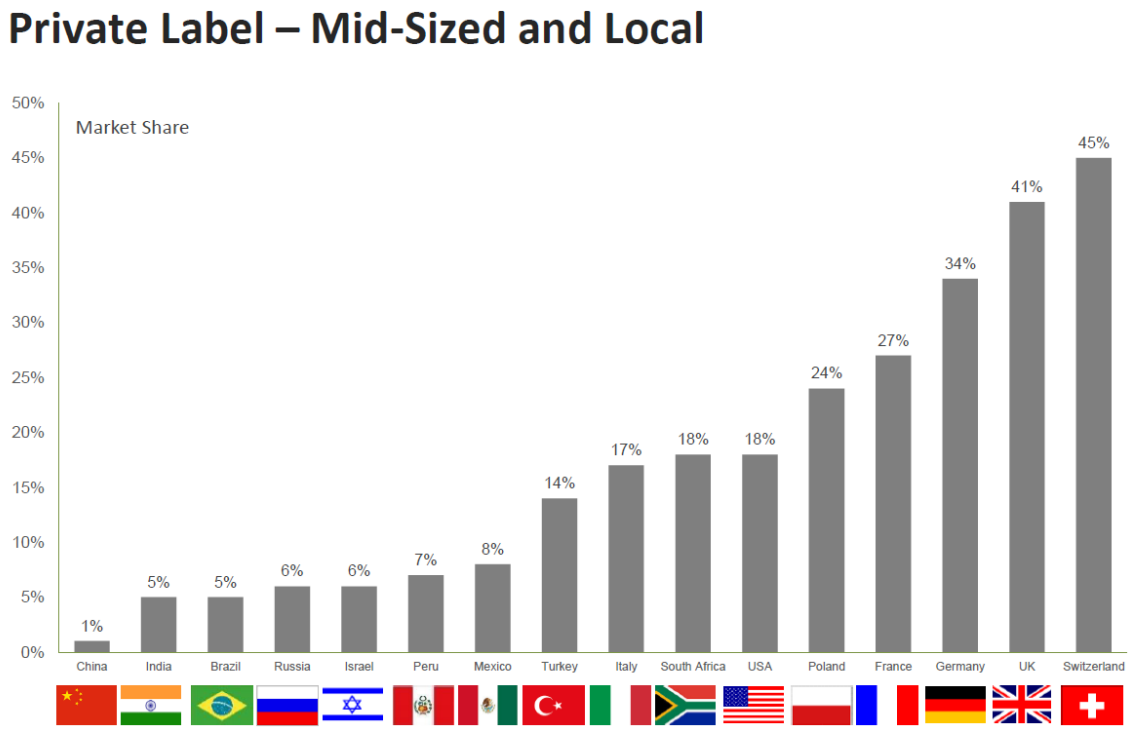
- Dropping low-calorie sweetener aspartame from Diet Pepsi due to consumer's preference for soft drinks that are free of artificial sweeteners.
- Nestle USA removing artificial flavors and FDA certified colors from all Nestle chocolate candy by end of 2015
- Nestle UK removing all artificial ingredients from all its confectionary in the UK
- Removing artificial flavors from most products and replacing them with natural alternatives, as of this year.
- Removing artificial colors by end of July 2015.
- Replacing artificial preservatives and additives by end of 2017.
- Replacing synthetic colors and artificial preservatives from best selling classic Macaroni & Cheese starting 2016.
- Collaborating with Evolution Fresh to Let Simple Ingredients Shine in New Smoothies and Greek Yogurts, as customers are looking for foods with fewer ingredients that are minimally processed and taste great.
- Transforming to cleaner label across all brands to meet consumer trends for food made with real, simple ingredients.
- aiming to stop using artificial colors and flavors in its cereal and snack bars by the end of 2018.
- growing pressure to remove synthetic ingredients from products due to health concerns

7.17. Private label: Private label manufacturers, mostly medium-sized, local or small food manufacturers, constitute a growing segment in the flavor market. Over the last decade, with the strengthening of supermarket chains and growing consumer price consciousness, demand and consumption of private label products faster than for the brand food industry. This trend, which gained momentum in 2009 due to the global economic crisis, has continued over the following years as well and is expected to continue in the years ahead. Consumers who have tried out private label products tend to continue using them after enjoying a positive experience. In addition, the growing power of supermarket chains and their determination to increase their operating margins have led them to push towards strengthening their private label sales by, among other things, allocating large amounts shelf space and broadening the range of products. In markets where private labels are especially strong, such as Switzerland, Spain, the UK and Germany, their market share has reached 34% to 45%.[17] Supermarket chains, grocers and other retailers have also become aware of the importance of supporting their own private brand image. The demand from grocery chains and retailers for private label products that are similar to existing products in the market and distinctive premium products and their willingness to launch more innovative products has provided flavor and specialty fine ingredients manufacturers with new opportunities. We have also seen the

[17] According to Statista.com 2015 – Private label market share in 2013 was 45% in Switzerland, 41% in Spain and the UK, and 34% in Germany.

beginning of a trend towards penetration by private labels in emerging markets as well. For example, from 2012 to 2014 private label activity in India rose by 27%.[18] Frutarom focuses on private label manufacturers and makes strategic cooperative ventures with them in which it provides them with a high level of added value by, among other things, offering marketing and technological support, the development of innovative products, and reduction in costs, and it intends to continue expanding its market share among these customers, both in emerging markets and in developed markets.

The following graph shows the rates of penetration by private label products in various countries:[19]



7.18. Increasing consumption of convenience foods: Demand is on the rise for processed foods providing a greater degree of convenience (used for both home and away) such as "ready to eat" meals, fresh pasta, fresh ready-to-cook seasoned or marinated meat and poultry, salads and dressings. This has created new opportunities for flavor manufacturers, particularly those in the fields of savory flavors and functional fine ingredients which are responsible for giving food products their texture and extending their shelf life, to develop and market flavor products and specialty fine ingredients for this large market segment.

7.19. Emerging markets: Over the last few years the increase in consumption of flavored products in emerging markets, such as Asia,

[18] The Nielsen Company, November 2014
[19] The Nielsen Company, November 2014

Central and South America, Central and Eastern Europe and Africa has been higher than the average growth rate for the global flavors industry. These markets have also been experiencing rising consumption of processed foods which has driven the growth of medium-sized, local and small food companies and created new market opportunities for flavor manufacturers. Frutarom expects that the continual shift to processed foods and changes in consumer habits in these markets will bring about continued growth in these markets at a higher rate than the expected pace of growth in developed markets.

Critical Success Factors in the Flavors Field

7.20. Company management believes that the critical success factors in the field of its flavor activities are:

- Long-term relationships – Long-term relationships with customers and collaboration in the development of new products;

- Global and local presence in target markets – Familiarity with the various taste preferences in the various markets and the ability to provide global and local support to customers. For details regarding Frutarom's expansive geographic reach, see section 8.2 below;

- Superior and reliable service – The flavor manufacturer's reliability and ability to provide first-rate service are critical for medium-sized and local customers as well as multinational customers;

- Presence in emerging markets – Many emerging markets are growing at considerably higher rates than developed markets. A presence in these key regions, an understanding of their special needs, and the ability to provide support to manufacturers in these markets all constitute critical success factors;

- Research and development and innovation – The ability to develop new products, whether at the flavor manufacturer's initiative or in collaboration with customers, has enormous importance;

- Compliance with quality, regulatory and safety standards – Since flavor extracts are intended mainly for the food and beverage and pharmaceutical markets, they must comply with strict quality, regulatory and safety standards;

- Purchase of raw material – It is becoming increasingly important to allocate resources towards focusing on purchasing from countries which serve as important sources for numerous natural raw materials, such as China, India and Brazil, while expanding the circle of suppliers, maximizing the potential for reducing costs through a global purchasing system, and tightening ties with raw material manufacturers, processers and growers, particularly in the area of natural raw materials, in order to guarantee their continuous

and reliable supply over time and to bring about improvement in purchase costs.

8. Products, Services and Added-Value Provided from Flavors Activity

Frutarom's Flavors activity, the most profitable of its activities, has been experiencing rapid growth since 2000. The Company's sales from flavors grew from US$ 26.5 million in 2000 to US$ 607.5 million in 2015.

This rapid growth is the result of (a) a focus on the fast growing area of natural flavors; (b) the development of unique innovative solutions combining taste and health for the market segment of large multinationals; (c) a focus on mid-size and local customers in emerging and developed markets – and private label manufacturers in particular, with emphasis on customized service as normally provided to large multinational customers, including technological and marketing support, assistance in developing products, and the offering of tailor-made products; and (d) the execution of strategic acquisitions which have and continue to be successfully integrated into Frutarom's global activities.

8.1. The relative portion of the Flavors activity as a percentage of Frutarom's overall activity grew from 33% in 2000 to 70% in 2015.

8.2. Since the success of many of the flavors produced by Frutarom depends on its familiarity with local tastes, as of December 31, 2015 the Company's Flavors activity maintains 50 R&D laboratories and 68 marketing and sales offices in close proximity to its customers in target markets. In addition, Frutarom's global spread enables it to introduce new tastes to local markets. Frutarom's global reach also allows it to fill the needs of food and beverage producers on launching global brands in various markets simultaneously.

8.3. Frutarom's Flavors activity provides an efficient, high quality solution towards the quick growth of its customers' private label products, providing assistance and support in developing the products and from a marketing perspective. Most private label manufacturers are medium-sized, local food and beverage producers. Frutarom offers such customers technological support, assistance in developing products and in marketing, and a wide selection of products, along with service suited to their particular needs and flexibility in minimum order quantities and lead delivery times. Frutarom's acquisitions over the last few years have considerably expanded the portfolio of products that it can offer private label manufacturers and have expanded its global reach which allows it to be nearer to such customers.

8.4. Frutarom's Flavors activity offers a wide variety of flavor solutions designed to create new tastes, enhance existing tastes, and/or mask certain tastes in processed foods and beverages.

8.5. Most flavor products consist of numerous raw materials (flavors, for example, typically contain dozens of raw materials including, among others, fruit extracts, vegetables and spices) combined according to unique formulas developed in Frutarom laboratories by the Flavors activity's R&D team. The development of a new flavor may be undertaken either at Frutarom's own initiative or based on specific requirements of its customers and in close collaboration with them. Frutarom also offers its customers solutions that include, besides flavors, natural functional ingredients that contribute to the product's nutritional value and the health of the consumer, help extend the product's shelf life, as well as natural colors (for more information, see section 13 below). These ingredients are the basis for the branding of the end product and thereby tighten the Company's long-term relationships with its customers.

8.6. Frutarom's flavor products can be divided in different ways: by application (beverage, dairy, snacks, confection, processed meat and fish, etc.), by source of raw materials (natural, organic, artificial), by taste (sweet, savory), by form (liquid, powder, emulsion, granulated, paste), and by other methods.

8.7. Applications: The flavors produced by the Company are used primarily as ingredients in consumable goods manufactured by food and beverage producers and are suited for different types of applications such as soft drinks, juices, dairy products, ice cream, pastries, confectionery, chewing gum, and a variety of savory foods including snacks, convenience foods, ready-made soups, and salad dressings, as well as processed meat and fish, meat substitutes, pharmaceuticals and pet foods.

8.8. Source: Frutarom offers natural, organic, nature-identical and artificial flavor products. The natural flavors are produced strictly from natural ingredients which include, among other things, natural extracts, essential oils spices and fruit and vegetable components. Nature-identical and artificial products include synthetic raw materials. Some Frutarom flavor products contain specialty fine ingredients made by the Company's Specialty Fine Ingredients activity exclusively for the Flavors activity.

8.9. Taste: Frutarom produces both sweet and savory flavors. The sweet flavors are used primarily for beverages, dairy products, ice creams, pastries and confections. The savory flavors are used primarily in the production of snacks, salty pastries, processed meat and fish, and convenience foods. Frutarom also produces unique seasoning mixes and functional ingredients for producers of processed meat, poultry and fish, as well as a variety of flavors for meat substitutes designed to help give a meaty flavor to products that contain no meat.

8.10. Texture: Frutarom sells its flavor products in liquid, powder, emulsion, granulated, or paste form, sometimes blended with stabilizers and emulsifiers (ingredients which alter texture and other properties of the products to which they are added).

8.11. Composition: Frutarom produces both flavors which do not contain any fruit or vegetable matter or such, as well as a wide variety of Food System products which do include, among other things, fruit, vegetable, and other natural components combined with flavorings. Food System products also include sweet and savory sauces such as pizza sauces and salad dressings, pre-made pasta fillings and other ready-made dishes plus other preparations based on sweet fruits for use in a wide range of food products such as dairy products (yogurts, ice cream, chilled desserts, butter and cheese), breakfast cereals, nutritional bars, confectionery and sweet or salty pastries, ready-to-eat meals and other convenience foods. Frutarom's capabilities in the Food Systems business enable it to combine a number of its fields of expertise since Food Systems usually combine flavors, natural flavor extracts, and natural functional food ingredients produced in the framework of its Specialty Fine Ingredients activity, enabling the Company to offer its customers comprehensive solutions tailored to their needs. Frutarom recently gained innovative capabilities in this area with its acquisition of Taura, which specializes in the production and marketing of innovative solutions combining fruits and flavors through its unique Ultra Rapid Concentration (URC®) technology for delivering natural fruit ingredients to a wide range of food products, particularly health snacks, breakfast cereals, confectionery, convenience foods and baked goods, raising the percentage of the final product's fruit content, improving and enhancing their flavor and texture, and lengthen shelf life through the use of strictly natural ingredients and flavors. Further capabilities were gained by Frutarom in this field with its acquisition of Inventive which engages in the development, production and marketing of flavors and flavor inclusions through the application of innovative solutions and unique technologies for combining flavors with fruit components, chocolate, grains and nuts in many food products, particularly dairy products, ice cream, pastries and beverages.

9. Breakdown of Revenues and Profitability

Following are figures reflecting the Company's revenues for 2013 through 2015 deriving from Flavors activity sales and their percentage of total Company revenues (in US$ thousands):

	2015	2014	2013
Total Company revenues	872,796	819,547	673,693
Revenues from Flavors activity	607,534	589,763	494,389
% of Total Company revenues	69.6%	72.0%	73.4%

Frutarom’s Flavors activity revenues rose 3.0% for the year to reach a record high of US$ 607.5 million compared with US$ 589.8 million in 2014, reflecting 5.3% growth against 2014 in pro-forma terms and

adjusted for non-recurring expenses. Currency effects had a 14.3% negative impact on sales in pro-forma terms.

Sales from Flavors activity accounted for 70% of Frutarom's overall sales.

10. New Products

As part of its Flavors activity, Frutarom is constantly developing a variety of new products. New products are generally developed in collaboration with individual customers and adapted to their needs. None of the new products developed by the Company can be deemed material in terms of expected sales turnover and/or development costs.

11. Customers

11.1. The flavors manufactured by Frutarom are sold to an extensive customer base comprised of thousands of large multinational, medium-sized, local and small customers. The customers are mostly food and beverage manufacturers spread out in over 150 different countries worldwide.

11.2. The Flavors activity does not have any individual customer accounting for over 5% of Frutarom's sales turnover (over the past year there has also been no customer with purchases accounting for over 2% of Frutarom's sales turnover). Company management believes the Company is not dependent on any particular individual customer.

12. Competition

12.1. Frutarom's competitors in the flavors market are the multinational, medium-sized, and small local flavor manufacturers. Competition is largely based on the ability to be innovative, product quality, ability to provide value-added service to the customer, building and maintaining long-term relationships, reliability, and the development of products tailor-made to the customer's needs and aligned with future market trends. As the cost of flavors constitutes a negligible part in the overall cost of the end product, flavor market customers tend to be less sensitive to price when choosing their supplier. Flavor manufacturers must differentiate themselves by building close relationships with their customers, gaining familiarity and a thorough understanding of target markets, maintaining top-level R&D capabilities and capacity for innovation, and establishing a reputation for giving customers consistent, reliable and efficient service.

12.2. For further information on manufacturers operating in the flavor and fragrance market and Frutarom's position among them, see section 6.3 above. For information on factors influencing the Company's

market position in the flavors industry, see section 7.20 above (Critical Success Factors in the Flavors Field).

Specialty Fine Ingredients Market

13. Overview of the Specialty Fine Ingredients Market

General

13.1. The specialty fine ingredients market in which the Company operates produces a wide range of products for a variety of industries. Frutarom's Specialty Fine Ingredients activity is focused mainly on developing, producing and marketing natural fine ingredients for the food and beverage, flavor and fragrance, pharma/nutraceutical, cosmetic and personal care industries. Fine ingredients are often sold directly to food and beverage manufacturers who use them in producing consumer products. Flavor and fragrance manufacturers use fine ingredients products as a foundation in producing their flavor and fragrance substances.

13.2. Frutarom operates in areas of the specialty fine ingredients market that include natural flavor extracts, natural functional food ingredients, natural pharma/nutraceutical extracts, specialty essential oils, algae, natural colors for food, natural antioxidants used in providing Food Protection solutions, citrus products, aromatic chemicals, and natural gums and resins.

13.3. According to estimates by Markets and Markets,[20] sales of specialty fine ingredients to food and beverage industries around the world (including sales of flavors and other ingredients) are expected to grow at an annual rate of 5.15% during the period of 2015 – 2020.

Characteristics of the Fine Ingredients Market

13.4. Research and development: Innovation is a key to success in the specialty fine ingredients market. R&D for new specialty fine ingredients products is a complex process requiring high levels of expertise, experience and investment. Developing a new ingredient often takes longer than developing a flavor product. Natural specialty fine ingredients are sometimes tailor-made to a customer's needs and require a long-term relationship with the customer and collaborative efforts in the product's development.

13.5. Production: The production of specialty fine ingredients tends to be more sophisticated and complicated than the production of flavors, requiring extensive knowhow. In addition, the production of specialty fine ingredients requires a large capital investment for building manufacturing facilities as well as for expanding production capacity when necessary. Production of specialty fine ingredients must also comply with stricter environmental and regulatory standards.

[20] marketsandmarkets.com., January 2016

13.6. Supply chain: Customers constantly seek ways to optimize their levels of inventory so ingredient manufacturers must adhere to shorter lead times and maintain stocks locally in the main markets. Additionally, medium-sized and local customers purchase hundreds of ingredients in variably small quantities, whereas the large multinational makers of ingredients have strict policies concerning minimum order quantity and the use of standardized packaging while smaller manufacturers lack the sufficient operational flexibility and global supply chain needed to meet such needs. This creates a market opportunity for medium-sized fine ingredients producers.

13.7. High entry barriers: An established reputation and brand recognition, which take many years to develop, are key success factors for manufacturers in the specialty fine ingredients market. Customers require a high degree of reliability and consistency, considering that once an ingredient is incorporated into a food or beverage flavor they will rarely risk replacing the fine ingredients supplier in order to avoid impairing the quality of the flavor. A multinational fine ingredients manufacturer seeking to build up a competitive advantage also needs to comply with stringent regulatory, environmental, and inspection standards and demonstrate strong capabilities in research and development, production and its global supply chain, including capital investment in the construction of production facilities and the expansion of production capacity whenever necessary. These factors constitute substantial entry barriers.

13.8. Growing demand for natural products: The rise in consumer demand for natural products has brought about increased demand for a variety of natural fine ingredients such as natural flavor extracts and natural specialty essential oils for use in the end products. Natural fine ingredients tend to be more unique and less interchangeable, resulting in increasing customer loyalty. The lion's share of natural fine ingredients is tailor-made to customer needs. Frutarom focuses on developing natural products in addressing this global trend. For further details, see section 14.5 below.

13.9. Growing demand for natural functional food ingredients: Functional food is food with certain added ingredients which provide, or are perceived as providing, health benefits, such as juices or dairy products with health additives. Changing consumer preferences towards foods with health benefits are leading to a rise in demand for functional food. The dairy and beverage markets exhibit the highest growth in the use of natural functional; food ingredients. Many of the active ingredients used in functional foods are derived from plants and herbs under processes similar to those used in producing flavor extracts. Manufacturers of natural functional food ingredients are often required by food and beverage makers to provide a proven scientific basis, such as clinical studies, for the health benefits attributed to the ingredients.

13.10. Regulation, health, safety and certification: Fine ingredients used in both the food and beverage and pharmaceutical/nutraceutical industries are increasingly subject to strict health and safety standards and regulations. This trend is part of an overall trend of increased regulation in those industries. At the end of 2006 the European Commission came out with the REACH regulations for the registration, evaluation, authorization and restriction of all chemicals produced in or imported into the EU market. In December 2008 the EU adopted new regulations defining BAPs (Biologically Active Principles) and setting their labeling requirements and maximum quantities, which took effect on January 20, 2011. In January 2009 the EU adopted regulation 1334/2008 for food flavorings, setting the definition for natural products and how they should be labelled, which entered into effect on January 20, 2011.

Customers buying ingredients, especially specialty fine ingredients, require the manufacturers to provide certification that their products are in compliance with regulations and standards. Also, there is growing demand for products with certain proven qualities such as being GMO-free (free of any genetically modified organisms) or pesticide free (not containing any element sprayed with pesticides). Demand for Kosher and for Halal certified products is also increasing as the demographic base of consumers for such products expands. As a result, fine ingredients manufacturers need to document their production processes and adhere to strict standards. In addition, ingredients manufacturers are required to hold certification relating to various manufacturing standards such as ISO 22000, BRC (British Retail Consortium) Issue 7, IFS, SQS, and other standards for permissible labelling such as EU Food information for Consumers which sets rules for product labelling and for providing information on the subject of allergies, including on products that do not come packaged, and the Global Harmonized System (GHS).

Frutarom's specialty fine ingredients comply with strict health, safety, and quality standards. For further details, see section 14.4 below.

13.11. Sourcing: Long term relationships with suppliers, growers and/or producers are of fundamental importance for maintaining a high degree of product quality and ensuring the availability of raw materials used in the production of specialty fine ingredients. This is particularly true for natural raw materials which, being derived from agricultural crops, are seasonal in their supply.

13.12. High volume production of fine ingredients with low margins: Over recent years there has been an increase in production of many fine ingredients in certain countries such as China and India where the cost structure for manufacturers tends to be lower. Many such manufacturers are technically less sophisticated with limited R&D capabilities and focus more on large volume production with low profit margins. They also generally lack global marketing and sales platforms, brand recognition and approved supplier status. This has

led certain fine ingredients' manufacturers to differentiate themselves from such low-cost manufacturers by developing close collaborative relationships with customers, providing higher added-value products and services, and investing in R&D with an aim to develop specialty fine ingredients products with higher margins.

Critical Success Factors in the Specialty Fine Ingredients Field

13.13. Company management believes that the critical success factors in the field of Specialty Fine Ingredients are:

- Positioning and reputation as a reliable supplier – It is critical for suppliers to establish a solid reputation in the market, to develop and maintain strong ties with their customers and provide reliable service;

- Research and development, innovation and a supply of new and unique products – See section 13.4 above;

- Compliance with regulatory, quality and safety standards – See section 13.10 above;

- Raw material procurement – It is becoming increasingly important to direct resources towards focused procurement from countries that are major sources for numerous natural raw materials used in producing specialty fine ingredients, such as China, India and Brazil, while expanding the pool of suppliers and capitalizing to the fullest extent on cost reduction opportunities through global sourcing and strengthening ties with manufacturers, processers and growers of raw materials, particularly natural raw materials, in order to ensure their continuous and reliable supply over time and improve purchasing costs. Sourcing quality raw materials and timing their purchase correctly is the key to keeping up with short lead times to customers and requests for varying quantities and levels of quality;

- Wide geographic deployment for supporting multinational customers – The wide geographic spread of the support systems that provide the Company's multinational customers with assistance throughout their operating hours in their own language and location is of critical importance.

14. Products, Services and Added-Value Provided by Fine Ingredients Activity

14.1. Under its Specialty Fine Ingredients activity Frutarom develops, manufactures, markets and sells natural flavor extracts, natural functional food ingredients, natural pharma/nutraceutical extracts, algae, natural colors, natural antioxidants used in providing Food

Protection solutions, specialty essential oils, citrus products, aroma chemicals, natural gums and resins, and other products as well.

14.2. Sales of Specialty Fine Ingredients jumped from US$ 49 million in 2000 to US$ 184.9 million in 2015. The rise in Specialty Fine Ingredients sales in mainly due to the developing of new innovative products, focusing on both multinational and medium-sized locally-based customers, and strategic acquisitions that were successfully executed. Specialty Fine Ingredients accounted for a 21% share of Frutarom's total sales in 2015. Its products are sold mainly to the food and beverage, flavor and fragrance, pharma/nutraceutical, cosmetics and personal care industries. Frutarom is working towards expanding the portfolio of products offered to its customers in the fields of food, health, and cosmetics while entering and expanding its activity in other growing fields including natural colors, natural Food Protection solutions, and natural protection solutions for livestock feed and for pet foods.

14.3. Frutarom has an established reputation in the market for fine ingredients and a broad customer base of both multinational and locally-based medium-sized customers which are supported by Frutarom's sales and marketing team and the Company's efficient global supply chain. Frutarom has local warehouses on six continents, allowing it to supply customers quickly – usually within days. Although most of the fine ingredients made by Frutarom are sold to customers (including competing flavor manufacturers), some are set aside for internal use and certain types such as in the citrus and natural health fields are reserved exclusively for use by Frutarom in developing and producing unique taste and health solutions to give the Company a competitive edge.

14.4. Frutarom's specialty fine ingredients meet strict health, safety and quality standards such as ISO 22000, FSSC 22000, Swiss GMP, British BRC and ISO 9000. Most of Frutarom's fine ingredients are also GMO-free and pesticide-free as well as being Kosher and/or meeting Halal requirements.

14.5. Frutarom focuses on the development of natural products in response to the growing trend globally towards consumption of natural products, considered to be healthier. Frutarom management believes the Company is one of the world leaders in this field and successfully combines its experience and reputation of over 80 years of research, development, production, and marketing of natural specialty fine ingredients, natural colors and natural protection substances with its ability to offer a wide variety of products based on an efficient global supply chain. Frutarom’s in-depth knowledge of the flavors market and food industry customers' requirements as well as the specialty fine ingredients market allows it to be positioned at a unique junction for delivering solutions that combine taste and health.

14.6. Frutarom believes that its relationship with and close familiarity with the foods and beverages market give it a competitive advantage in the functional foods market. This advantage is backed up by its R&D capabilities, proprietary production methods, and experience in conducting clinical studies.

As mentioned above, Frutarom's Specialty Fine Ingredients activity is divided into several main categories:

14.7. **Natural Flavor Extracts**: Frutarom is a leading manufacturer of a wide variety of natural flavor extracts produced from fruits, plants and other botanical material. The main customers for natural flavor extracts produced by the Company are food and beverage manufacturers, flavor and fragrance companies (including the Company's own Flavors activity) and, to a lesser extent, tobacco companies. The natural flavor extracts are generally products tailor-made to customer specifications and the Company works in close collaboration with its customers in developing and manufacturing the desired flavor extract.

14.8. **Natural Functional Food Ingredients**: The Company offers a variety of natural extracts used as raw materials in the manufacture of functional food ingredients. Functional foods are foods such as breakfast cereals, health drinks and yogurts which contain specialty fine ingredients that provide them with healthy properties. Natural functional food ingredients require various certifications but are subject to fewer restrictions than herbal extracts. The main customers for the natural functional food ingredients are in the food and beverage industry.

14.9. **Natural Pharma/Nutraceutical Extracts**: Frutarom manufactures a wide variety of natural herbal extracts with certain medicinal and health benefits used in the manufacture of prescription drugs, non-prescription medications, and natural dietary supplements. The main customers for natural herbal extracts are pharmaceutical and nutraceutical companies and the makers of food supplements.

14.10. **Specialty Essential Oils and Citrus Products**: Frutarom produces a wide range of specialty essential oils and is a leading producer of specialty citrus products. Specialty essential oils produced by Frutarom include those derived from citrus (such as orange, grapefruit, lemon and mandarin), mints, flowers, spices, herbs and from trees. These products are used in food and beverage, flavor and fragrance, pharmaceutical, and cosmetic and other personal care products.

Company management considers Frutarom to be a global leader in the field of specialty citrus products used in creating citrus flavoring in foods, beverages, perfumes and other personal care products. Frutarom has been active in the field of specialty citrus extracts since 1933. Frutarom continuously invests in unique innovative technologies

for the processing, extraction and distillation of specialty citrus products. A number of Frutarom's specialty citrus products are reserved for the exclusive use of the Flavors activity and are not sold to other parties, thereby giving the Company a competitive advantage in the production of citrus flavors.

In February 2014 Frutarom acquired the activity of CitraSource, specializing in the research and development, production, marketing and sales of specialty solutions in the field of citrus. Its state-of-the-art plant in the Florida, USA and global purchase capabilities in this field which strengthen Frutarom's position as a leading player in the development, production and sales of specialty citrus products. Also, in July 2015 Frutarom acquired the business activity and assets of Florida-based Scandia which specializes as well in the research and development, production, and sales and marketing of specialty solutions in the field of citrus for leading global customers in the flavors and food and beverage markets, and its activity is largely synergetic with that of CitraSource. Scandia's activity has been successfully merged with CitraSource's activity, and together they have established an excellence center for Frutarom in Florida in the field of citrus. For further details on the acquisition of CitraSource, see the Company's immediate report from February 25, 2014 and Note 5m, and for further details on the acquisition of the activity of Scandia, see the Company's immediate report from July 29, 2015 and Note 5i to the financial statements.

14.11. **Algae**: In recent years Frutarom, together with Israel's Ben Gurion University, has invested in the field of algae, considered worldwide to be very attractive as a dietary supplement (a source of Omega 3), medicinal agent, and as an element in various cosmetic products, as well as being a powerful antioxidant from a natural source. The specialty algae is grown on a farm in the south of Israel and in Haifa. Frutarom extracts the active substance from the algae using natural processes and markets these to leading food, dietary supplement, cosmetics, skin protection, and personal care companies around the world.

In addition, in January 2016 Frutarom made an investment in Algalo, a startup biotech company which developed a unique and innovative method for cultivating, harvesting and processing a wide variety of algae yielding active elements 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. In the framework of the investment a modern biotechnology facility will be established in Israel and specialize in cultivating, harvesting and processing algae using advanced specialized methods, and Frutarom will have exclusive marketing rights worldwide for Algalo products. The unique cultivation method developed by Algalo allows for the efficient and competitive cultivation of algae containing high

concentrations of active elements. For further details on the investment in Algalo, see the Company's immediate report from January 4, 2016 and Note 22 to the financial statements.

14.12. **Natural Solutions for Food Protection**: Over the past year Frutarom has expanded its activity in the field of natural Food Protection which ensures the protection of the consumer's health and the extension of the product's shelf life. This line of solutions includes antibacterial components and antioxidants based on natural materials. Frutarom has made three acquisitions in this field – Vitiva in Slovenia, Ingrenat and Nutrafur in Spain – which will contribute towards the continued development of this growing and important area of activity.

14.13. **Natural Colors**: Frutarom utilizes its R&D, production, and marketing infrastructures in the field of food and beverages to develop natural color solutions based on natural extracts from vegetables, fruits, and other natural substances. Natural colors can be sold to food and beverage customers as part of taste solutions or on a standalone basis. The cosmetics and pharma industries are also customers for natural colors. Frutarom carried out three important acquisitions in this field – Montana Food, Vitiva and Ingrenat – which will assist to significantly expand its activity in this important and growing field over the coming years. The Company is working on seeking out and executing further acquisitions in this field.

The shift in consumer trends towards clean label products and to healthier and more natural products has led to sustained growth in the natural food ingredients market, and this includes the market for natural colors. The use of natural colors has grown in light of the trend of discontinuing the use of synthetic colors and replacing them with natural colors in new products being developed by food and beverage makers as well as in existing and familiar products. The natural colors market is expected to grow at a rate of 10-15% a year [21] (double the rate of the synthetic colors market) and reach US$ 1.7 billion by 2020 with over 20% to the natural colors industry for beverages. Most of this growth is due to rising demand by a majority of consumers in developed countries like the US, the UK, Germany and Japan for switching to the use of natural colors.

14.14. **Aroma chemicals**: Frutarom produces about 700 types of aroma chemicals which are used in the manufacture of flavors and fragrances, foods, animal feed, cosmetics, oral hygiene products and other products. Frutarom is a leading global player in the field of unique aroma chemicals, focusing on R&D, manufacturing and selling of high-added-value specialty aroma chemicals, and continuously changing its product mix in this area towards low volume, high margin

[21] Market by Types, Applications and Geography: Forecasts up to 2020 (updated on September 30, 2015)

products. The variety of aroma chemicals produced by Frutarom range for use by the flavor and fragrance industry includes diketones and pyrazines used for creating aromas of roasting and toasting. Frutarom also produces unsaturated aldehydes which impart a cool freshening sensation when used orally or applied to the skin and are used, among other things, in the manufacture of candies, chewing gum, skin care products and oral hygiene products.

14.15. **Natural Gums and Resins**: Frutarom offers a range of natural water soluble gums and resins derived from a variety of botanical sources including certain types of gum trees as well as seeds, seaweed and beet sugar. The natural water soluble gums and resins are used in the production of foods, beverages, pharmaceuticals and cosmetics and are sold mainly to food, beverage and flavors manufacturers and pharmaceutical companies.

15. Breakdown of Revenues and Profitability

Following are figures reflecting the Company's revenues for 2013 through 2015 (in US$ thousands) deriving from Specialty Fine Ingredients activity and their percentage of total Company revenues:

	2015	2014	2013
Total Company revenues	872,796	819,547	673,693
Revenues from Specialty Fine Ingredients activity	184,944	158,375	145,591
% of Total Company revenues	21.2%	19.3%	21.6%

Sales for Specialty Fine Ingredients in 2015 as reported in USD terms grew 16.8% to reach US$ 184.9 million compared with US$ 158.4 million the previous year, reflecting growth in pro-forma terms on a constant-currency basis of 1.5% versus 2014. Currency effects had a negative 6.0% impact on results in pro-forma terms.

16. New Products

Frutarom develops new Specialty Fine Ingredients as part of its ongoing activity in order to continue strengthening its position and improve its product mix, including the replacement of low margin products with new innovative and unique products with higher profit margins. In this regard, Frutarom is focused on expanding its supply of natural products and this includes natural colors, natural solution for Food Protection, specialty citrus extracts, algae, etc. None of the new products developed by the Company can be deemed material in terms of expected sales turnover and/or development costs.

17. Customers

17.1. The specialty fine ingredients manufactured by Frutarom are sold to an extensive customer base comprised of a vast number of large multinational, medium-sized, local and small customers in the food and beverage, pharma/nutraceutical, flavors and fragrance, and personal care industries.

17.2. The Specialty Fine Ingredients activity does not have any individual customer accounting for over 5% of Frutarom's sales turnover (in recent years there has also been no customer with purchases accounting for over 2% of Frutarom's sales turnover). Company management believes the Company is not dependent on any particular individual customer.

18. Competition

18.1. Competition In the specialty fine ingredients market varies by product category.

18.2. In natural flavor extracts the Company's competitors are manufacturers specializing in the production of natural flavor extracts, such as Naturex, pharma/nutraceutical manufacturers, and multinational and medium-sized producers of flavors and fragrances that manufacture specialty fine ingredients mainly for their own use, such as Givaudan, IFF, Symrise, Sensient, Robertet and Mane.

18.3. In the natural functional food ingredients and the pharma/nutraceutical categories, Frutarom's competitors are mainly pharma/nutraceutical companies specializing in this area, such as Indena S.P.A., Naturex, and Martin Bauer GmbH & Co. and KG, as well as small start-up companies that specialize in unique and innovative products and technologies.

18.4. Frutarom's competitors in the essential oils field include companies such as Treatt PLC which focus on the manufacture of essential oils including specialty essential oils, and large and medium-sized multinational flavor manufacturers that produce specialty essential oils primarily for their own use. There are also growers and processors of essential oils, mainly in developing countries, represented by traders and distributors of specialty essential oils also competing in the essential oils market.

18.5. In the field of natural solutions for Food Protection, Frutarom's competitors are multinationals that target the food, animal feed and nutrition, and nutritional supplements markets, such as Naturex (France) which emphasizes low costs and attractive prices to customers, and Kemin (USA) and DuPont (USA) which put their emphasis on providing technological solutions to their customers.

18.6. In natural colors Frutarom's competitors are multinationals like Chr. Hansen (Denmark) and Sensient (USA) which target the global market, Naturex (France) which in this field mainly targets the European market, D.D. Williamson (USA) which mainly targets the American market, Chr. Hansen, and a number of smaller local companies. Frutarom's main competitors focus mostly on formulations for customers while Frutarom emphasizes the entire value chain starting with extraction from the plant from which the color is derived until its inclusion in the product formula as part of the full portfolio of solutions that Frutarom provides to pharma/nutraceutical and to food and beverage manufacturing customers.

18.7. In aroma chemicals the Company competes with large multinational flavor & fragrance manufacturers that produce specialty aroma chemicals for their own use and sale into the market. Other competitors in this field are highly specialized manufacturers in the production of aroma chemicals based in Europe and USA. Other manufacturers of aroma chemicals are generally low cost producers, mostly located in Asia, with limited direct sales and marketing platforms and often reliant on dealers for marketing and selling their products. There are also chemical companies that produce aroma chemicals in high volumes as part of their wider product offering, but in most cases they do not produce specialty aroma chemicals. Frutarom, for the most part, does not compete with these, but focuses rather on low-volume specialty aroma chemicals with relatively higher margins due to the unique manufacturing facilities required in their production.

For further information on manufacturers operating in the specialty fine ingredients market, see section 6.3 above. For details on factors affecting the Group's position in the specialty fine ingredients market, see section 13.13 above (Critical Success Factors in the Specialty Fine Ingredients field").

19. Production Capacity

For information on the Company's production capacity for specialty fine ingredients, see section 23 of this report.

20. Frutarom's Trade and Marketing Activity

20.1. As stated above, in addition to its core activities Frutarom also engages in the importing and marketing of various raw materials that it doesn't produce itself for the food, pharmaceutical, chemicals, cosmetic, and detergent industries as part of its service and the furnishing of comprehensive solutions to its customers to help strengthen its ties and promote sales of its core products while maintaining long lasting and closer relations with the customers.

20.2. The raw materials sold and marketed by Frutarom under its Trade and Marketing activity are mainly raw materials that the Company

purchases for the manufacture of its specialty fine ingredients and flavors. As Frutarom imports and purchases these materials in bulk or in large quantities, it can buy them at attractive prices and sell them at a premium to third parties. The Trade and Marketing activity is synergetic with and supports Frutarom's core activities – Flavors and Specialty Fine Ingredients – through the leveraging of its sales structure, supply chain, procurement, and global management, enabling it to offer a wider variety of products and solutions and to add value to its customers, especially medium-sized and locally-based customers in emerging markets, and deepening the cooperation with these customers.

20.3. Frutarom does not consider the Trade and Marketing activity part of its core activities. In 2015 this activity totaled US$ 84.3 million. Most of the growth in this activity in recent years was due to the acquisition of Etol, PTI and Montana Food and it is concentrated in Eastern Europe, Latin America and Israel. In view of the fact that this activity is not considered one of Frutarom's core activities, it is not covered separately in this report.

CHAPTER 4 – DESCRIPTION OF THE COMPANY'S BUSINESS: MATTERS CONCERNING THE COMPANY'S OVERALL ACTIVITY

21. Marketing and Distribution

21.1. Frutarom maintains a global marketing, sales and customer technical support structure which is based on local R&D, sales and marketing personnel in its main target markets. The Company believes its global presence gives it a competitive edge and is a key part of its growth strategy. As of December 31, 2015 Frutarom had 1,317 people working in sales, marketing and R&D, 84 sales offices, and 62 R&D labs located in its main target markets in close proximity to its customers, including in the US, Canada, the UK, Germany, Switzerland, France, Italy, Slovenia, Norway, Denmark, Belgium, Holland, Poland, Macedonia, Czech Republic, Romania, Serbia, Turkey, Russia, Ukraine, Kazakhstan, Slovakia, Israel, Mexico, Brazil, Costa Rica, Guatemala, Peru, Chile, China, Vietnam, Japan, Hong Kong, Indonesia, New Zealand, India, Nigeria, Belarus, Austria, Spain, Ukraine and South Africa. The Company markets and sells its products primarily through its own sales personnel. In some countries Frutarom retains third party agents and distributors to sell its products.

21.2. Frutarom's global sales and marketing organization is a key component of its strategy to supply products tailor-made to its customers' needs, along with specialized products and services and high quality customer support to both large multinational and medium-sized locally-based customers.

21.3. Frutarom differentiates itself from its competitors by, among others things, offering its medium-sized and local customers the same level and quality of service and customization of products to customer needs as it provides to large multinationals. Frutarom's sales and marketing staff and R&D personnel work closely with both large multinational and medium-sized and local customers to offer the same timely and accessible individualized development services, including the development of custom flavors and specialty fine ingredients tailor-made to their specific needs. The Company estimates that the market segment of medium-sized and locally-based customers whose sales turnover is less than US$ 1 billion represents over 60% of the global food and beverage market.

21.4. The Flavor and Specialty Fine Ingredients activities each have their own separate sales, marketing and customer support teams. However, Frutarom assigns a dedicated salesperson to any customer purchasing the products of both activities, enabling the Company to better respond to the customers' needs and to identify and capitalize on opportunities for selling the wide range of its products to the same customer. See the graph in section 2.5 above (Customer in the Center).

21.5. The Flavors activity's sales, marketing and customer support activities focus primarily on customers in the food and beverage industries, while those of the Specialty Fine Ingredients activity focus also on customers in the flavor and fragrance, pharma/nutraceutical and personal care industries.

21.6. Frutarom's sales and marketing team constitutes an important link between the Group's customers and its R&D team. Work is done in close collaboration with customers in order to understand their particular needs while relaying the information and fully cooperating with the R&D team which develops the products custom-made to the customer's specific needs, in some instances in close cooperation with the customer's development staff.

21.7. In certain cases, particularly in emerging markets, Frutarom offers its customers technological and marketing support in order to help them expand and improve their product offering and quality and their manufacturing processes. Frutarom believes this approach strengthens its relationships with these customers and helps boost demand for its products.

21.8. Company management believes that Frutarom is not dependent on any individual one of its marketing channels.

22. 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.

22.1. Following is the quarterly profit and loss reports for 2014-2015 (in $US millions):

	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014
Sales*	225.6	234.5	218.5	194.2	202.2	210.8	218.1	188.5
Gross Profit	87.0	91.9	84.1	75.1	79.6	81.6	85.9	73.5
Selling, marketing, R&D, G&A and other expenses	56.1	54.9	50.8	46.0	50.8	50.6	50.6	49.6
Income from Operations**	30.9	37.0	33.3	29.1	28.7	30.9	35.3	23.9
EBITDA**	40.4	45.2	41.0	36.6	36.5	39.0	43.4	32.1
Financial expenses ***	2.7	6.0	1.7	1.8	5.6	0.8	2.3	1.5
Income before taxes	28.2	31.0	31.6	27.3	23.1	30.2	33.1	22.5
Net income	23.5	25.0	26.1	21.4	19.7	24.2	25.5	18.3

* Currency effects impacted Frutarom's overall 2015 sales by 13.3%.

** Non-recurring expenses amounting to approx. US$ 6.8 million affected income from operations in 2015 (reorganization expenses of US$ 2.4 million, and adjustments and acquisition expenses of US$ 4.4 million). Figures for 2014 include non-recurring expenses totaling approx. US$ 1.1 million, mainly attributable to acquisitions.

*** In Q4 2015 non-recurring financial expenses were recorded totaling US$ 5.6 million (compared with US$ 4.5 million in 2014) with respect to revaluation of the financial liability pertaining to an option to purchase the minority shares of PTI in light of that company's strong results.

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23. *Fixed Assets, Land, Facilities and Production Capacity*

As of December 31, 2015 Frutarom operated 46 production sites throughout the world. The following table outlines Frutarom's main production sites and the activity performed there:

Country	Location	Field of activity	Property size (m^2)	Buildings – Ownership/ Lease/Rent	Land - Ownership/ Lease/Rent
Belgium	Olen (Taura)	Flavors	11,000	Ownership	Ownership
Brazil	Porto Feliz, SP	Flavors	8,000	Ownership	Ownership
Canada	Montreal (BSA)	Flavors	15,740	Ownership	Ownership
China	Qing Pu, Shanghai [22]	Flavors and fine ingredients	14,500	Ownership	Lease
China	Zhaoqing, Guang Dong (Inventive)	Flavors	25,000	Ownership	Ownership
Germany	Emmerich	Flavors	19,000	Ownership	Ownership
Germany	Sittensen	Flavors	10,001	Ownership	Ownership
Germany	Stuttgart (Gewürzmüller) [23]	Flavors	13,600	Rent	Rent
Guatemala	Guatemala City	Flavors	15,819	Ownership	Ownership
India	Bangalore (Sonarome)	Flavors	23,225	Ownership	Ownership
India	Rajasthan (BSA)	Flavors	7,110	Rent	Rent
Israel	Haifa [24] [25]	Flavors and fine ingredients	35,490	Ownership	Lease
Israel	Acre [22]	Flavors	9,273	Ownership	Lease

[22] The consolidated company in China has land usage rights for a period of 50 years ending in 2062. The net discounted value of the leasing fees for this land is approx. US$ 1,201 thousand as of December 31, 2015 (approx. US$ 1,264 thousand as of December 31, 2014). The discounted leasing fees are presented in the financial statements under property, plant and equipment.

[23] The land and buildings of the Company's plants in Stuttgart are rented by the Company from a third party under a rental agreement for a period of 10 years ending October 1, 2017. The annual rental fee is € 600 thousand a year (€ 544 thousand for the Gewürzmüller plant and € 56 thousand for the Blessing plant). According to the agreement, the Company has a unilateral option for a 5 year extension. If the option is exercised, rental fees will be updated in line with prevailing market rates for similar assets at that time and adjusted for changes in the German consumer price index. At the end of the rental period the agreement will be automatically extended by additional periods of two years each until either side serves notice for terminating the agreement at least one year in advance. The Company is entitled to terminate the rental agreement by giving advance notice of one year.

[24] Frutarom Ltd. possesses rights to land located in the Acre industrial zone and in the Haifa Bay section of Haifa. The net discounted value of the leasing fees for the land amounts to US$ 1,045 thousand as of December 31, 2015 (US$ 1,077 thousand as of December 31, 2014). The land leasing rights are for 49 year periods ending 2032 -2042. Frutarom Ltd. has the right to extend the leasing for an additional 49 year period. The land on which the Company's plant in Haifa is located is subject to long-term lease agreements with the Israel Land Authority (excluding that stated in footnote 23 below). The net discounted value of the leasing fees appears in the financial statements under property, plant and equipment.

[25] The total size of the Haifa site is 35.5 dunams and includes within it a 7.3 dunam area rented from a third party under an operating lease ending August 31, 2016. The annual rental fee for 2015 was NIS 1,008 thousand, the same as for 2014.

Country	Location	Field of activity	Property size (m^2)	Buildings – Ownership/ Lease/Rent	Land - Ownership/ Lease/Rent
Italy	Parma	Flavors	7,500	Ownership	Ownership
New Zealand	Mount Maunganui (Taura)	Flavors	8,681	Ownership	Ownership
Peru	Lima	Flavors	19,645	Rent	Rent
Russia	Moscow - Platinum Absolut (PTI)	Flavors	12,000	Rent	Rent
Russia	Moscow – TSP (PTI)	Flavors	6,100	Ownership	Ownership
Slovenia	Škofja Vas (Etol)	Flavors	65,000	Ownership	Ownership
Slovenia	Markovci (Vitiva)	Fine ingredients	42,000	Ownership	Ownership
Spain	Murcia (Ingrenat)	Fine ingredients	44,032	Ownership	Ownership
Spain	Murcia (Nutrafur)	Fine ingredients	43,000	Ownership	Ownership
Switzerland	Wädenswil	Fine ingredients	13,464	Ownership	Ownership
Switzerland	Reinach	Flavors	43,000	Ownership	Ownership
UK	Hartlepool (Oxford)	Fine ingredients	31,971	Ownership	Ownership
UK	Wellingborough	Flavors	8,090	Ownership	Ownership
USA	Cincinnati OH (Flavor Systems)	Flavors and fine ingredients	57,000	Ownership	Ownership
USA	Corona CA (FSI) [26]	Flavors	14,000	Rent	Rent
USA	Winter Haven FL	Fine ingredients	50,000	Ownership	Ownership

The facilities and properties owned by the Group are presented in the financial statements under the Group's property, plant and equipment within the line item for land and buildings. All of the Group's rental agreements are defined as operational rent and therefore are not included and presented as assets.

The Company also has production facilities which are not significant in terms of the Company's scope of activity.

Following is a description of the Company's significant plants:

- **Olen, Belgium (Taura)** – In this plant Frutarom manufactures innovative solutions combining flavors and fruit through the use of a technology for delivering natural fruit ingredients to a wide range of food products, particularly health snacks, breakfast cereals, confectionery, convenience foods and baked goods, raising the percentage of the final product's fruit content as well as improving and enhancing the flavor and lengthening the product's shelf life, in the framework of its Flavors activity.

  Production capacity and shifts – The plant works five days a week in two or three shifts, as needed. It has additional potential production

[26] The land and buildings of Company plants in Corona are rented by the Company from a third party until February 28, 2025 at an annual rental fee of US$ 403.6 thousand as of March 1, 2015 which increases by an additional 3% each year.

capacity of approx. 30% were it to switch to operating seven days a week.

- **Porto Feliz (Sao Paulo), Brazil** – The plant produces extracts as part of the Company's Flavors activity.

  Production capacity and shifts – The plant works five days a week on one shift and would potentially gain approx. 100% in output capacity for flavors if it switched to continuous production using three shifts.

- **Montreal, Canada (BSA)** – The Company produces at this plant seasoning blends and functional ingredients for the food industry in the framework of its Flavors activity.

  Production capacity and shifts – The plant runs five days a week at one or two shifts, as needed. It has an additional potential of approx. 100% in production capacity were it to were it to run seven days a week.

- **Qing Pu, Shanghai, China** – The Company will produce and market Flavors and Specialty Fine Ingredients at this plant starting in the second quarter of 2016.

  Production capacity and shifts – The plant will operate five days a week on one shift. It can potentially increase production capacity by approx. 200% by running multiple shifts.

- **Zhaoqing, Guang Dong, China (Inventive)** – At this plant the Company produces flavors under its Flavors activity.

  Production capacity and shifts – The plant operates seven days a week on two shifts, 24 hours a day for most of the year. It can potentially increase production capacity by approx. 20-30%.

- **Emmerich, Germany** – The Emmerich plant is used by the Company to produce mainly Food Systems as part of the Flavors activity.

  Production capacity and shifts – The plant operates five days a week with about two shifts a day. It has additional potential production capacity of approx. 25%-30% if it switched to running non-stop with three shifts.

- **Sittensen, Germany** – The Company produces savory flavor mixes and seasonings at this plant in the framework of its Flavors activity.

  Production Capacity and shifts – The plant works five days a week in two shifts. It has 25%-30% in additional potential production capacity were it to switch to running non-stop with three shifts.

- **Korntal, near Stuttgart, Germany (Gewürzmüller)** – The Company produces savory flavor mixes and seasonings at the Stuttgart plant as part of its Flavors activity.

Production capacity and shifts – The plant operates five days a week with one shift. It has additional potential production capacity of approx. 100% if it were to switch to non-stop production employing three shifts.

- **Guatemala City, Guatemala (Aroma)** – At this plant Frutarom manufactures flavors (mostly sweet) for beverages, dairy products, sweets, snacks and other food items as part of its Flavors activity.

  Production capacity and shifts – The plant is run $5^1/_2$ days a week on one shift. It has additional potential production capacity of approx. 100% were it to be run on three shifts.

- **Bangalore, India (Sonarome)** – At this plant the Company produces flavors in the framework of its Flavors activity.

  Production capacity and shifts – The plant runs five days a week on one shifts. It has additional potential production capacity of approx. 60% if it were to operate continuously using three shifts.

- **Rajasthan, India (BSA)** – At this plant Frutarom produces seasoning blends and functional ingredients for the food industry under its Flavors activity.

  Production capacity and shifts – The plant runs five days a week on one shift. It has additional potential production capacity of approx. 100% if it were to operate were it to run 7 days a week on two shifts.

- **Haifa, Israel** – At its plant in Haifa the Company produces flavors and specialty fine ingredients (specialty essential oils, specialty citrus products) in the framework of its two activities. The plant also contains management offices.

  Production capacity and shifts – Flavor production is carried out five days a week in one shift. The plant has additional potential production capacity of approx. 100% if it were to employ three shifts. Production of fine ingredients at the plant takes place five days a week using three shifts.

- **Acre, Israel** – At its plant in Acre the Company produces flavor mixes (mainly savory flavors).

  Production capacity and shifts – The plant operates five days a week using one shift. It has additional potential production capacity of approx. 100% if it were to employ three shifts.

- **Parma, Italy** – The plant in Parma produces savory flavor mixes in the framework of the Company's Flavors activity.

  Production capacity and shifts – The plant works five days a week with one shift and could potentially raise its production capacity by about 100% if it switched to operating continuously on three shifts.

- **Mount Maunganui, New Zealand (Taura)** – At this plant Frutarom manufactures innovative solutions combining flavors and fruit through the use of a technology for delivering natural fruit ingredients to a wide range of food products, particularly health snacks, breakfast cereals, confectionery, convenience foods and baked goods, raising the percentage of the final product's fruit content as well as improving and enhancing the flavor and lengthening the product's shelf life, in the framework of its Flavors activity.

  Production capacity and shifts – The plant operates three-four days a week, as needed, in two 12-hour shifts. It has additional potential production capacity of approx. 40-50% were it to switch to operating seven days a week.

- **Lima, Peru** – At this plant Frutarom manufactures flavors and natural food colors as part of its Flavors activity.

  Production capacity and shifts – The plant runs five days a week on 1 to 2 shifts and could potentially increase production capacity by about 50%.

- **Moscow, Russia – Platinum Absolut (PTI)** – Here Frutarom manufactures seasoning blends and functional ingredients for the food industry as part of its Flavors activity.

  Production capacity and shifts – The plant works five days a week with one shift. It would have approx. 60-70% more potential production capacity if it went over to continuous production of three shifts.

- **Moscow, Russia – TSP (PTI)** – At this plant, as part of its Flavors activity, Frutarom manufactures protein-based specialty fine ingredients using advanced technology with special emphasis on processed meats and convenience foods.

  Production capacity and shifts – The plant runs five days a week on two or three shifts, as needed. It could potentially increase production capacity by approx. 30-40% were it to run seven days a week.

- **Škofja Vas, Slovenia (Etol)** – At its plant in Škofja Vas the Company produces mostly flavors, beverage bases, Food Systems and savory flavor mixes under its Flavors activity.

  Production capacity and shifts – The plant works five days a week at $1^1/_2$ shifts and could potentially boost output capacity approx. 40%-50%.

- **Markovci, Slovenia (Vitiva)** – At this plant the Company Frutarom produces antioxidants, natural colors, natural sweeteners, plant extracts for functional foods, and food and pharma additives under its Specialty Fine Ingredients activity.

Production capacity and shifts – The plant works seven days a week on three shifts. The plant exhausts its full potential production capacity.

- **Murcia, Spain (Ingrenat)** – At this plant Frutarom produces natural plant extracts under its Specialty Fine Ingredients activity.

  Production capacity and shifts – The plant runs five days a week on three shifts for 11 months a year. It could potentially increase production by about 30% were it to run three shifts all 12 months of the year.

- **Murcia, Spain (Nutrafur)** – At this plant Frutarom produces natural plant extracts in the framework of its Specialty Fine Ingredients activity.

  Production capacity and shifts – The plant runs five days a week on 3 shifts. It will have further potentially production capacity of about 30% when two more production lines are added during this year.

- **Wädenswil, Switzerland** – The Company produces natural extracts at the plant in Wädenswil for its Specialty Fine Ingredients activity.

  Production capacity and shifts – The plant operates five days a week in two shifts. It has additional potential production capacity of about 30%-40% if it were to run three shifts.

- **Reinach, Switzerland** – The Reinach plant is used by the Company to produce mainly Food Systems as part of the Flavors activity.

  Production capacity and shifts – The plant runs five days a week with about two shifts a day and would potentially gain about 20%-25% in output capacity were it to switch to running non-stop with three shifts.

- **Hartlepool, UK (Oxford)** – Aromatic chemicals are produced by the Company at this plant under its Specialty Fine Ingredients activity.

  Production capacity and shifts – The plant operates five days a week in three shifts. It has additional potential production capacity of approx. 25% assuming continuous production seven days a week.

- **Wellingborough, UK** – The Company makes flavors at this plant.

  Production capacity and shifts – The plant works five days a week with one shift for flavors production. The plant has additional potential production capacity of 100% if run using multiple shifts.

- **Cincinnati OH, USA (Flavor Systems)** – At the Company's plant in Cincinnati, Ohio it produces flavors and ingredients in the frameworks of its Favors and Specialty Fine Ingredients activities.

  Production capacity and shifts – The plant runs five days a week on one shift most of the year and $1^1/_2$ to two shifts during the summer. It has potential of approx. 70% more output capacity were it to switch to non-stop production with three shifts.

- **Corona CA, USA (FSI)** – The Company's plant in Corona (California) manufactures flavors under its Flavors activity.

  Production capacity and shifts – The plant runs five days a week most of the year and uses $1^1/_2$ to two shifts during the summer. It has additional potential production capacity of approx. 60%-70% were it to switch to continuous production using three shifts.

- **Winter Haven FL, USA (CitraSource)** – At this plant Frutarom produces specialty citrus products as part of its Specialty Fine Ingredients activity.

  Production capacity and shifts – The plant runs five days a week on one shift. It has an additional potential of approx. 100% to 200% in production capacity.

24. Research, Innovation and Development

24.1. Frutarom considers its research, innovation and development system one of its key core proficiencies and channels substantial resources towards researching and developing new innovative products. As of December 31, 2015 the Company's workforce included 508 employees engaged in research, innovation and development. Frutarom has over 80 years of experience in research and development in the field of flavors and specialty fine ingredients, with particular attention given to natural flavors and specialty fine ingredients. Frutarom's research, innovation and development is crucial to its future success as most of its products, and natural products in particular, are tailor-made and customized in accordance with its customers' needs. As part of its research, innovation and development activities and in order to broaden its lineup of natural, innovative and unique products, Frutarom strives to create cooperative ties with academic institutions, research institutes, and start-up companies in Israel and throughout the world. Frutarom has created a number of such bonds which serve to beef up and strengthen its pipeline of new innovative products that it intends to launch in the coming years.

24.2. In many cases the development of fine ingredients is initiated by the Company after analyzing market trends and needs, while focusing on the development of products with higher profit margins in order to continue improving the product mix and ensure that its production capabilities and capacity are put to optimal use.

24.3. The development of new or customized flavor products is a complex process that calls for the combined knowledge and expertise of the Company's scientists and flavorists. Scientists from various disciplines work in project teams that include flavorists to develop new flavors whose qualities reflect consumer preferences. The development of

new flavor compounds is as much an art as it is a science, requiring an in-depth understanding of the characteristics and features of the flavor and of the various ingredients used in creating it. To a large extent the process of developing a new flavor involves trial and error.

24.4. As of the date this report is being published, Frutarom's Flavors activity has 53 R&D laboratories, with the main ones located in the United States, Canada, United Kingdom, Switzerland, Germany, Italy, France, Belgium, Slovenia, Russia, Poland, Israel, Turkey, China, Brazil, Peru, Guatemala, New Zealand and South Africa. For its Fine Ingredients activity, Frutarom has 13 R&D facilities located in Israel, the UK, Switzerland, the United States, Peru, Slovenia, Spain and China.

24.5. The Company recognized all research and development costs in its books as current expenses when incurred. For more information see Note 2(f)(6) and Note 20(b) to the financial statements.

24.6. For further information concerning liabilities recognized in the financial statements for grants received and amounts recognized as research and development expenses, see Note 2(f)(6) and Note 11(a)(2) to the financial statements.

25. Intangible Assets

25.1. Frutarom's intellectual property mainly includes the formulas used in creating its flavors and the development and production processes for fine ingredients. Frutarom does not register its formulas as patents, but nevertheless they are highly confidential and considered trade secrets that are restricted to a minimal number of people within the Group. Protecting formulas as trade secrets and not registering them as patents is common industry practice since patent registration would involve turning the formulas into public information, and the protection given to the manufacturer on them would end when the patent expires.

The Company does have registered patents which mainly concern production processes for ingredients developed by the Group and for products in the pharma/nutraceutical field. The Company also registers trademarks on some of its products in some of the countries in which it operates. To protect its intellectual property, the Company includes confidentiality, non-competition, and transfer of intellectual property rights clauses in its personal employment contracts with employees, contracts with consultants, and in agreements with suppliers and customers. Frutarom believes itself not materially dependent on any single intellectual property right, product formula, patent or license.

25.2. Not in all countries where the Group operates has the "Frutarom" trademark been registered. There are countries with registered

trademarks similar to the name "Frutarom" on goods similar to the Group's products. In the view of the Company's management, not having the "Frutarom" trademark registered in all countries in which it operates does not constitute a significant risk to the Group and its activities.

25.3. For details on amounts recognized as assets in the financial statements with regards to intangible assets, see Note 2(f) and Note 8 to the financial statements.

25.4. Intangible assets representing know-how and product formulas are amortized according to Group management’s assessment of how long they can be useful since for most know-how and product formulas there is no technical or regulatory period of obsolescence, as well as in light of the Group’s experience concerning its periods of use from the know-how and formulas in its possession and according to the industry in which the Group operates.

26. Human Resources

26.1. Frutarom had 3,734 employees as of December 31, 2015. The following table provides a breakdown of employees by country in the past two years:

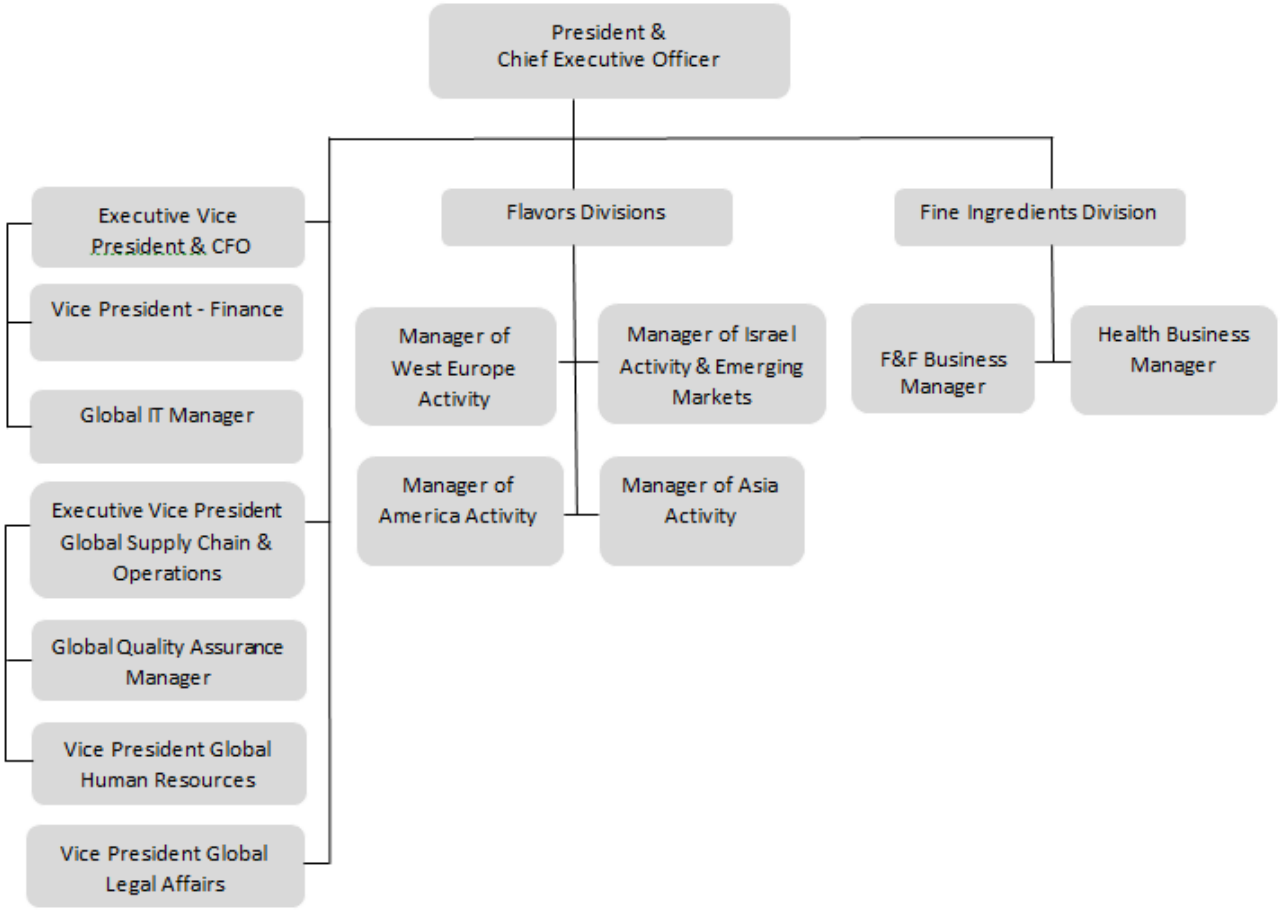
Country	31.12.2015	31.12.2014
Israel	264	294
Switzerland	170	180
Germany	339	326
United Kingdom	329	304
United States	287	294
Belgium	107	36
China and the Far East	404	184
India	124	5
Russia	544	570
Ukraine	33	32
Kazakhstan	4	4
France	10	12
Turkey	30	26
Mexico	4	3
Brazil	73	82
Guatemala	55	56
South Africa	36	37
Italy	34	33
Norway	2	2
Czech Republic	2	3
Slovenia	275	217
Serbia	6	5
Slovakia	4	7
Macedonia	2	2
Poland	17	18
Peru	245	269
Chile	26	33
Spain	106	
Canada	147	
New Zealand	56	
Total	**3,734**	**3,034**

26.2. The following table shows the breakdown of the Group's employees by field of activity in the past two years:

Field of activity	31.12.2015	31.12.2014
Sales and marketing	809	763
R&D	508	411
Operations	1,816	1,406
Management	601	454
Total	**3,734**	**3,034**

The change in the number of employees and their distribution by country and by their various fields of activity stems mainly from the addition of employees as a result of the acquisitions made.

26.3. Frutarom's organizational chart:



26.4. Most of Frutarom's workforce is employed based on personal employment agreements. These agreements vary from country to country according to the laws in force in each jurisdiction.

There are employees, mainly working at Company sites in Germany, Slovenia, USA, Israel (Haifa) and Italy, who are employed under collective bargaining agreements. These agreements vary from country to country and deal principally with terms of employment, salaries, pension schemes, other benefits, hiring and dismissal of employees and procedures for settling labor disputes.

Directors and Senior Management of the Company

26.5. As of December 31, 2015 the Group's senior management includes five senior officers and its global management group includes around 10 additional members besides the members of senior management. The Company has personal employment contracts with members of management. As is customary in the industry in which the Company operates, these contracts include standard clauses covering non-competition, confidentiality, and transfer of intellectual property rights to the Company.

26.6. Several members of the Company's senior management are entitled to extensions ranging between six and twelve months in their advance notice periods if their employment with the Company is terminated within a period of 12 months from the date when ICC Handels AG[27] holds less than 26% of the Company's share capital. In such a case, furthermore, some of the members of senior management are entitled to the immediate exercise of all options granted to them in the past even if they have not yet been fully vested.

26.7. Company managers are covered by directors' and officers' liability insurance. The Company has also granted its senior officers an undertaking for indemnification in advance and exculpation for actions taken by virtue of their office in the Company, subject to the restrictions set out by law. For further details see regulation 22 in Secition D **("Additional Information on the Company")** of the Company's Annual Report for 2015.

26.8. On January 14, 2014 the General Meeting approved a compensation policy for the Company's senior officers after it was also approved by the Compensation Committee and the Company's Board of Directors. For details of the Compensation Policy, see the Company's immediate report on the matter dated December 29, 2013.

[27] To the best of the Company's knowledge, ICC Handels AG is a fully-owned subsidiary of ICC Industries Inc., Frutarom's controlling shareholder.

27. Employee Incentive Plans

For details regarding the Company employee incentive plans, see Note 12(b) to the Company's financial statements.

28. Raw Materials and Suppliers

28.1. Frutarom purchases thousands of raw materials that go into its products from a very wide range of suppliers, having more than one supplier for most raw materials. The main raw materials purchased by Frutarom include plants, leaves and roots for producing natural flavor extracts, natural functional food ingredients and pharma/nutraceutical extracts. The Group also purchases essential oils for producing specialty essential oils such as citrus oils and mint oils. Other raw materials purchased by the Group include natural and synthetic chemicals, spices, fruit components, alcohol, esters, acids and oleoresins.

The Group's global and local supply chain managers and purchasing departments continually monitor raw material price trends, and action is taken to adjust the Group's selling prices accordingly when necessary. Frutarom is building a global purchasing unit to centrally support the purchase of raw materials classified as being strategically important.

28.2. No individual Frutarom supplier has supplied more than 5% of its raw material needs in recent years. There are exclusive suppliers for a small number of raw materials, but since these raw materials go into only a limited number of Frutarom products (none of which being substantial) out of its wide range of over 49,000 products, in the view of Company management Frutarom's dependence on these suppliers is not material.

28.3. Frutarom seeks to reduce costs of raw material used for the manufacture of its products and secure their ongoing supply by purchasing raw materials directly from the source through strengthening its global procurement capabilities in countries abounding with the necessary resources, like China, India and Brazil, expanding its pool of suppliers, and tightening its ties with manufacturers, processors and growers of raw materials.

Procurement of raw materials used in manufacturing the products of both of the Group's business activities is done with the support of the global headquarters supply chain unit, leveraging the purchasing power inherent in bulk purchasing to score favorable prices. Frutarom is working on reinforcing its global purchasing system and exploiting the growth of its purchasing power that has ensued largely from its recent acquisitions which have significantly increased its scope of activity.

28.4. The Group carefully manages its global supply chain and works towards strengthening its relations with manufacturers, processors and growers of raw materials, particularly natural raw materials, in order to ensure availability of raw materials at its various production facilities. Frutarom maintains relatively large inventories of certain raw materials as most of the natural substances used by Frutarom derive from field crops. Delivery times are also usually longer than those to which Frutarom has committed to its customers, making it necessary for Frutarom to hold enough raw material inventory to fill its customers' orders on short notice. On the other hand Frutarom generally maintains very limited finished goods inventory. Furthermore, the availability and prices of many of the raw materials, especially natural materials, used by Frutarom to manufacture its products are subject to fluctuations due to global supply and demand.

Following a trend lasting several years of prices continually rising significantly for most of the raw materials used by Frutarom, in 2014 and 2015 price levels generally began to stabilize for most of them. Frutarom closely monitors the prices of raw materials used in the manufacture of its products and, when the need arises, takes measures to prevent increases in raw material prices from impacting on its operating results. These might include adjustments to sale prices on products affected by the rise in raw material prices, expanding its pool of supplier, and making full and optimal use of the capabilities of its production sites around the world.

29. Working Capital

Frutarom's working capital is composed of cash and cash equivalents, accounts receivable, debit balances and inventories; less short-term bank credit and loans and current maturities of long-term loans, and accounts payable and credit balances. For further information see the Company's balance sheet in its financial statements.

30. Investments

30.1. The Group's capital expenditures go primarily towards enlarging and expanding existing facilities, developing new cutting-edge and more efficient manufacturing facilities, investing in environmental protection, and for establishing new sales and marketing offices and R&D laboratories.

30.2. Most of the investment planned by the Group in the upcoming years is related to upgrading existing production facilities, improving their efficiency, and amalgamating production sites, along with continued implementation of a new company-wide IT system and improving and

expanding production at Frutarom facilities, as well as investing in the areas of ecology, energy conservation and environmental protection.

In 2015 Frutarom completed building a new plant in China for producing both sweet and savory flavors which will also houses state-of-the-art laboratories for development and applications.

In 2012 Frutarom received approval from the Ministry of Industry and Trade to build a new plant in Israel which will expand the Company's scope of R&D and production in Israel and globally, and will serve as a research and development center for natural products. The new plant will be located in Gilboa, a national priority area and, under Israel's Encouragement of Investments Law, it has classified as a Development Area "A" investment grant and tax benefits. The investment grant will amount to at least 20% of the Company's investment on fixed assets. The plant will be situated on land covering 64,000 square meters. Investment for building the new Gilboa plant is expected to stand at around US$ 30 million. Over the past year the Company was engaged in detailed planning for the new site and memoranda on environmental effects and surveys on risks were submitted as required to the Ministry of Environmental Protection and the Gilboa Regional Council. The Company intends to begin work developing the site after receiving building permits.

30.3. The balance of the depreciated cost of property, plant and equipment net of investment grants on the Company's balance sheet as of December 31, 2015 stood at US$ 232.8 million. For further information on the Company's investment in fixed assets see Note 7 to the financial statements.

30.4. Company management believes the cash flow generated from operating activity will cover the required capital expenditure and working capital needs for the Company's internal growth over the next several years.

31. Financing

31.1. Frutarom's activity is financed by equity and long-term and short-term loans from banks and financial institutions. The average and effective interest rate on the loans in force during the reported period was 1.38%.

31.2. During 2015 Frutarom used long-term loans from banks for financing acquisitions it has made in recent years. As of December 31, 2015 the net balance of debt to banks stood at US$ 415 million. For further information on loans taken by the Group from banks in 2015, see Notes 9 and 14 to the financial statements.

31.3. Frutarom has acted and is acting to improve the terms of loans it has taken in line with changing market conditions. In this regard, there has been no material change in the conditions of loans or any changes to the Company's financial covenants, as stated in section 31.4 below.

31.4. As part of an update of the credit facility at its disposal, the Company's financial covenants were updated on February 16, 2012 as follows:

- The Company's equity will at no point of time amount to less than US$ 300 million. As of December 31, 2015 the Company's equity stood at US$ 551.7 million.

- The Company's equity will at no point of time be equal to less than 35% of the Company's balance sheet. As of December 31, 2015 the Company's equity was equal to approx. 41.8% of the Company's total balance sheet.

- The ratio of the Group total financial liabilities divided by its pre-tax operating profit calculated on a pro-forma basis excluding depreciation and amortization, will not exceed 4.25. As of December 31, 2015 the above ratio was 2.2 calculated on a non-pro-forma basis, and 2.5 calculated on a pro-forma basis.

As of December 31, 2015 and to the date of this report, the Company meets its financial covenants.

For further details on loans, currencies and interest rates, see Note 9 to the financial statements

The Company has a negative pledge on its assets (in addition to the existing negative pledge on the assets of Frutarom Ltd.). The Company has also committed to a restriction on dividend distributions, under which it is entitled to distribute:

1) Up to 50% of the retained earnings accumulated up until December 31, 2011 as this figure appeared in the Company's balance sheet relating to December 31, 2011 (i.e. US$ 270.3 million).

2) Up to 50% of the Company's annual net income in each calendar year as this figure appears in the Company's annual financial statements relating to same calendar year in which said net income was accumulated.

31.5. For further details on the aforementioned commitments to meet financial covenants, the negative pledge and restrictions on dividend distributions, see Note 14 to the financial statements and the Company's immediate report on the matter dated February 16, 2012.

31.6. In light of Frutarom's capital structure and solid balance sheet, supported by the strong cash flow generated over recent years and the backup of financial institutions, as of now Frutarom is not engaged in contractual credit facility agreements with banks and has no floating charges on its assets and its operation is financed through its own capital resources and long-term and short-term loans from banks and financial institutions. The Group has understandings with leading banks around the world for being able to finance rapid growth and strategic acquisitions as the need arises.

31.7. Company management believes that it will not be required to raise funds in the coming year for running its ongoing activities.

31.8. For further details on the Company's loans, see Note 9 to the financial statements.

32. Taxation

32.1. For details of tax provisions applicable to the Company see Note 13 to the financial statements.

32.2. The Company has received final tax assessments in Israel for up to and including 2009.

32.3. The Company operates throughout the world and, as of the date of this report, the applicable tax rates in the countries in which it operates range from 12% to 42%. For details on the Company's affiliated companies incorporated abroad see Note 13 to the financial statements.

32.4. The effective tax rate (on a consolidated basis) for 2015 was 18.6% compared with 19.5% in 2014. For a breakdown of differences between the Company's statutory tax rates and its effective tax rates see Note 13 to the financial statements.

33. Environmental Risk Management

Environmental Hazards

As of the date of publication of this report Frutarom has 52 plants worldwide engaged in producing of flavors and specialty fine ingredients, which includes the use and production of substances considered hazardous. These plants are therefore subject to different local legislation and regulations related to the environment and prevention of environmental hazards.

33.1. Environmental hazards which may materially affect the Group are:

33.1.1. The emission of substances from the manufacturing activity at a number of the Company's production facilities which may harm humans and the environment if reaching the surroundings in excess of permitted volumes or concentrations, including annoying smells that could reach the point of becoming an odor nuisance as defined by relevant local legislation. The Company takes the necessary measures in preventing uncontrolled emissions of such substances in accordance with provisions of the applicable law in each country in which it operates.

33.1.2. Production, maintenance and use at a number of the Company's production facilities of materials defined as hazardous by the applicable local legislation (including flammable substances) which, if uncontrolled for any reason, may harm humans or the environment. The Company keeps these substances in accordance with the provisions of applicable law and takes the safety precautions that are necessary in using these substances.

Material Implications of Regulations

33.2. IPPC directive (96/61`/EC) (the "**Directive**") went into effect in the European Union on October 30, 2007. The Directive establishes strict standards for everything relating to the prevention of environmental hazards and is enforced on the Group's sites in Europe.

On January 1, 2008 the Clean Air Law 5768 – 2008 (the "**Clean Air Law"**) came into effect in Israel, adopting the principles of the Directive and applying them to plants defined as "emissions sources that require a permit." As the Company's plant in Haifa is an "emissions source that requires a permit," as defined in the Clean Air Law, Frutarom submitted an application for an emissions permit, and it is possible that under the framework of the terms of the emissions permit, the Haifa site will have to comply with environmental demands and additional designated fees compared to those which were applicable to date by law. On March 1, 2015 the Company received a draft of the emissions permit for review. As of the date of this report and in light of the Company's actions to eliminate environmental hazards at the plant, the Company believes that the plant's activity no longer requires an emissions permit and the Company has submitted to the Ministry of Environmental Protection a request to cancel the permit. To date this request is still under review by the Ministry.

Material Legal and Administrative Proceedings Related to the Environment

33.3. During the period of the report and until the date of its publication, no material legal or administrative proceedings were pending against the Company, or to which an office holder of the Company was party to, in connection with environmental issues.

The Group's Policy on Environmental Risk Management

33.4. Frutarom has and continually takes measures to prevent environmental hazards and protect the environment. The Company has been certified within the framework of the Responsible Care program. Company management keeps constant watch over the issue of environment protection and acts to reduce environmental risks at all Group locations.

Environmental trustees have been appointed at Frutarom's key production sites around the world as part of the implementation of the Group's strategic program for environmental protection. The trustees have undergone training for raising involvement and awareness for environmental protection by the workforces at all Group sites.

All of the Group's sites hold the licenses relevant to the legislative systems in their countries and, in the Company's assessment, are acting in accordance with the law.

33.5. Following is a list of the main actions taken by Frutarom in 2015 for reducing the risk of environmental hazards:

- According to the addendum to the Environmental Arrangement Document agreed upon between the Ministry of Environmental Protection and the Company in June 2011, a process of transfer of production of a number of materials having an odor potential continued over the course of 2015, from the Company’s site in Haifa to production sites outside of Israel.

- At its site in Haifa the Company has shut down an installation for the treatment of packaging, a large installation for flares and an installation for mixing substances with potential for emitting odors, It also removed asbestos roofs and reduced the storage of materials with potential for causing odors.

- At the Company's sites in Stuttgart, Germany and Reinach, Switzerland, all types of solid waste (organic waste, waste from the packing stage, plastic, carton and wood) are sent for recycling and reuse.

- The Company's site in Wadenswil, Switzerland has an electric power station that operates on natural gases produced from the organic waste resulting from the production process.

- At the Company's site in Reinach, Switzerland a heat recycling system has been operating for a number of years, leading to a significant reduction in energy consumption.

- At the Company's sites in Northern UK a great emphasis is put on the recycling of methanol and ethanol in production processes and

thus a significant reduction of the volume of waste is achieved. In addition, organic materials are sent to the production of compost and thus they help the environment.

- At the Company's site in Markovci, Slovenia (Vitiva) the waste materials are used to generate steam for the heat treatment of the rosemary and other extracts.

- At the Company's site in China an air purification system was installed to reduce the emission of odors.

Material Environmental Amounts, Provisions and Costs

33.6. During the period of the report and until the date of its publication, no significant sums were awarded against the Company in connection with environmental matters.

33.7. The total amount spent by the Company in 2015 on environmental costs stood at US$ 2.734 million. This was spent on preventing and reducing environmental hazards and does not include investments carried out by the Company at its facilities as stated above. The Company does not foresee a significant change in the above costs during 2016.

34. Limitations and Supervision of the Company's Business

34.1. The Company develops, produces and markets its products in a number of countries throughout the world and is subject to the legislation, regulations and supervision applicable to its activities in each of the various countries. These laws and regulations include, among others, the U.S. Food and Drug Administration's (FDA) regulations regarding activity in the United States, EU directives implemented in the member countries of the European Union in which the Company operates, CODEX in South America and other countries, and regulations set by the Ministry of Health in Israel. These laws and regulations determine standards relating to food production and labelling, as well as to the production facilities, equipment and personnel required to produce products for human consumption.

34.2. The Company is also subject to various rules relating to health, work safety and environment at the local and international levels in the various countries where it operates. The Company's production facilities in the various countries are subject to environmental regulations concerning air pollution, sewage treatment, the use of hazardous materials, waste treatment and clean-up of existing environmental contamination. Environmental law and enforcement throughout the world have become more stringent in recent years and the costs of abiding by these laws have risen significantly.

34.3. Frutarom believes that it currently operates its facilities in compliance with the relevant laws and regulations for food manufacturing, work safety, health and the environment.

34.4. For further information on regulation, health, safety and permits, see section 13.10 of this report.

35. Material Agreements and Cooperation Agreements

35.1. For details regarding the Company's commitment to meet its financial covenants towards financing banks and financial institutions, see section 31.4 of this report.

35.2. For details regarding material loans taken on by the Group from banks and financial institutions, see Note 9 to the Company's financial statements.

36. Legal Proceedings

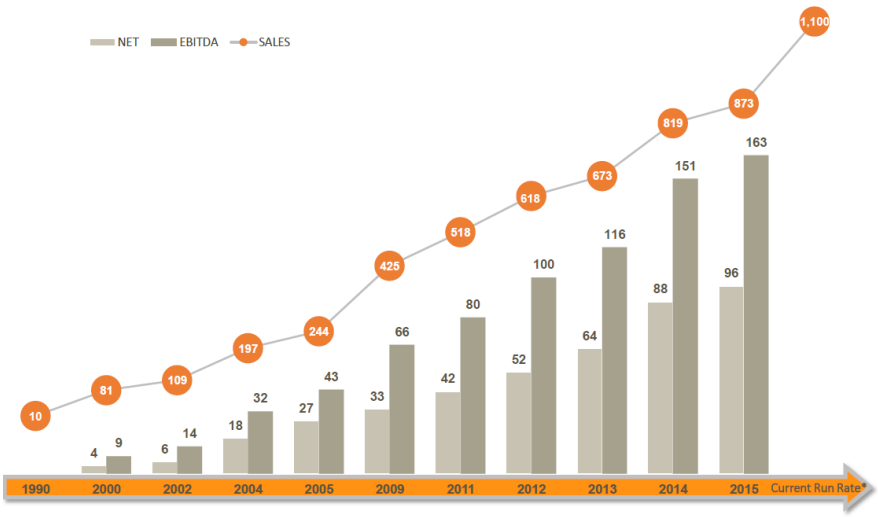
36.1. For details regarding legal proceedings in which the Company is involved, see Note 11(b) to the financial statements.

36.2. The Company is not involved in any significant legal proceedings in which the amount claimed (without interest and expenses) exceeds 10% of its current assets based on its consolidated financial statements.

37. Goals and Business Strategy

Frutarom works towards achieving rapid and profitable growth, combining rapid profitable internal growth for its Core Businesses along with carrying out strategic acquisitions, and has strengthened its position as one of the world's top companies in the field of flavors and specialty fine ingredients while fulfilling its vision:

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



* Annual rate of sales assuming all of the acquisitions made by Frutarom during 2015 and 2016 until the date of this report had been completed on January 1, 2015 and according to the exchange rates known on the date of this report.

In December 2015 Frutarom revised its strategic sales target to the level of US$ 2 billion a year by 2020 while retaining its goal of attaining a level of profitability in terms of its EBITDA reaching 22% of sales by its core activities (flavors and specialty fine ingredients) based on its existing product mix[28].

In Frutarom's estimation, meeting its strategic goals can be attained through the continued combination of the following factors:

37.1. Frutarom's ability to **maintain organic growth at a rate higher than the industry average**, supported by: (1) maintaining the Company's differentiation from its competitors in providing value to its customers by offering solutions combining taste and health under one roof; (2) maintaining a focus on the SMB (small and medium-sized business) and private label segments of the market that are characterized by higher growth rates than those of brand-name food companies; (3) capitalizing of the cross-selling opportunities that grow in number with the expansion of the Company's product portfolio and customer base; and (4) improvement in the geographic mix while focusing growth on markets with higher than average growth rates with emphasis on North America and the emerging markets.

37.2. Continued **execution of strategic mergers** supported by a deep quality pipeline in all markets relevant to the Company's activity, experience and accumulated knowledge in spotting acquisition opportunities, the efficient conducting of the negotiation processes and feasibility studies, quality global infrastructures comprising the appropriate physical capital and human resources for continued absorption and assimilation of acquired activities along with proficiency in PMI (post-merger integration) processes and optimal financial flexibility. The Company's acquisition policy is focused: ongoing expansion of activity in the field of flavors, expansion of

[28] 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.

specialty fine ingredients activities with an emphasis on natural products based on specialized R&D that will enable the Company to continue improving its offer of value to its customers with emphasis on providing a comprehensive portfolio of solutions and continued improvement and balance in the geographic mix.

37.3. Continued **improvement to Frutarom's profitability** supported by: (a) a focus on a profitable product mix that includes natural products, combined taste and health solutions, and specialized R&D-based products that improve the offer of value to the customer; and (b) savings made `possible in light of the expansion and spread of the Company's global infrastructures and the exploiting of economies of scale along with operational synergies considering the optimization of development, sales and production processes (also due to the acquisitions) and improvement of the global supply chain; and (c) the building of a global purchasing platform for raw materials with the purpose of buying raw material directly from their countries of source rather than from agents and distributors and the exploiting of economies of scale.

Following are the key components of Frutarom's growth strategy:

37.4. **Increasing the share of Flavors activity** – The successful implementation of Frutarom's rapid and profitable growth strategy has allowed Frutarom to significantly increase the share of its Flavors activity, the more profitable of its activities, achieving a higher rate of growth than the growth rate of markets in which it operates. Since 2000 Frutarom's Flavors activity has grown at an average annual rate (CAGR) of 23%. Sales in this field now account for 70% of total Frutarom sales (as compared to 33% of total sales in 2000).

The Company believes this rapid growth trend will also continue through, among other things, the addition of products and offering the Company's customers comprehensive solutions combining flavors with health solutions, natural colors and natural solutions for Food Protection.

37.5. **Focus on natural products** – Frutarom is working towards developing and expanding its portfolio of natural products in response to consumer demand and to major trends in the global food market for healthier and more natural foods. This field is growing at a rapid pace and Frutarom's unique capabilities give it a competitive edge. In line with this strategy, Frutarom continues to expand the portfolio of specialty natural products that it offers its customers through internal R&D, through collaborations with universities, research institutes and startups, and through acquisitions. As part of the strategy of focusing on natural products with health-promoting attributes, last year Nutrafur and Vitiva were acquired and in 2016 Grow was acquired and an investment was made in Algalo. Frutarom further expanded its activity in natural products in recent years by also entering the natural food

colors field (by acquiring Montana Food, Vitiva, and Ingrenat) and by substantially increasing its activity in the area of natural antioxidants that promote Food Protection (through the acquisition of Vitiva, Ingrenat and Nutrafur). In addition, Frutarom has further strengthened its activity in the field of specialty citrus products, an important natural raw material in the development and production of flavors and many food and beverage products, and established a citrus excellence center in the US state of Florida, one of the world centers for citrus (through its acquisitions of CitraSource and the activity of Scandia). Frutarom also increased its activity in the field of innovative natural solutions for incorporating fruit components into food products (by acquiring Taura and Inventive). Today over 70% of Frutarom sales consist of natural products

37.6. **Developing new products and solutions combining taste and health** – Frutarom develops innovative taste and health solutions to suit 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 contribute not only to growth in sales but also towards improving Frutarom's product mix and profitability.

37.7. **Improvements in the Specialty Fine Ingredients Division 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, targeted for both the flavors market and the health market. The latest acquisitions, as mentioned, will contribute towards the continuation of the growth trend in this activity.

37.8. **Strategic changing of the geographic mix** – The successful implementation of Frutarom's strategy over the past few years which included, among other things, substantial expansion of its sales in North America and in emerging markets with high growth rates, has led to Frutarom tripling its revenues in these markets between 2010 and 2015. Sales in North America accounted for 16% of total sales in 2015 compared with 9% in 2010. Over the same period 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.

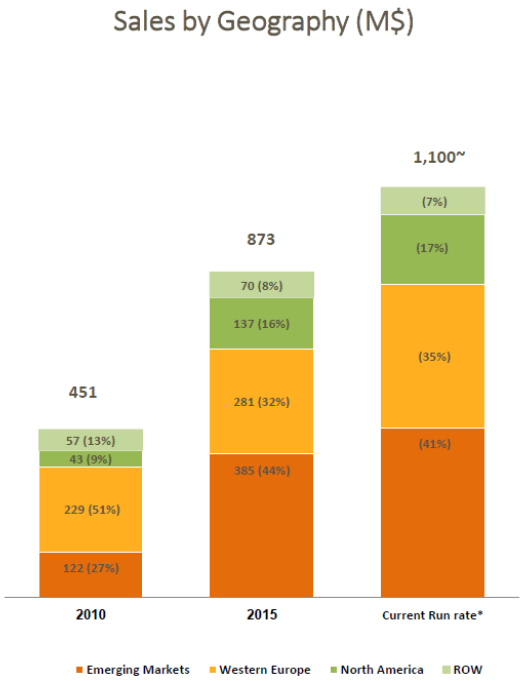
The rapid growth of activity outside of Western Europe has led to sales in Western Europe (which have grown by 23% since 2010)

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) have also 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 in China, AMCO in Poland and of Wiberg of Austria with activity in Canada, in the western US, and in many emerging markets. Frutarom will continue developing and expanding its activity in the growing emerging markets and North America through, among other things, focused reinforcement of its R&D, production, marketing and sales platforms in key growing target countries and the continued execution of further strategic acquisitions.

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 develop and produce savory flavors locally (as only sweet flavors are being produced at Frutarom's existing Chinese plant).
In 2016 Frutarom's new plant in South Africa will also begin operating.

Development of Sales Distribution by Geographic Region



*Annual rate of sales assuming all of the acquisitions made by Frutarom during 2015 and 2016 until the date of this report had been completed on January 1, 2015 and according to the exchange rates known on the date of this report.

37.9. **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.

37.10. **Acquisitions and mergers and their contribution to the achievement of 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.

After executing 14 strategic acquisitions from 2011 to 2014 which have been successfully integrated with its global activities and contribute to both revenues growth and improved profitability, Frutarom continued carrying out its acquisition strategy, acquiring 11 companies in 2015 and completing the acquisition of four additional companies at the beginning of 2016, with a focus on:

(1) expanding its sales and market share in North America and 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 15 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 integration of acquired activities and their monitoring while realizing synergies in the areas of R&D and marketing, sales, purchasing, production and logistics.

Frutarom sees 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 start being reflected in its results in upcoming quarters[29].

Increased Profits and Profit Margins

37.11. In recent years Frutarom has succeeded in attaining, along with revenue growth, significant growth in gross and operating profits and margins. Frutarom strives and will continue to strive to strengthen its competitive abilities while raising its profits and margins by focusing, among other things, on the following objectives:

- **Successful integration of acquisitions while maximizing synergies** – Integration of the 6 acquisitions made from 2013 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 15 acquisitions performed since the beginning of 2015 is also expected to contribute towards the continuing trend of improvement in Frutarom's results. Following are highlights of the progress being made in the merging of companies acquired by Frutarom in the recent past:

    - Transfer of production at Hagelin (acquired in 2013) from its New Jersey site to Frutarom's factory in Cincinnati has been completed,

[29] See footnote no. 1 above with respect to forward looking statement.

and in the second quarter of 2016 the merger of F&J's flavors activity with Frutarom's US flavors activity with the transfer of production to its Cincinnati plant and the closure of F&J's plant in New Jersey.

- The merging of Scandia's activity with that of CitraSource, which was acquired in 2014, has been completed, along with the building of an excellence center for citrus in Florida.

- A significant increase in production capacity for natural extracts following the acquisitions of Vitiva, Ingrenat and Nutrafur has provided for substantial streamlining, including the closure of the Frutarom plant at North Bergen in New Jersey in the fourth quarter of 2015 and 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 in order to boost operational efficiency.

- The R&D, sales and marketing and administration of FoodBlenders have been merged into Frutarom's UK activity.

- 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 Poland is being merged with that of AMCO such that for the first time Frutarom now has a local production site in Poland which allows it to improve its service and delivery times to its customers.

- Following the acquisition of Wiberg, Frutarom is working on combining and streamlining its production in Germany and various countries to achieved maximum operational efficiencies and savings which are estimated at over US$ 12 million (on an annual basis), most of which is expected to be attained towards the end of 2016 and part in 2017. In this regard, Frutarom intends to close down its site in Stuttgart, Germany in 2016[30].

- Frutarom's flavors activity in India has combined into Sonarome's Indian activity.

- Collaboration has begun 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.

[30] See footnote no. 1 above with respect to forward looking statement.

- Steps have begun for combining Inventive's activity in the Far East with those of Frutarom, including preparations for the expected transfer of Inventive's R&D laboratory and sales and marketing center in Shanghai, China to Frutarom's new plant in Shanghai.

- 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, leveraging 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 also contributes to 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 additional projects for combining and consolidating production and operational sites and towards achieving utmost efficiency also in the areas of purchasing, logistics and supply chain which will contribute over the coming years as well to strengthening its competitive position and improving its profits and margins. These actions should lead to operational savings on an annual basis in the range of US$ 20 million to US$ 22 million (including the savings expected in light of its merger with Wiberg) which will partly manifest themselves in 2016 and partly in 2017[31].

Frutarom expects that fulfilling its rapid and profitable growth strategy of combining profitable internal growth with strategic acquisitions, along with the contribution made by the continuing fulfillment of streamlining processes and its improved cost

[31] See footnote no. 1 above with respect to forward looking statement.

structure, with maximum utilization of its sites around the world and the strengthening of its global procurement platform, and the successful integration of activities acquired in recent years and those that will be acquired, will result in the continuation of its trend of improvement in profits and profit margins. The Company anticipates that its strategic plan for the next five years will lead to the accomplishment of its sales target of at least US$ 2 billion with an EBITDA margin of over 22% from its Core Businesses (assuming the current product mix) by 2020[32].

[32] See footnote no. 28 above with respect to forward looking statement.

38. ***Financial Data Regarding Geographic Regions***

The Group manufactures, markets, and sells its products throughout the world.

38.1. ***Following*** is the distribution of the Company's consolidated revenues by sales from unaffiliated end customers according to their geographic location (in US$ thousands):

	2013	2014	2015	% of total 2015 Sales
Emerging markets*	269,553	376,438	384,804	44.1%
Western Europe**	264,218	280,804	281,745	32.3%
North America	71,561	96,298	136,633	15.6%
Other	68,361	66,007	69,614	8.0%
Total	673,693	819,547	872,796	100%

The reported figures were strongly affected by changes in exchange rates.

* Sales in Russia reached US$ 142,885 thousand, US$ 165,638 thousand and US$ 89,928 thousand in 2015, 2014 and 2013 respectively.

** Sales in Germany amounted to US$ 66,018 thousand, US$ 72,570 thousand and US$ 71,943 thousand in 2015, 2014 and 2013 respectively.

38.2. Data according to geographic location of main production sites:

38.2.1. Following is a breakdown of sales according to geographic location of main production sites (in US$ thousands):

	2013				2014				2015			
	Flavors	Raw Materials	Elimin-ations	Total	Flavors	Raw Materials	Elimin-ations	Total	Flavors	Raw Materials	Elimin-ations	Total
Europe	367,725	57,056	(2,255)	422,526	433,703	55,692	(2,301)	487,095	390,887	49,322	(1,208)	439,000
Americas	44,001	27,066	-	71,067	68,654	33,085	(145)	101,594	75,779	37,440	(150)	113,069
Israel	46,650	37,742	(1,146)	83,246	46,262	38,837	(1,093)	84,016	42,964	37,029	(1,370)	78,623

The reported figures were strongly affected by changes in exchange rates.

* Sales are presented according to Geographic location of the manufacturing site net of sales of products manufactured at other Frutarom sites in other geographic regions.

38.2.2. Following is a breakdown of operating margins by division and geographic location of main production sites (%):

Flavors Division	2015	2014	2013
Divisional operating margin	17.9%	16.5%	13.9%
Europe	26.5%	23.6%	14.4%
Americas	24.7%	22.4%	19.1%
Israel	20.1%	20.5%	23.9%

Specialty Fine Ingredients Division	2015	2014	2013
Divisional operating margin	10.2%	12.3%	11.8%
Europe	11.3%	9.7%	13.3%
Americas	6.9%	9.0%	3.4%
Israel	217%.	23.7%	22.5%

Operating margins were impacted by non-recurring expenses relating to measures being taken by Frutarom to optimize its resources, join factories together and achieve maximum operational efficiency.

38.2.3. Total assets (without intercompany balances) by geographic location of main production sites (in US$ thousands):

	2015	2014	2013
Europe	483,319	488,989	540,084
Americas	203,655	177,220	167,131
Israel	70,761	72,314	71,811

38.3. For further information on geographic segments see Note 6 to the Financial Statements.

39. ***Discussion of Risk Factors***

Following is an outline of the main risk factors:

Macroeconomic Risk Factors

- **Effect of the global economy on Group activities**

  Due to the nature and type of its global activity, Frutarom is exposed to fluctuations in the global economy. Economic crisis and recession in important target countries could curb demand for the Company's products (mainly premium products) and significantly slow down the development and launch of new products by Frutarom customers. A global financial crisis could impair Frutarom's ability to raise funds for executing its strategic acquisitions.

- **Stability in emerging markets**

  Frutarom operates in a number of countries besides the United States and Western Europe, such as Russia, Ukraine, Turkey, Slovenia, Kazakhstan, China, countries in South and Central America (Brazil, Guatemala, Peru, Chile and Mexico) and countries in northern, southern and western Africa, and is therefore exposed to political, economic and legal developments in these countries which are generally less predictable than in developed countries. The Group's facilities in these countries could be subject to disruption as a result of economic and/or political instability as well as from nationalization and/or expropriation of assets situated there. There is also substantial risk relating restrictions on the Company to collect payment from its customers, distributors, or agents, as well as foreign exchange restrictions which could impede the Company's ability to realize its profits or to sell its assets in these countries. While none of the emerging market countries in which Frutarom operates impose foreign exchange restrictions that affect the Group, such restrictions did exist not long ago and there is no certainty that they will not be reinstated sometime in the future.

- **Currency fluctuations**

  About 70% of Frutarom's sales are conducted in currencies other than the US dollar (mainly the Euro, Russian Ruble, Pound Sterling, Swiss Franc, New Israeli Shekel, Chinese Yuan, Canadian Dollar, Brazilian Real, South African Rand and Peruvian Nuevo Sol) and changes in exchange rates affect Frutarom's reported results in US dollar terms. However, exposure to currency fluctuations is reduced by the fact that Frutarom’s raw materials purchases and operational expenditures in the various countries in which it operates are also paid for in most cases in the various currencies so that most of the effect applies to the translation of sales revenues and profits into dollar terms (and not to the profitability of its various activities and/or the group's profitability). Nonetheless, in cases of extreme fluctuations in exchange rates, and since a large part of the raw materials used in the manufacture of

Frutarom's products are paid for in US dollars, in Euros, or other currencies, there is no certainty that the Company can completely update its selling prices denominated in local currency (which is different from the currency used in buying the raw material) and maintain its margin. Most non-US dollar monetary balances derive from the local activity of subsidiaries in countries where the functional currency is not the US dollar, and therefore the translation differences on the local currency balances of each company do not affect the Group's financial expenses and are directly attributed to the translation differences equity fund. Monetary balances in other currencies are attributed to financial expenses. Currency exposure is reviewed as necessary from time to time, and at least once every quarter by the Balance Sheet Committee and the Board of Directors. The Company does not generally undertake external hedging action nor does it use other financial instruments for protection against currency fluctuations. For more details see Note 3(a) of the Company's December 31, 2015 financial statements attached to this report.

- **Changes in interest rates**

  For details regarding risks from changes in interest rates, see Interest Rate Risk under Exposure to and Management of Market Risks in the Directors' Report, and Note 3(a) to the financial statements.

Industry-Related Risk Factors

- **Competition in markets where the Group operates**

  Frutarom faces competition from large multinationals as well as medium-sized, small and local companies in many of the markets in which it operates. Some of the Company's competitors have greater financial and technological resources, larger sales and marketing platforms and more established reputations, and may therefore be better equipped to adapt to changes and industry trends.

  The global market for flavors is characterized by close relations between flavor manufacturers and their customers, particularly with regard to large multinationals. Furthermore, large multinational customers, along with medium-sized customers too of late, limit the number of their suppliers and work exclusively with a list of "approved suppliers." To compete more effectively under these conditions, Frutarom must invest more resources in customer relations, in R&D and in matching products to customers' needs in order to provide good and efficient service. Any failure to maintain good relations with its customers, forge strong relations with new customers, or secure the status of "approved supplier" with some of its customers could lead to substantial adverse effects on the Group's business, operational results and financial condition.

  The specialty fine ingredients market is more price sensitive than the flavors market and is characterized by relatively lower profit margins.

Some fine ingredients products manufactured by the Company are less unique and more replaceable by competitors' products. Production overcapacity for fine ingredients globally could also negatively impact Frutarom's sales and profitability. Although, as part of its strategy, the Company focuses on specialty fine ingredients with higher profit margins, there is no certainty that operating margins will not erode in the future, something which could substantially impact the Group's business, operational results and financial condition.

- **Effect of regulatory changes on the Group**

  Frutarom is subject to a variety of international and domestic health, safety and environmental statutes in the various countries in which it operates. In general there is a trend towards increased regulation in the fields of the Group's activities resulting from growing consumer sensitivity concerning the inclusion of flavor additives in food products and the fact that regulators perceive nutraceuticals and functional food products as having medicinal attributes, and in some countries such products may come under the same standards and regulations as applied to drugs. Frutarom has identified the nutraceutical and functional food markets as important to its future growth. The subjecting of these markets to increased regulation could give rise to additional expenses which might have an adverse effect on the Company's business, operational results and financial condition.

- **Compliance with environmental, health and safety regulations**

  Companies like Frutarom that operate in the flavor and fine ingredients industry make use of, manufacture, sell, and distribute substances that are sometimes considered hazardous and are therefore subject to extensive regulation concerning the storage, handling, manufacture, transport, use and disposal of such substances and their components and byproducts. This is particularly relevant to Frutarom's production and R&D activities in the UK, Switzerland, Germany, Italy, the US, Israel, Russia, Slovenia, China, Spain, Brazil, Guatemala, Belgium and New Zealand and other countries where operations are subject to various regulations and standards relating to air emissions, sewage treatment and the use, handling and discharge of hazardous material as well as clean-up of existing environmental contamination. Any further tightening of such laws and regulations could have a substantial adverse effect on the Group's business, operational results and financial condition.

  In addition to covering its ongoing environmental compliance costs, the Company might also incur nonrecurring charges associated with remedial action needed to be taken at its production sites. As environment-related incidents cannot be foreseen with any certainty, the sums that the Company allocates or will allocate for such matters may turn out to be inadequate. Ongoing and nonrecurring environment-related expenses could both have substantial adverse effects on the Company's business, operational results and financial condition.

Frutarom is required to obtain various permits related to the environment concerning operations at its various production facilities and to meet the conditions set by these permits. The expansion of existing plants is also subject to securing necessary permits. Such permits might be unilaterally revoked or modified by the issuer, or expire after a given length of time. Any cancellation, modification and/or failure to renew or obtain a permit could have a significant adverse effect on the Company's business, operational results and financial condition.

- **Exposure to civil and criminal liability with respect to environmental, health and safety laws and regulations applicable to the Group**

  The laws and regulations concerning the environment, health and safety may involve Frutarom in civil and/or criminal liability for non-compliance or environmental pollution. Environmental, health and safety laws may include criminal sanctions (including substantial penalties) for violating them. Some environmental laws also include provisions imposing complete responsibility for the release of hazardous substances into the environment which could result in Frutarom becoming liable for clean-up efforts without any negligence or fault on its part. Other environmental laws impose liability jointly and severally, something which could expose the Group to responsibility for cleaning up environmental pollution caused by others.

  In addition, some environmental, health and safety laws are applied retroactively and could impose responsibility for acts done in the past even if such acts were carried out in accordance with the relevant legal provisions in force at the time. Criminal or civil liability under such laws may have significant adverse effects on the Company's business, operational results and financial condition.

  Frutarom may also become subjected to claims for personal injury or property damage arising from exposure to hazardous substances. Laws in the major countries where the Group operates permit legal proceedings to be instituted against it if personal injury or environmental contamination was ostensibly caused by activity at its production sites in these countries. Such legal proceedings could also be instituted by private individuals or non-governmental organizations.

- **Fluctuations in prices of raw materials needed for producing the Group's products**

  The price, quality and availability of the main raw materials that Frutarom uses, especially in the field of natural products, are subject to fluctuation arising from global supply and demand. Many raw materials used by the Group are agricultural products whose prices, quality and availability could be affected by, among other things, poor weather conditions. Frutarom does not normally conduct futures transactions and is exposed to price fluctuations in the raw materials it uses

according to changes in global trends for prices of these raw materials. Monitoring of raw material prices is performed on an ongoing basis by the Company's Executive Vice President for Global Supply Chain and Operations.

For details regarding risks from fluctuations in prices for raw materials required for producing Frutarom products, see Raw Material Price Risks under Exposure to and Management of Market Risks in the Directors' Report.

- **Reliance on exclusive raw material suppliers and availability of natural raw materials**

  Frutarom is dependent on third parties for the supply of raw materials needed manufacturing its products. Although the Group purchases raw materials from a very wide range of suppliers and no individual supplier accounts for more than 5% of its total raw material usage, and even though there is more than one supplier for most of the raw material bought by the Group and they are usually readily available, there is no certainly that this will also continue to be the case in the future. Severe weather conditions may cause a significant shortage for natural raw materials used by the Company. A shortage of these raw materials could impair Frutarom sales for a certain period of time.

- **Damages awarded from possible claims due to product warranty**

  Frutarom is exposed to product liability risk, particularly due to the fact that it supplies flavors to the food and beverage, flavor and fragrance, functional food, pharma/nutraceutical and personal care industries. Should the Company be found responsible in a large claim of this type, its insurance coverage might be inadequate for covering damages and/or legal expenses. A lack of adequate insurance coverage could result in significant adverse effects on the Company's business, operational results and financial condition. Product liability claims brought against the Group could might damage its reputation as well as put heavy demand of the management's time and efforts, and this could have significant adverse effects on the Company's business regardless of the outcome of the claim.

Risk Factors Unique to the Group

- **Frutarom's future ability to pinpoint, acquire and integrate suitable businesses**

  A key element in Frutarom's growth strategy is growth through the acquisition of flavor and specialty fine ingredients manufacturers. In line with this strategy, Frutarom has made many strategic acquisitions of companies and business activities in recent years. There can be no certainty, however, that Frutarom will be able to continue pinpointing suitable acquisitions on satisfactory terms or obtain the financing necessary for continuing with such acquisitions. Any failure to identify

and execute future acquisitions could adversely impact the Company's growth strategy.

The integration of acquired activities involves a number of risks, including possible adverse effects on the Group's operating results, loss of customers, diversion of senior management's time and attention, and failure to retain key personnel, along with risks associated with unanticipated events in the integration of the operations, technologies, systems and services of the acquired business. In addition, Frutarom may be unable to capitalize on the anticipated synergies (including those aimed at cost savings) inherent in such acquisitions. Failure in successfully integrating its acquisitions could have adverse effects on the Company's business, operational results and financial condition.

- **The rapid growth characterizing the Group's activity in recent years**

  The rapid growth, as in recent years, in both the Group's activities and its geographical spread requires effective management to ensure that the financial benefits, tapping of synergies and the economies of scale are achieved. An inability to adapt effectively to the rapid growth could result in losses or acquisition costs that will not recovered as quickly as anticipated, if at all. Such circumstances could have significant adverse effects on the Company's business, operational results and financial condition.

- **Hiring and retaining key employees**

  The Company's continued future success depends on its ability to attract and retain proficient flavorists (flavor developers), lab technicians and other skilled personnel. The Company operates in a highly specialized market where product quality is of critical importance and having skilled personnel is necessary for ensuring the supply of high quality products. If a number of such employees were to leave at the same time, the Company could encounter difficulties in finding replacements with equivalent experience and abilities, a situation which could impair the Group's R&D capabilities. Furthermore, Frutarom's continued success depends to a large extent on its senior management team. The loss of services from members of senior management or other key employees could have a negative impact on Frutarom's results and its ability to implement its strategy. A failure to recruit and retain skilled personnel or members of senior management could have a significant adverse effect on the Company's business, operational results and financial condition.

- **Protection of intellectual property**

  The Group's business relies on intellectual property, mainly consisting of formulas used to create its flavors. Frutarom does not register these formulas but they are kept highly confidential and considered trade secrets and, as such, are accessible to just a very limited circle of

people within the Group. Although Frutarom believes it is not significantly reliant on any individual intellectual property right, proprietary formula, patent or license, a breach of confidentiality with respect to the formulas or loss of access to them and/or the future expiration of intellectual property rights could have a significant adverse impact on the Group's business, operational results and financial condition.

Frutarom relies, in part, on confidentiality agreements, ownership of intellectual property, and non-competition agreements with employees, vendors and third parties in order to protect its intellectual property. It is possible that these agreements will be breached and that Frutarom may lack an adequate remedy for any such breach. Disputes may arise concerning the ownership of intellectual property or the extent to which the confidentiality agreements remain in force. Furthermore, the Company's trade secrets may become revealed to its competitors or developed independently by them, in which case the Company will not be able to enjoy exclusive use of some of its formulas or maintain confidentiality concerning its products.

Following is a table outlining the various risk factors and the Company's evaluation concerning their possible effect:

Risk Factor	**Risk factor's level of impact on the Company**		
	High	**Medium**	**Low**
Macroeconomic Factors			
Effect of the global economy		✓	
Stability in emerging markets		✓	
Currency fluctuations		✓	
Changes in interest rates		✓	
Industry Related Factors			
Competition in the markets		✓	
Regulatory changes		✓	
Compliance with regulations		✓	
Exposure to litigation		✓	
Fluctuations in raw materials prices		✓	
Reliance on exclusive suppliers and availability of natural raw materials		✓	
Awards for damages without adequate insurance coverage		✓	
Factors Unique to the Group			
Pinpointing future acquisitions		✓	

Adapting to rapid growth		✓	
Hiring and retaining key employees		✓	
Protection of intellectual property		✓	

40. Details about Valuations

40.1. Details about the valuation for the Flavors activity in the United States in accordance with Accounting Standard IAS36 and the provisions of Regulation 8b to the Securities Regulations (Periodic and Immediate Reports), 1970:

Valuation subject	Goodwill of the Flavors activity in the United States
Valuator	BDO Ziv Haft Consultants and Management Ltd.
Valuation requester	Frutarom Industries Ltd., by Mr. Guy Gill, VP Finance
Engagement date	December 2015
Approval to attach to reports	The valuator gave written approval to attach the valuation to the Company's reports
Valuation timing	Goodwill value as of December 31, 2015. Valuation was conducted in February and March 2016.
Value of goodwill prior to valuation date	US$202,413 thousand
Value of goodwill according to valuation	US$317,771 thousand
Identification of evaluator and its characterization	Ziv Haft Consulting and Management was established by partners in the BDO Ziv Haft Accounting firm. Ziv Haft Consulting and Management is part of the global BDO 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 hi-tech and communications companies, business plans, planning of presentations for potential investors, financial management and analysis of BOT and PFI projects, receivership, liquidation and appointment as special administrator, handling companies in crisis, formulating recovery plans, management of business and companies, supporting mergers and splits, transaction planning and more. Evaluator: Moti Dattelkramer Evaluator's education • BA in Economics and Computer Science, Bar-Ilan University • MBA, Bar-Ilan University Experience and expertise: • Performance of financial assessments and valuations, including valuations for accounting needs of reporting

	corporations and in similar scopes to those of the reported assessment or greater; • PPA, business planning, due diligence, impairment examination, evaluation of financial instruments and more for government and private bodies; • Support in IPOs and consultation in mergers. The valuator is has no dependence on Frutarom and there are no indemnification agreements with the valuator.
Valuation Model	• DCF (discounted cash flow).
Valuation Assumptions	• Discount rate before taxes: 14.3% • Long term growth rate: 2.5% • Sensitivity to growth: 1.5% to 3.5% • Discount rate sensitivity: 13.3%-15.3% Data used as a basis for comparison: the activity's results in recent years and its forecast.
Prior Valuation	Not conducted

40.2. Following are details about the valuation of the savory activity in Germany in accordance with Accounting Standard IAS36 and the provisions of Regulation 8b to the Securities Regulations (Periodic and Immediate Reports), 1970:

Valuation subject	Goodwill of the EMEA flavors activity
Valuator	BDO Ziv Haft Consultants and Management Ltd.
Valuation requester	Frutarom Industries Ltd., by Mr. Guy Gill, VP Finance
Engagement date	December 2015
Approval to attach to reports	The valuator gave written approval to attach the valuation to the Company's reports
Valuation timing	Goodwill value as of December 31, 2015. Valuation was conducted in February and March 2016.
Value of goodwill prior to valuation date	€401,859 thousand
Value of goodwill according to valuation	€940,838 thousand
Identification of evaluator and its characterization	Ziv Haft Consulting and Management was established by partners in the BDO Ziv Haft Accounting firm. Ziv Haft Consulting and Management is part of the global BDO 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 hi-tech and communications companies, business plans, planning of presentations for potential investors, financial management and analysis of BOT and PFI projects, receivership, liquidation and appointment as special

	administrator, handling companies in crisis, formulating recovery plans, management of business and companies, supporting mergers and splits, transaction planning and more. Evaluator: Moti Dattelkramer Evaluator's education • BA in Economics and Computer Science, Bar-Ilan University • MBA, Bar-Ilan University Experience and expertise: • Performance of financial assessments and valuations, including valuations for accounting needs of reporting corporations and in similar scopes to those of the reported assessment or greater; • PPA, business planning, due diligence, impairment examination, evaluation of financial instruments and more for government and private bodies; • Support in IPOs and consultation in mergers.
Valuation Model	• DCF (discounted cash flow).
Valuation Assumptions	• Discount rate before taxes: 13.1% • Long term growth rate: 2.5% • Sensitivity to growth: 1.5% to 3.5% • Discount rate sensitivity: 12.1%-14.1% Data used as a basis for comparison: the activity's results in recent years and its forecast.
Prior Valuation	Not conducted

40.3. Following are details about the valuation of the Specialty Fine Ingredients in EMEA in accordance with Accounting Standard IAS36 and the provisions of Regulation 8b to the Securities Regulations (Periodic and Immediate Reports), 1970:

Valuation subject	Goodwill of the EMEA Specialty Fine Ingredients
Valuator	BDO Ziv Haft Consultants and Management Ltd.
Valuation requester	Frutarom Industries Ltd., by Mr. Guy Gill, VP Finance
Engagement date	December 2015
Approval to attach to reports	The valuator gave written approval to attach the valuation to the Company's reports
Valuation timing	Goodwill value as of December 31, 2015. Valuation was conducted in February and March 2016.
Value of goodwill prior to valuation date	€115,380 thousand
Value of goodwill according to valuation	€165,658 thousand
Identification of	Ziv Haft Consulting and Management was established by

evaluator and its characterization	partners in the BDO Ziv Haft Accounting firm. Ziv Haft Consulting and Management is part of the global BDO 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 hi-tech and communications companies, business plans, planning of presentations for potential investors, financial management and analysis of BOT and PFI projects, receivership, liquidation and appointment as special administrator, handling companies in crisis, formulating recovery plans, management of business and companies, supporting mergers and splits, transaction planning and more. Evaluator: Moti Dattelkramer Evaluator's education • BA in Economics and Computer Science, Bar-Ilan University • MBA, Bar-Ilan University Experience and expertise: • Performance of financial assessments and valuations, including valuations for accounting needs of reporting corporations and in similar scopes to those of the reported assessment or greater; • PPA, business planning, due diligence, impairment examination, evaluation of financial instruments and more for government and private bodies; • Support in IPOs and consultation in mergers.
Valuation Model	• DCF (discounted cash flow).
Valuation Assumptions	• Discount rate before taxes: 13.5% • Long term growth rate: 2.5% • Sensitivity to growth: 1.5% to 3.5% • Discount rate sensitivity: 12.5%-14.5% Data used as a basis for comparison: the activity's results in recent years and its forecast.
Prior Valuation	Not conducted

SECTION B

DIRECTORS' REPORT

B

FRUTAROM INDUSTRIES LTD.
DIRECTORS' REPORT OF THE COMPANY'S STATE OF AFFAIRS
FOR THE PERIOD ENDING DECEMBER 31, 2015

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. On December 31, 2015 Frutarom operated 46 production sites, 62 research and development laboratories, and 78 sales offices in Europe, North America, Latin America, Israel, Asia, Africa and New Zealand, marketed and sold over 43,000 products to more than 22,000 customers in more than 150 countries and employed 3,734 people throughout the world. As of the date of this report, Frutarom operates 52 production sites, 66 research and development laboratories, and 84 sales offices, and markets and sells over 49,000 products to more than 28,000 customers in more than 150 countries and has approximately 4,500 employees.

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 new 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 in 2015 accounted for approx. 77% of the Company's total core activity sales and 70% 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, and of the US-based Scandia and Grow (which was acquired at the beginning of 2016), 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 accounted for 23% of the core activity in 2015 and 21% of its 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. In 2015 sales from this activity accounted for 9% of total Frutarom turnover.

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 planned 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 23%. Revenues from Flavors made up approx. 70% of Frutarom's total revenues in 2015 (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 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 was 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 citrus products which constitute an important natural raw material 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.

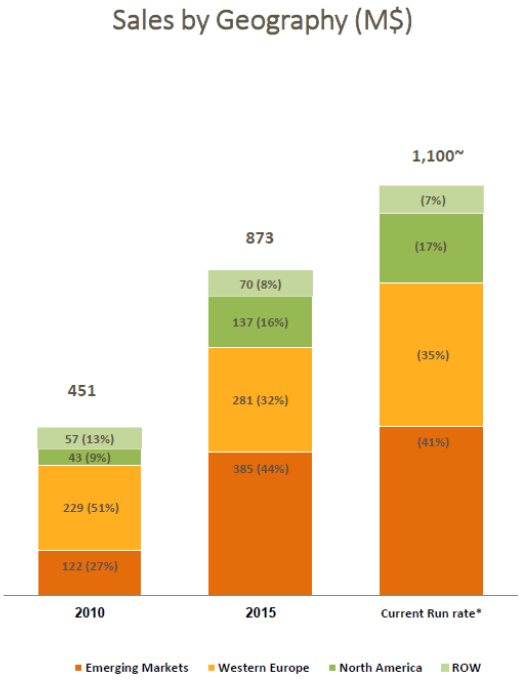
- **Improvements in Specialty Fine Ingredients Product Mix** – Over the past few years Frutarom has been taking steps to improve its product mix in its Specialty Fine Ingredients activity. Frutarom's R&D teams are successfully developing specialty innovative natural products directed towards both the areas of taste and health. The successful penetration of these products also contributed 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.

- **Strategic Change in the Geographic Mix** – The successful implementation of Frutarom's strategy over the past few years, which included among other things 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) have also 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 in China, AMCO in Poland and of Wiberg of Austria with activity in Canada, in the western US, and in many emerging markets. Frutarom will continue developing and expanding its activity in the growing emerging markets and North America through, among other things, focused reinforcement of its R&D, production, marketing and sales platforms in key growing target countries and the continued execution of further strategic acquisitions. 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 develop and produce savory flavors locally (only sweet flavors are being produced at Frutarom's existing Chinese plant).

  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.

Progression of Sales Distribution by Geographic Region:



* Rate of annual sales assuming all acquisitions made by Frutarom in 2015 and until the date of this report had been completed on January 1, 2015 and according to the exchange rates as of the publication date of this report.

- **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.

  After executing 14 strategic acquisitions from 2011 to 2014 which have been successfully integrated with its global activities and contribute to both revenues growth and improved profitability, Frutarom continued carrying out its acquisition strategy, acquiring eleven companies in 2015 and completing the acquisition of four additional companies at the beginning of 2016, with a focus 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 15 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[1] 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 start being reflected in its results in upcoming quarters.

[1] The above-stated assessment concerning the synergetic potential of the acquisitions and attaining significant operational savings and the ancillary savings, including in connection with the Wiberg acquisition, constitutes a forward-looking statement, as defined in the Securities Law that 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

Following are brief summaries of the acquisitions performed since the beginning of 2015 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.

2015 acquisitions:

- **Acquisition of FoodBlenders** – On February 2, 2015 Frutarom signed an agreement for the purchase of 100% of the shares of UK-based FoodBlenders Limited ("**FoodBlenders**") in exchange for payment of approximately £ 1.6 million (approx. US$ 2.4 million) plus an additional performance-based payment of £ 574 thousand (approx. US$ 870 thousand) that was paid during 2015. The transaction was independently financed.

  FoodBlenders engages in the development, manufacture and marketing of savory taste solutions. In 2014 FoodBlenders posted sales of approximately US$ 3 million[2]. Its sales, development and administrative activities have been merged with the growing flavors activity of the Company in the UK.

  For further information on the acquisition of FoodBlenders, see the Company's immediate report from February 3, 2015 and Note 5 to the Company's financial statements for December 31, 2015 attached to this report.

- **Acquisition of Ingrenat** – On February 2, 2015 Frutarom signed an agreement for the purchase of 100% of the share capital of the Spanish company Ingredientes Naturales Seleccionados S.L. ("**Ingrenat**") in exchange for approx. € 4.3 million (approx. US$ 4.8 million) paid to its shareholders plus the assumption of approx. € 2.5 million (approx. US$ 2.8 million) of debt. The agreement includes a mechanism for future consideration that the Company expects will stand at € 250 thousand (US$ 279 thousand). The transaction was completed upon signing and was financed through bank credit.

  Ingrenat specializes in the research and development, production, and sales and marketing of natural plant extracts which deliver taste, color, and antioxidant activity solutions for the food industry. Among its customers are food manufacturers and leading flavor, fragrance, and natural color producers. Ingrenat's sales grew by 10% in 2014 to reach approximately US$ 9.8 million[2]. Ingrenat's activity has been integrated into the activities of Frutarom's Specialty Fine Ingredients division.

  For further information on the acquisition of Ingrenat, see the Company's immediate report from February 3, 2015 and Note 5 to the Company's financial statements for December 31, 2015 attached to this report.

[2] Sales figures in US dollars relate to the average USD exchange rate for the period reported, and the purchase amount relates to the USD exchange rate on the day the transaction took place.

- **Acquisition of Vitiva** – On February 4, 2015 Frutarom completed the purchase of 92% of the share capital of the Slovenian company Vitiva Proizvodnja in storitve d.d. ("**Vitiva**"), and on April 23, 2015 completed the purchase of the balance of Vitiva's share capital, in exchange for an overall cash payment of approximately € 8 million (approx. US$ 10.0 million). The transaction was independently financed.

  Vitiva specializes in the research and development, production, marketing and sales of specialty natural plants extracts exhibiting antioxidant activity or scientifically proven health attributes backed up by clinical studies and of natural colors for customers in the food, pharmaceutical, nutraceutical, and cosmetics markets. Among its customers are leading global food, pharmaceutical, and cosmetics manufacturers. Vitiva's revenues grew from US$ 8.7 million in 2013 to US$ 11.0 million[2] in 2014 (an increase of 27%). Its activity has been integrated into Frutarom's Specialty Fine Ingredients division.

  Vitiva serves Frutarom as a development and applications center in the field of food protection. Its natural colors activity has been merged with the Company's colors activity in Spain and Peru.

  For further information on the acquisition of Vitiva, see the Company's immediate reports from on December 23, 2014, February 4, 2015 and April 26, 2015, and Note 5 to the Company's financial statements for December 31, 2015 attached to this report.

- **Acquisition of Taiga International** – On March 16, 2015 Frutarom signed an agreement for the purchase of 100% of the shares of the Belgian flavors company Taiga International in exchange for a cash payment of approximately € 2.7 million (approx. US$ 3.0 million). The transaction was completed upon signing and was independently financed.

  Taiga International has a broad customer base in Europe and North America and a site in Belgium for production, research and development and marketing which has been merged into Frutarom's existing production sites in Europe and the US, generating operational savings.

  Taiga International's sales turnover in 2014 amounted to US$ 4.9 million[2].

  For further information on the acquisition of Taiga International, see the Company's immediate report from March 18, 2015 and Note 5 to the Company's financial statements for December 31, 2015 attached to this report.

- **Acquisition of a controlling share in Sonarome** – On May 14, 2015 Frutarom signed an agreement for the purchase of 60% of the share capital of the Indian flavors and fragrances company Sonarome Private Ltd. ("**Sonarome**") in exchange for approx. 1,104 million Indian Rupees (approx. US$ 17.7 million). The purchase agreement includes an option for Frutarom to

acquire the remaining balance of shares beginning two years from the date on which the agreement was signed at a price based on the company's business performance. The transaction was completed upon signing and was financed through bank credit.

Sales for Sonarome grew in recent years at a double-digit annual rate, reaching approximately US$ 12 million[2] in 2014.

Sonarome has a manufacturing, marketing, and research and development facility in Bangalore, India, with much higher production capacity than is currently utilized. In addition to its activities in India, Sonarome has extensive activity in about 20 African markets, particularly in Nigeria, South Africa, Ethiopia, Kenya and Mozambique, which also constitute key growing target markets in Frutarom's growth strategy. Sonarome has a broad customer base that includes global and local food and beverages manufacturers.

The acquisition of Sonarome constitutes another important step for Frutarom in attaining its goal of expanding its activity in the emerging high-growth markets of India and Africa, both through internal growth and by means of acquisitions. The acquisition has provided Frutarom the advantages of a global manufacturer with a local R&D and production platform for cutting down on delivery time and improving service to customers in the region.

In addition to its flavors activity, Sonarome maintains a growing platform of activity in the field of fragrances, particularly in India and the emerging markets of Africa, and Frutarom is working towards utilizing this platform for penetrating additional emerging markets.

For further information on the acquisition of Sonarome, see the Company's immediate report from May 14, 2015 and Note 5 to the Company's financial statements for December 31, 2015 attached to this report.

- **Acquisition of BSA** – On May 15, 2015 Frutarom signed an agreement for the purchase of 95% of the share capital of Canadian company Investissements BSA Inc. ("**BSA**") for a cash payment of approx. CAD 45 million (approx. US$ 36 million). The purchase agreement includes an option for Frutarom to acquire the remaining balance of shares beginning two years from the closing date of the transaction at a price based on BSA's business performance. The transaction was completed on June 1, 2015 and financed through bank credit.

  BSA has a large and efficient production site in Montreal and employs around 140 people. BSA's main activities include the development, production and marketing of unique and innovative savory taste solutions that include seasoning blends and functional ingredients for the food industry, with particular focus on the areas of processed meats and convenience foods. The company also conducts activity in India which will be combined with Sonarome's activity in India and allow Frutarom to devote the best of its

capabilities and expertise in the field of savory solutions to the growing Indian market as well. BSA sales in 2014 (for the 12 months ended August 2014) stood at approx. US$ 34 million[2].

For further information on the acquisition of BSA, see the Company's immediate report from May 17, 2015, the immediate report from June 2, 2015 on the transaction's completion, and Note 5 to the Company's financial statements for December 31, 2015 attached to this report.

- **Acquisition of Taura** – On June 18, 2015 Frutarom signed an agreement for the purchase of 100% of the share capital of Australia-based Taura Natural Ingredients Holding Pty Ltd. ("**Taura**") in exchange for approximately € 62.7 million (approx. US$ 71.0 million) which included the assumption of € 24.3 million (approx. US$ 26.5 million) of debt. The purchase agreement includes payment of an additional amount of approximately € 3 million (approx. US$ 3.5 million) conditional upon Taura's business performance for the 12-month period ending June 30, 2016. The transaction was completed at the time of signing and was financed through bank credit. Taura's sales for the 12-month period ending March 31, 2015 amounted to approximately US$ 40 million[2].

  Taura is a leading world player in its field with manufacturing facilities in New Zealand and Belgium along with sales offices in the United States and in the UK and a workforce numbering 130 employees. Taura mainly engages in the development, production and marketing of innovative solutions through its unique Ultra Rapid Concentration (URC®) technology for delivering market-leading natural fruit ingredients in terms of flavor, functionality and consumer experience to a wide range of food products, particularly healthy snacks, breakfast cereals, confectionery, convenience foods and baked goods. Taura's URC® ingredients raise the percentage of fruit content in the final product, improve and enhance flavor and texture as well as lengthen shelf life while using natural ingredients and flavors.

  Taura has a broad customer base that includes leading global and national food and beverage manufacturers in the United States, the Asia-Pacific region and Europe. Taura's activity is largely synergetic with Frutarom's global flavors activity into which it has been integrated, allowing Frutarom to broaden and reinforce its supply of natural products and offer a portfolio of products and solutions that combine fruit components, natural flavors and colors, and ingredients with high nutritional value while continuing to expand and deepen its activity and market share.

  The acquisition will accelerate Frutarom's growth in Asia-Pacific markets, with emphasis on Australia and New Zealand, as for the first time Frutarom has an R&D and marketing platform and production site in New Zealand. Taura has long-established relationships with leading customers in these countries that will enable Frutarom to offer them the full range of its products. Frutarom is working towards merging its sales platforms with Taura's, and its customers

throughout the world will be offered the full variety of Frutarom's and Taura's innovative, unique and comprehensive capabilities and technologies in the fields of taste and health.

For further information on the acquisition of Taura, see the Company's immediate report from June 18, 2015 and Note 5 to the Company's financial statements for December 31, 2015 attached to this report.

- **Acquisition of F&J** – On June 29, 2015 Frutarom signed an agreement for the purchase of 100% of the share capital of the US-based flavors company Crestmont Investment, owner of the entire share capital of The Foote & Jenks Corporation, and the purchase of 100% of the share capital of the US-based flavors company Eden Essentials Inc. (the three companies hereinafter referred to as "**F&J**") in exchange for a cash payment of approximately US$ 4.2 million. F&J's sales turnover in 2014 totaled approx. US$ 2.9 million[2]. The transaction was completed upon signing and was financed through bank credit. Frutarom is taking steps towards transferring F&J's production activities to its plant in Cincinnati, Ohio while achieving operational savings.

  For further information on the acquisition of F&J, see the Company's immediate report from June 30, 2015 and Note 5 to the Company's financial statements for December 31, 2015 attached to this report.

- **Acquisition of the business activity and assets of Scandia** – On July 28, 2015 Frutarom signed an agreement for the purchase of the business operations and assets of Scandia Citrus LLC located in the US state of Florida ("**Scandia**") in exchange for a cash payment of approximately US$ 6 million. The transaction was completed at the time of signing and was financed through bank credit.

  Scandia specializes in the research and development, manufacture, and sales and marketing of specialty solutions in the field of citrus to leading global customers in the flavor and food and beverages markets, and its activity is largely synergetic to that of CitraSource which was acquired by Frutarom in 2014. Scandia's sales in 2014 totaled approximately US$ 8 million[2]. Scandia's activity has been successfully merged with the activity of CitraSource.

  For further information on the acquisition of Scandia's activity, see the Company's immediate report from July 29, 2015 and Note 5 to the Company's financial statements for December 31, 2015 attached to this report. For further details regarding the acquisition of CitraSourse, including the extension and amendment of the mechanism for additional future consideration to reflect the merger of the activity and assets of Scandia with that of CitraSource see Section 1.10.15 of Chapter A to the Annual Report.

- **Acquisition of a controlling share in Nutrafur** – On September 3, 2015 Frutarom signed an agreement for the purchase of 79% of the share capital of the Spanish company Nutrafur S.A. ("**Nutrafur**") for approximately € 7.9 million (US$ 8.8 million). The transaction was completed upon signing and financed through bank credit.

  Nutrafur specializes in the research and development, manufacture, and sales and marketing of specialty natural plant extracts bearing antioxidant properties or scientifically proven healthy qualities supported by clinical studies for the food, pharma, nutraceutical and cosmetics markets. Nutrafur sales for the 12-month period ending June 2015 amounted to approx. US$ 13 million[2].

  Frutarom is working on merging Nutrafur's activity into the Specialty Fine Ingredients division, on capitalizing on the many cross-selling opportunities arising from this acquisition and on supporting the continued rapid development and production of natural functional solutions combining taste and health in response to consumer demand and the major trends in the global food market towards more natural and healthier foods.

  Nutrafur has an R&D and sales center and an efficient manufacturing site in Murcia, Spain with large production capacity and the possibility for considerable expansion. It has 67 employees, of which about 10 are engaged in R&D and have advanced academic degrees and expertise in various fields. Nutrafur's production site is in close proximity to that of Ingrenat which was acquired in the first quarter of 2015, and this geographic proximity provides maximum operational flexibility in terms of the use of various extraction technologies as well as in the use of the various manufacturing systems in support of optimizing Frutarom's global supply chain, jointly with the Vitiva plant in Slovenia as well. The acquisition allows for significant operational savings in Frutarom's global manufacturing structure in the area of natural extracts and in the fields of purchasing, production, logistics, and marketing of the Company's solutions in these fields.

  For further information on the acquisition of control of Nutrafur, see the Company's immediate report from September 6, 2015 and Note 5 to the Company's financial statements for December 31, 2015 attached to this report.

- **Acquisition of Inventive** – On December 8, 2015 Frutarom signed an agreement for the purchase of 100% of the share capital of the Hong Kong companies Inventive Technology Ltd. and Prowin International Ltd. and their subsidiaries (collectively: "**Inventive**") for US$ 17 million (partly including the assumption of Inventive's debts). The purchase agreement includes a mechanism for future consideration conditional upon the company's business performance over the three year period following the acquisition. The transaction was completed upon signing and financed independently and through bank debt.

Inventive engages in the development, manufacture and marketing of flavors and flavor inclusions through the application of innovative solutions and unique technologies for combining flavors with fruit components, chocolate, grains and nuts in many food products, particularly dairy products, ice creams, pastries and beverages.

Inventive has a manufacturing, research and development, and marketing site at Zhàoqìng in southern China with excess production capacity, as well as an R&D and sales center in Shanghai which will be merged with Frutarom's R&D and sales and marketing center at its new plant in Shanghai. Inventive also has sales and marketing offices in Hong Kong. Frutarom is working on merging its R&D, marketing and sales with those of Inventive. Inventive has a broad customer base which includes blue-chip global food and beverage makers along with leading Chinese food and beverage manufacturers, and its products are sold in China, Southeast Asia, the Middle East and South America. Inventive's management maintains excellent long-lasting relationships with these customers and Frutarom anticipates being able to utilize these ties to capitalize on an abundance of cross-selling opportunities.

The company's founders, with their rich and accomplished experience in the industry and who are currently running Inventive successfully, are continuing in their managerial roles with the company. Sales for Inventive in the 12 months ending October 2015 reached US$ 13.7 million[2].

For further information on the acquisition of Inventive, see the Company's immediate report from December 9, 2015 and Note 5 to the Company's financial statements for December 31, 2015 attached to this report.

Acquisitions completed since the beginning of 2016:

- **Acquisition of a controlling share in AMCO** – On November 10, 2015 Frutarom signed an agreement for the purchase of 75% of the share capital of the Polish company AMCO Sp. z o.o. ("**AMCO**") for approximately US$ 20.7 million (82.25 million PLN). The purchase agreement includes an option to acquire the remaining balance of 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 completed on January 11, 2016 and 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 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 taste solutions that include seasoning blends, marinades, and functional ingredients for the food industry.

AMCO sales in the 12-month period ending September 2015 reached approximately US$ 19.5 million[2] (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 activities in Poland is being 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. 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 report from November 11, 2015 and the immediate report from January 12, 2016 on the completion of the transaction, and Note 22 to the Company's financial statements for December 31, 2015 attached to this report.

- **Acquisition of Wiberg** – On December 14, 2015 Frutarom signed agreements for 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$ 130.4 million (€ 119.1 million). The transaction was completed on January 28, 2016.

  According to Wiberg's managerial reports, in 2015[3] its sales amounted to approx. US$ 172 million[2] (approx. € 155 million).

  The purchase was funded in its entirety through short-term bank financing from local banks which The Company is working on replacing this financing with long-term financing.

  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 processed meats and convenience foods as well as activity focused on innovative culinary solutions for restaurants, catering firms and chefs which

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

constitutes a distinctive and premium market. Wiberg employs some 670 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.

Wiberg's activity is largely synergetic with Frutarom's global savory activity and is expected to enable Frutarom to reinforce its supply of products in this field with emphasis on the field of culinary solutions and on offering Wiberg's wide selection of products and solutions to its customers throughout the world. Frutarom intends to make the most of its global sales and marketing infrastructure in leveraging and realizing the many cross-selling opportunities generated by this acquisition by expanding the customer base and the product portfolio as well.

Frutarom also intends to take steps to maximize the reaping of operational synergies between its own activities and those of Wiberg in the various countries in order to achieve operational efficiencies and maximal savings estimated[4] at more than US$ 12 million (on an annual basis), most of which are expected to be attained toward the end of 2016 and part in 2017. As part of these steps, Frutarom intends to close down its Stuttgart, Germany site in 2016. The process of merging the R&D and sales and marketing platforms in the various countries has already begun as well. In addition, the substantial Wiberg activity is expected to join 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.

Wiberg has highly qualified and professional personnel who will contribute much towards the successful business integration between Frutarom and Wiberg and help accelerate Frutarom's growth in the savory taste solutions field.

For further information on the acquisition of Wiberg, see the Company’s immediate report from December 14, 2015 the immediate report from January 31, 2016 on the completion of the transaction, and Note 22 to the Company’s financial statements for December 31, 2015 attached to this report.

[4] See footnote 1 above.

- **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 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.

  Algalo is a biotech startup company which has developed a unique and innovative 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.

  The unique patent applied for growing method developed by Algalo allows for the efficient and competitive cultivation of algae containing high concentrations of active elements.

  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 and Note 22 to the Company's financial statements for December 31, 2015 attached to this report.

- **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 will work towards capitalizing on the many cross-selling opportunities arising from the acquisition and supporting 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. The company's owners, and foremost among them the CEO who as a renowned researcher in this field with many years of experience also serves as its Chief Science Officer, has joined Frutarom's managerial ranks in its Specialty Fine Ingredients Division.

For further information on the acquisition of Grow, see the Company's immediate report from January 12, 2016 and Note 22 to the Company's financial statements for December 31, 2015 attached to this report.

Frutarom is well positioned business-wise and competitively to continue implementing its rapid and profitable growth strategy through, among other things, 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 15 acquisitions performed since the beginning of 2015 is also expected to contribute towards the continuing trend of improvement in Frutarom's

results. Following are highlights of the progress being made in the merging of companies acquired by Frutarom in the recent past:

- Transfer of production at Hagelin (acquired in 2013) in the US from its New Jersey site to Frutarom's factory in Cincinnati has been completed, and in the second quarter of 2016 the merger of F&J's flavors activity with Frutarom's US flavors activity with the transfer of production to its Cincinnati plant and the closure of F&J's plant in New Jersey.
- The merging of Scandia's activity with that of CitraSource, which was acquired in 2014, has been completed, along with the building of an excellence center for citrus in Florida.
- A significant increase in production capacity for natural extracts following the acquisitions of Vitiva, Ingrenat and Nutrafur has provided for substantial streamlining, including the closure of the Frutarom plant at North Bergen in New Jersey in the fourth quarter of 2015 and 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 in order to boost operational efficiency. These actions contribute towards improving cost structure and competitiveness in the field of natural plant extracts which are at the core of Frutarom's growth strategy.
- The R&D, sales and marketing and administration of FoodBlenders have been merged into Frutarom's UK activity.
- 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 Poland is being merged with that of AMCO such that for the first time Frutarom now has a local production site in Poland which allows it to improve its service and delivery times to its customers.
- Following the acquisition of Wiberg, Frutarom is working on combining and streamlining its production in Germany and various countries to achieved maximum operational efficiencies and savings which are estimated[5] at over US$ 12 million (on an annual basis), most of which is expected to be attained towards the end of 2016 and part in 2017. In this regard, Frutarom intends to close down its site in Stuttgart, Germany in 2016.
- Frutarom's flavors activity in India has combined into Sonarome's Indian activity.
- Collaboration has begun 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.

[5] See footnote 1 above.

- Steps have begun for combining Inventive's activity in the Far East with those of Frutarom, including preparations for the expected transfer of Inventive's R&D laboratory and sales and marketing center in Shanghai, China to Frutarom's new plant in Shanghai.

- **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 also contributes to 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 additional projects for combining and consolidating production and operational sites and towards achieving utmost efficiency also in the areas of purchasing, logistics and supply chain which will contribute over the coming years as well to strengthening its competitive position and improving its profits and margins. These actions should lead to operational savings on an annual basis in the range of US$ 20 million to US$ 22 million (including the savings expected from its merger with Wiberg) which will partly manifest themselves in 2016 and partly in 2017[6].

[6] See footnote 1 above.

Frutarom's sturdy capital structure (total assets of US$ 1,318.5 million and equity of US$ 551.7 million as of December 31, 2015 constituting 41.8% of the total balance sheet), and net debt (total loans minus cash) of US$ 414.9 million as of December 31, 2015, supported by the strong cash flow generated and together with bank backing, will allow it to continue implementing its rapid and profitable growth strategy as it has done over the past few years, including further strategic acquisitions, while strengthening its competitiveness and position as one of the leading global companies in the field of flavors and fine ingredients, and to realize its vision:

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

<u>Continuing growth in sales, in profits, and in profit margins</u>

* Annual rate of sales assuming all of the acquisitions made by Frutarom during 2015 and 2016 until the date of this report had been completed on January 1, 2015 and according to the exchange rates known on the date of this report.

After reviewing its strong competitive position, its recent acquisitions and pipeline of future acquisitions, Frutarom updated its sales target for 2020 to US$ 2 billion along with an EBITDA margin of over 22% in its core businesses[7].

[7] 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 STATUS

Frutarom's total assets as of December 31, 2015 totaled US$ 1,318.5 million, compared with US$ 940.4 million as of December 31, 2014.

The Group's current assets as of December 31, 2015 totaled US$ 476.8 million, compared with US$ 398.8 million as of December 31, 2014.

Property, plant and equipment net of cumulative depreciation plus other net property as of December 31, 2015 totaled US$ 706.6 million, compared with US$ 538.6 million as of December 31, 2014.

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

Currency effects

The trend of the US dollar considerably strengthening against most other global currencies continued during the fourth quarter of 2015.

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

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

The effect of currencies on Frutarom sales was 10.8% in the fourth quarter and 13.3% for 2015 in its entirety.

It should be noted that the trend of the strengthening dollar mainly began manifesting itself in the fourth quarter of 2014. Therefore, if exchange rates remain at their current levels, it is expected that the currency effects on Frutarom's reported dollar-based results in 2016 will be significantly more moderate than in 2015.

C. RESULTS OF OPERATIONS IN 2015

The year 2015 was again a record year and another major leap forward in sales, profits, profit margins cash flow and earnings per share.

Development of sales and profits of the entire Frutarom Group :

	Trend of real growth in key parameters continues **% growth vs. the equivalent period in 2014**	
	Q4 2015	**1-12 2015**
Sales[8]	*4.3%*	*4.9%*
Gross profit[9]	*25.0%*	*21.8%*
EBITDA[9]	*27.0%*	*26.4%*
Net income[9]	*33.6%*	*33.5%*

Sales

Frutarom sales in 2015 as reported in US dollars grew by 6.5% and reached an annual record of US$ 872.8 million, reflecting constant currency growth of 4.9% in pro-forma terms[10]. Substantial changes, as mentioned, to the exchange rates of currencies in which the Company operates as against the US dollar had a negative 13.3% impact on sales growth in pro-forma terms.

Flavors activity sales for 2015 as reported in US dollars rose 3.0% to reach US$ 607.5 million as opposed to US$ 589.8 million the previous year, reflecting constant currency growth of 5.3% in pro-forma terms. Currency effects had a negative 14.3% impact on sales in pro-forma terms.

Sales for **Specialty Fine Ingredients** activity in 2015 as reported in US dollars rose 16.8% to reach US$ 184.9 million compared with US$ 158.4 million last year, reflecting constant currency growth of 1.5% in pro-forma terms. Currency effects had a negative 6.0% impact on sales in pro-forma terms.

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[8] Assuming the acquisitions performed and completed in 2014 and 2015 had been consolidated on January 1, 2014 ("**Pro-forma Terms**") – and on a constant currency basis.

[9] On a constant currency basis and adjusted for non-recurring expenses.

Assuming the acquisitions performed and completed in 2014 and 2015 had been consolidated on January 1, 2014 ("**Pro-forma Terms**").

Frutarom sales from **Trade and Marketing** as reported in US dollars rose by 7.4% in 2015 and reached US$ 84.3 million compared with US$ 78.5 million the year before, reflecting constant currency growth of 4.9% in pro-forma terms. Currency effects had a negative 20.3% impact on sales in pro-forma terms.

Following the acquisitions made in 2015 and 2016, Frutarom's rate of annual sales has now reached approximately US$ 1.1 billion[11].

Annual Sales Breakdown by Activity 2005 - 2015 (US$ millions and %):

		2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Flavor Activity	**Sales**	150.4	187.0	247.7	339.8	297.1	306.4	369.9	457.3	494.4	589.8	607.5
	%	61.7%	65.1%	67.3%	71.8%	69.9%	67.9%	71.4%	74.0%	73.4%	72.0%	69.6%
Fine Ingredient Activity	**Sales**	89.8	98.4	115.0	124.3	123.8	141.5	145.0	140.8	145.6	158.4	184.9
	%	36.8%	34.3%	31.2%	26.3%	29.1%	31.4%	28.0%	22.8%	21.6%	19.3%	21.2%
Inter-company sales	**Sales**	-2.7	-4.9	-4.9	-4.0	-2.8	-2.2	-2.9	-2.4	-6.0	-7.1	-4.0
	%	-1.1%	-1.7%	-1.3%	-0.8%	-0.7%	-0.5%	-0.6%	-0.4%	-0.9%	-0.9%	-0.5%
Total Core Activity	**Sales**	237.5	280.5	357.8	460.1	418.1	445.7	512.0	595.7	634	741	788.4
	%	97.4%	97.7%	97.1%	97.2%	98.3%	98.8%	98.8%	96.4%	94.1%	90.4%	90.3%
Trade & Marketing	**Sales**	6.3	6.7	10.5	13.2	7.1	5.4	6.4	22.3	39.7	78.5	84.3
	%	2.6%	2.3%	2.9%	2.8%	1.7%	1.2%	1.2%	3.6%	5.9%	9.6%	9.7%
Total Sales		243.8	287.2	368.3	473.3	425.2	451.1	518.4	618.0	673.7	819.5	872.8

Profit and profitability

In 2015 Frutarom achieved record annual results in gross profit, operating profit and margin, EBITDA and EBITDA margin, net income and earnings per share.

These record results were achieved despite the effects of drastic shifts in the exchange rates of currencies with which the Company operates against the US dollar, reducing sales and profit as reported in USD by 13.3% in pro-forma terms. Non-recurring expenses were recorded in 2015 concerning steps being taken by Frutarom towards optimizing its resources, amalgamating plants, attaining maximal operational efficiency and in connection with acquisitions. These non-recurring expenses reduced the reported gross profit for 2015 by US$ 2.8 million, the reported operating profit by US$ 6.8 million, and the reported net income by US$ 14.7 million.

[11] Assuming all acquisitions performed in 2015 and 2016 had been completed by January 1, 2015 and in accordance with the exchange rates known as of the date this report was published.

Profits and margins for core businesses (comprising the Flavors and Specialty Fine Ingredients activities) also reached record levels: On a constant currency basis and adjusted for non-recurring expenses, gross profit rose by 20.2% in 2015 to reach US$ 322.6 million (with 40.9% gross margin), operating profit rose by 28.9% to reach US$ 134.2 million (with an operating margin of 17.0%), and EBITDA grew by 25.6% to reach US$ 166.6 million (EBITDA margin of 21.1%).

The operating margin for the **Flavors activity** (adjusted for non-recurring expenses) reached 18.3% (compared with 16.6% in 2014) and the EBITDA margin rose to 22.2% (compared with 20.6% in 2014). Operating margin for the **Specialty Fine Ingredients activity** (adjusted for non-recurring expenses) reached 12.5% (the same as in 2014) and the EBITDA margin reached 17.2% (compared with 17.6% in 2014).

Company management estimates that completing 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 procurement 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 should bring operational savings on an annual basis in the range of US$20-22 million which will partly manifest themselves in 2016 and partly in 2017[12].

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 market power which has grown significantly in recent years, shifting to direct purchasing from producers in source countries, mainly of natural raw materials (which account for over 70% of the raw materials used by Frutarom). The global purchasing platform will also contribute to further improvement in purchasing costs and gross margins.

[12] See footnote 7 above.

Tables summarizing profits and margins in 2014-2015:

In millions of US dollars	Core Businesses Flavors and Specialty Fine Ingredients			Total Frutarom Group		
	Adjusted for non-recurring expenses		% increase on a constant currency basis and adjusted for non-recurring expenses	Adjusted for non-recurring expenses		% increase on a constant currency basis[13] and adjusted for non-recurring expenses
	2014	2015		2014	2015	
Gross profit	303.7	322.6	20.2%	320.6	340.9	21.8%
Margin	*41.0%*	*40.9%*		*39.1%*	*39.1%*	
Operating profit	117.4	134.2	28.9%	120.1	137.0	29.7%
Margin	*15.8%*	*17.0%*		*14.6%*	*15.7%*	
EBITDA	149.1	166.6	25.6%	152.1	170.0	26.4%
Margin	*20.1%*	*21.1%*		*18.6%*	*19.5%*	
Net income				*93.0*	*110.8*	33.5%
Margin				*11.3%*	*12.7%*	

Reported results in US dollars for 2014-2015:

In millions of US dollars	Core Businesses Flavors and Specialty Fine Ingredients		Total Frutarom Group	
	2014	2015	2014	2015
Gross profit	303.7	319.8	320.6	338.1
Margin	*41.0%*	*40.6%*	*39.1%*	*38.7%*
Operating profit	116.2	127.4	118.9	130.3
Margin	*15.7%*	*16.2%*	*14.5%*	*14.9%*
EBITDA	148.0	159.8	151.0	163.2
Margin	*20.0%*	*20.3%*	*18.4%*	*18.7%*
Net income			87.6	96.1
Margin			*10.7%*	*11.0%*

[13] If the Company's Profit & Loss Statements for 2014 had been translated into US dollars according to the average exchange rates between the dollar and other currencies in 2015.

Financial Expenses / Income

Net financial expenses for 2015 totaled US$ 12.2 million (1.4% of sales), compared with US$ 10.1 million (1.2% of sales) in 2014.

Non-recurring financial expenses of US$ 9.9 million were recorded in 2015 (compared with US$ 4.5 million in 2014) for revaluation of the financial liability concerning the option to purchase the minority shares of PTI in light of that company's strong results.

Interest expenses for 2015, net of the above-mentioned non-recurring expense, amounted to US$ 5.3 million compared with US$ 5.7 million the previous year. Financial income arising from exchange-rate differences reached US$ 3.0 million compared to income of US$ 0.1 million in 2014.

Taxes on Income

Taxes on income for 2015 totaled US$ 22.0 million (18.6% of profit before tax) compared with US$ 21.2 million (19.5% of profit before tax) for 2014.

Net Income

Net income climbed 33.5% in 2015 (on a constant currency basis and adjusted for non-recurring expenses14) to reach a record US$ 110.8 million, with net margin rising to 12.7% of sales (compared with 11.3% in 2014). Net income as reported rose 9.7% to reach a record US$ 96.1 million compared with US$ 87.6 million in 2014.

Earnings per Share

Earnings per share in 2015 (on a constant currency basis and adjusted for non-recurring expenses pertaining to acquisitions, efficiency measures and the revaluation of the above-mentioned PTI option) rose by 32.6%, from US$ 1.41 in 2014 to US$ 1.87.

Reported earnings per share rose 8.8% in 2015 to reach a record high of US$ 1.62 compared with US$ 1.49 the previous year.

[14] A total of US$ 14.7 million with respect to acquisitions, streamlining activities, and revaluation of the PTI option

D. RESULTS OF OPERATIONS FOR FOURTH QUARTER 2015

Sales

Frutarom sales in the fourth quarter rose 11.6% to a fourth quarter record of US$ 225.6 million compared with US$ 202.2 million in the parallel period, reflecting year-over-year constant currency growth of 4.3% in pro-forma terms.

The substantial changes noted above in the exchange rates of currencies in which the Company operates as against the US dollar had a 10.8% negative impact on sales growth in pro-forma terms vs. Q4 2014.

Sales from the **Flavors activity** as reported in US dollars rose 6.2% to reach US$ 156.9 million in Q4 2015 as against US$ 147.7 million in Q4 2014, reflecting constant currency growth in pro-forma terms of 4.0% against the parallel period. Currency effects negatively impacted results in pro-forma terms by 12.6%.

Sales from **Specialty Fine Ingredients** activity as reported in US dollar terms rose 42.0% to US$ 48.3 million in Q4 2015 compared with US$ 34.0 million in Q4 2014 and reflect constant currency growth in pro-forma terms of 4.3% against the parallel period. Currency effects negatively impacted sales by 1.8% in pro-forma terms.

Sales from **Trade and Marketing** (which does not constitute part of Frutarom's core activity) as reported in US dollar terms declined in Q4 2015 by 5.3% to US$ 20.9 million compared with US$ 22.0 million in Q4 2014, reflecting constant currency growth in pro-forma terms of 2.1% against the parallel period. Currency effects negatively impacted sales by 14.9% in pro-forma terms.

Sales Breakdown by Activity in Q4 for 2005 - 2015 (US$ millions and %):

		Q4 2005	Q4 2006	Q4 2007	Q4 2008	Q4 2009	Q4 2010	Q4 2011	Q4 2012	Q4 2013	Q4 2014	Q4 2015
Flavor Activity	**Sales**	30.8	45.5	78.5	71.3	76.6	78.1	100.1	111.7	139.3	147.7	156.9
	%	58.6%	62.8%	72.4%	72.2%	70.6%	69.5%	76.1%	77.1%	72.6%	73.0%	69.6%
Fine Ingredient Activity	**Sales**	20.0	26.4	28.9	25.5	30.9	33.2	30.9	29.5	33.8	34.0	48.3
	%	38.0%	36.4%	26.6%	25.8%	28.5%	29.5%	23.5%	20.4%	17.6%	16.8%	21.4%
Inter-company sales	**Sales**	0.5	-1.4	-1.5	-0.8	-0.4	-0.5	-0.5	-0.7	-1.1	-1.5	-0.5
	%	1.0%	-1.4%	-1.5%	-0.8%	-0.4%	-0.4%	-0.4%	-0.5%	-0.6%	-0.7%	-0.2%
Total Core Activity	**Sales**	51.3	70.5	105.9	96.0	107.1	110.8	130.5	140.5	171.9	180.2	204.7
	%	97.5%	97.2%	97.6%	97.3%	98.7%	98.6%	99.2%	97.0%	89.6%	89.1%	90.8%
Trade & Marketing	**Sales**	1.3	2.0	2.6	2.7	1.4	1.6	1.1	4.3	19.9	22.0	20.9
	%	2.5%	2.8%	2.4%	2.7%	1.3%	1.4%	0.8%	3.0%	10.4%	10.9%	9.2%
Total Sales		52.6	72.5	108.5	98.7	108.5	112.4	131.6	144.9	191.8	202.2	225.6

In Q4 2015 Frutarom achieved record fourth quarter results in sales, gross profit, operating profit, EBITDA, net income, net margin and earnings per share.

These record results were achieved despite the effects of significant shifts in the exchange rates of currencies in which the Company operates against the US dollar which had a 10.8% negative impact on sales and the profit reported in USD terms (pro-forma terms) and the effect from non-recurring expenses concerning steps being taken by Frutarom towards optimizing its resources, amalgamating plants, attaining maximal operational efficiency and in connection with acquisitions These non-recurring expenses reduced reported gross profit for the quarter by US$ 1.4 million, and the operating profit reported for the quarter by US$ 2.2 million and the net income reported for the quarter by US$ 1.6 million.

Profits and margins from the core businesses also reached record levels: On a constant currency basis and adjusted for non-recurring expenses, gross profit from the core businesses rose in Q4 2015 by 26.7% to reach US$ 83.6 million (gross margin of 40.8%), operating profit from the core businesses rose by 25.4% to reach US$ 32.1 million (operating margin of 15.7%), and EBITDA for the core businesses grew by 26.5% to reach US$ 41.4 million (EBITDA margin of 20.2%).

The operating margin for the **Flavors activity** (adjusted for non-recurring expenses) rose to 17.5% (compared with 17.3% in 2014) and the EBITDA margin reached 21.7% (compared with 21.0% in 2014). The operating margin for the **Specialty Fine Ingredients activity** (adjusted for non-recurring expenses) reached 9.5% (compared with 8.8% in 2014) and the EBITDA margin was 15.2% (compared with 15.4% in 2014.

Tables summarizing profits and margins in the 4th quarter:

In millions of US dollars	Core Businesses Flavors and Specialty Fine Ingredients			Total Frutarom Group		
	Adjusted for non-recurring expenses		% increase on a constant currency basis and adjusted for non-recurring expenses	Adjusted for non-recurring expenses		% increase on a constant currency basis[15] and adjusted for non-recurring expenses
	Q4 2014	Q4 2015		Q4 2014	Q4 2015	
Gross profit	73.2	83.6	26.7%	79.6	88.3	25.0%
Margin	*40.6%*	*40.8%*		*39.3%*	*39.2%*	
Operating profit	28.1	32.1	25.4%	29.3	33.0	25.5%
Margin	*15.6%*	*15.7%*		*14.5%*	*14.6%*	
EBITDA	35.8	41.4	26.5%	37.1	42.6	27.0%
Margin	*19.9%*	*20.2%*		*18.3%*	*18.9%*	
Net income				24.7	30.8	33.6%
Margin				*12.2%*	*13.6%*	

Reported results in US dollars:

In millions of US dollars	Core Businesses Flavors and Specialty Fine Ingredients		Total Frutarom Group	
	Q4 2014	Q4 2015	Q4 2014	Q4 2015
Gross profit	73.2	82.3	79.6	87.0
Margin	*40.6%*	*40.2%*	*39.3%*	*38.5%*
Operating profit	27.5	30.0	28.7	30.9
Margin	*15.3%*	*14.6%*	*14.2%*	*13.7%*
EBITDA	35.2	39.3	36.5	40.4
Margin	*19.5%*	*19.2%*	*18.0%*	*17.9%*
Net income			19.7	23.5
Margin			*9.7%*	*10.4%*

[15] If the Company's Profit & Loss Statements for the fourth quarter of 2014 had been translated into US dollars according to the average exchange rates between the dollar and other currencies in the fourth quarter of 2015.

Company management estimates that the steps it is taking to optimize its production resources will lead to significant operational savings and to the strengthening of its competitiveness with maximum utilization of its sites around the world. These measures should bring operational savings on an annual basis in the range of US$20-22 million which will partly manifest themselves in 2016 and partly in 2017[16].

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 market power which has grown significantly in recent years, shifting to direct purchasing from producers in source countries, mainly of natural raw materials (which account for over 70% of the raw materials used by Frutarom). The global purchasing platform will also contribute to further improvement in purchasing costs and gross margins.

Financial Expenses / Income

Financial expenses in Q4 2015 totaled US$ 2.7 million (1.2% of sales), compared with US$ 5.6 million (2.8% of sales) in Q4 2014.

Non-recurring financial expenses of US$ 5.6 million were recorded in Q4 2015 (compared with US$ 4.5 million in Q4 2014) for revaluation of the financial liability concerning the option to purchase the minority shares of PTI in light of that company's strong results.

Interest expenses for Q4 2015 net of the above-mentioned non-recurring expense, amounted to US$ 1.4 million, similar to that in the same period the previous year. Financial income arising from exchange-rate differences reached US$ 4.2 million compared to income of US$ 0.3 million in Q4 2014.

Taxes on Income

Taxes on income for Q4 2015 totaled US$ 4.6 million (16.5% of profit before tax) compared with US$ 3.5 million (15.0% of profit before tax) the year before.

Net Income

Net income climbed 33.6% in Q4 2015 (on a constant currency basis and adjusted for non-recurring expenses[17]) to reach US$ 30.8 million. Net income as reported rose 19.5% to reach a record US$ 23.5 million compared with US$ 19.7 million in Q4 2014.

[16] See footnote 7 above.
[17] A total of US$ 7.2 million with respect to acquisitions, streamlining activities, and revaluation of the PTI option

Earnings per Share

Earnings per share in Q4 2015 (on a constant currency basis and adjusted for the non-recurring expenses pertaining to acquisitions, efficiency measures and the revaluation of the above-mentioned PTI option) rose 30.3% to reach US$ 0.51 compared with US$ 0.39 for the same quarter last year. Reported earnings per share rose 16.4% in Q4 2015 to reach US$ 0.39 compared with US$ 0.34 in the parallel period.

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.

E. 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.

Cash flow from operating activities grew 13.4% in 2015, from US$ 80.8 million the previous year to a record US$ 91.7 million.

Cash flow from operating activities in Q4 2015 totaled US$ 24.9 million compared with US$ 30.3 million in the same quarter last year. Timing differences in tax payments (in Q4 2015 tax payments totaling US$ 8.8 million were recorded compared with US$ 2.5 million in Q4 2014) resulted in reduced cash flow achieved this quarter from operating activities.

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.

F. SOURCES OF FINANCING

Sources of Capital

Frutarom's capital equity as of December 31, 2015 totaled US$ 551.7 million (41.8% of the balance sheet) compared with US$522.0 million (55.5% of the balance sheet) as of December 31, 2014. Capital equity was impacted as well from the considerable changes in currency exchange rates due to the translation of the equity of subsidiaries whose reporting currency differs from that of the Group.

Loans (Average) -

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

  Average long-term credit provided from banks and financial institutions totaled US$ 273.5 million in 2015 as compared with US$ 200.6 million in 2014.

  Average long-term credit from banks and financial institutions in Q4 2015 totaled US$ 328.1 million as compared with US$ 192.3 million in Q4 2014. 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 from banks and financial institutions in 2015 totaled US$ 55.5 million as compared to US$ 39.2 million in 2014.

  Average short-term credit extended to the Company by banks and financial institutions in Q4 2015 totaled US$ 80.8 million as compared with US$ 42.0 million during Q4 2014.

Frutarom's cash balances on December 31, 2015 totaled US$ 69.0 million compared with US$ 64.0 million on December 31, 2014.

Net debt rose to US$ 414.9 million on December 31, 2015 from US$ 167.5 million on December 31, 2014. The increase in the net amount of debt derives from the loans taken by Frutarom for financing the acquisitions carried out.

The debt includes amounts paid for acquisitions completed performed up until the balance sheet date, as well as the sum in consideration for the acquisition of Wiberg which was completed following the balance sheet date whereas the sum in consideration had been deposited in trust on December 14, 2015, the date the acquisition agreement was signed, whereas the results of the activities of the acquisitions performed during 2015 are not yet completely reflected in the results of the Company's activities for the full year.

Accounts Payable and Accounts Receivable (Average)

In 2015 the Company made use of US$ 124.1 million in credit from suppliers and other trade creditors, compared with US$ 108.8 million the previous year, while extending US$ 164.8 million in credit to its customers as compared with US$ 146.0 million the year before.

In Q4 2015 the Company made use of US$ 124.8 million in credit from suppliers and other trade creditors compared with US$ 104.6 million in the parallel period, and extended US$ 167.1 million in credit to its customers compared with US$ 138.1 million the year before. The increase in suppliers' and customers' trade credit is largely due to an 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

The Group's activity is highly decentralized. Within its core business (Flavors and Specialty Fine Ingredients) the Group produces thousands of products for thousands of customers throughout the world, using thousands of different raw materials purchased from a wide range of suppliers worldwide. The Group is not significantly reliant on any specific customer, product or supplier.

A. RESPONSIBILITY FOR MARKET RISK MANAGEMENT

Mr. Alon Granot, Executive Vice President & CFO, is the person responsible for managing market risk. Company management and its Board of Directors are kept up-to-date about material changes in the Group's level of exposure to the various risks and conduct discussions on this subject whenever necessary.

For details about Mr. Alon Granot, see Regulation 26a in Chapter D (Additional Information on the Corporation) of this set of reports.

B. DESCRIPTION OF MARKET RISKS

Raw Material Price Risks

Frutarom is dependent on third parties for its supply of raw materials. The Group purchases raw materials from a very wide range of suppliers, with no individual supplier filling over 5% of its overall raw material needs. Although there is more than one supplier for most of the raw materials purchased by Frutarom, and most of these materials are widely available, there can be no guarantee that this will continue to be the case. Furthermore, the price, quality and availability of the principal raw materials used by Frutarom, mainly in the area of natural products, are subject to fluctuations as a result of international supply and demand. Many of the raw materials used by the Group are crop-related; therefore their price, quality and availability could be adversely affected by unfavorable weather conditions. Frutarom does not normally conduct futures transactions and is exposed to price fluctuations in the raw materials it uses as dictated by changes in global price trends. Monitoring of raw material prices is done on an ongoing basis by the Company’s Executive Vice President for Global Supply Chain and Operations.

Currency Risks

About 70% of Frutarom's sales are conducted in currencies other than the US dollar (mainly the Euro, Russian Ruble, Pound Sterling, Swiss Franc, New Israeli Shekel, Chinese Yuan, Canadian Dollar, Brazilian Real, South African Rand and Peruvian Nuevo Sol) and changes in exchange rates affect Frutarom's reported results in US dollar terms. However, exposure to currency fluctuations is reduced by the fact that Frutarom’s raw materials purchases and operational expenditures in the various

countries in which it operates are also paid for in most cases in the various currencies so that most of the effect applies to the translation of sales revenues and profits into dollar terms (and not to the profitability of its various activities and/or the group's profitability). Nonetheless, in cases of extreme fluctuations in exchange rates, and since a large part of the raw materials used in the manufacture of Frutarom's products are paid for in US dollars, in Euros, or other currencies, there is no certainty that the Company can completely update its selling prices denominated in local currency (which is different from the currency used in buying the raw material) and maintain its margin. Most non-US dollar monetary balances derive from the local activity of subsidiaries in countries where the functional currency is not the US dollar, and therefore the translation differences on the local currency balances of each company do not affect the Group's financial expenses and are directly attributed to the translation differences equity fund. Monetary balances in other currencies are attributed to financial expenses. Currency exposure is reviewed as necessary from time to time, and at least once every quarter by the Balance Sheet Committee and the Board of Directors. The Company does not generally undertake external hedging action nor does it use other financial instruments for protection against currency fluctuations. For more details see Note 3(a) of the Company's December 31, 2015 financial statements attached to this report.

Interest Rate Risk

The Group's sources for short- and long-term banking finance are mainly quoted in Euros, US dollars, GBP, and Swiss Francs (according to the functional currency of the borrowing company) and some bear variable Libor interest rates. Under its policy, the Group's policy does not take protective measures against possible interest rate hikes and is therefore sensitivity to changes in interest rates. As of the balance sheet date the Group did not hold any financial derivatives. As of December 31, 2015 the Company had long-term loans net of current maturities totaling US$ 219 million along with short-term debt, including current maturities of long-term loans, of US$ 264 million. The Company has a cash balance of US$ 69 million and net debt amounting to US$ 415 million. Most of the short-term debt is attributable to loans taken by the Company for the acquisition of Wiberg and it is working towards replacing them with loan-term loans.

C. CORPORATE POLICY FOR MANAGING MARKET RISK

1. The Group's management monitors market risks in the area of raw material prices and currency and interest rates on an ongoing basis. Unusual events that could influence the Group's activity, such as a severe devaluation in the currency of a country where it operates, a sharp change in interest rates, or a change in the price trend for key raw materials, are discussed by Company management and by the Board of Directors.

2. Frutarom is working to build and strengthen its global purchasing, to strengthen relations with manufacturers of raw materials in the target countries in which these are produced, and to adjust the selling price of its products as necessary and in accordance with significant fluctuations in the pricing of raw materials. The Executive Vice President of Supply Chain and Operations is responsible for managing market risk relating to raw materials prices.

3. The Group's management strives to limit both economic and accounting currency exposure by balancing the liabilities and assets in each of the various currencies in which the Group operates. The Executive Vice President and CFO is the person responsible for managing the Group's currency exposure. Most of the Group's loans are at variable Libor interest rates in local currency and a minority are fixed-rate loans.

4. The level of exposure is regularly evaluated by the Group's finance department and discussed among Group management, allowing immediate response to any unusual developments in the various markets, and it is not restricted in advance in quantitative terms. The exposure level is also reviewed by the Company's Board of Directors from time to time.

5. Frutarom did not use financial or other instruments during the reported period to protect itself from market risks to which it is exposed.

In 2015 there was no change in the Group's market risk management policy.

D. SUPERVISION OF RISK MANAGEMENT POLICY AND ITS IMPLEMENTATION

The exposure to raw material prices is evaluated by the Executive Vice President of Global Supply Chain and Operations, the purchasing department and activities management on a regular basis and reported to the management as necessary. Meetings are also held by Company management on a regular basis on implementing risk management policy as it relates to raw materials prices, currency and interest rates. The Executive Vice President & CFO reports to the Board of Directors on exposure to these risks at least once a year and during periods of severe changes in the state of the global economy, exchange rates, raw material prices, and interest rates.

E. LINKAGE BASES REPORT

CURRENCY EXPOSURE PER PRIMARY LINKAGE BASES AT DECEMBER 31, 2015

	USD	NIS	GBP	Euro	CHF	Ruble	Others	Total
	In US$ 000s							
Assets								
Cash and equivalents	22,199	418	4,894	20,237	3,584	6,281	11,384	68,997
Customers	37,190	10,273	13,543	39,834	3,895	14,839	36,297	155,871
Other receivables	15,587	327	1,705	6,805	4,919	3,868	5,385	38,595
Inventory	57,279	-	24,695	52,309	19,829	23,753	35,432	213,297
Other non-current	2,471	32		132,520	-		106	135,129
Fixed assets, net	48,673	-	13,829	77,727	49,927	5,412	37,218	232,786
Intangible assets, net	136,465	-	47,716	171,242	1,227	16,083	101,074	473,807
Total assets	**319,864**	**11,050**	**106,382**	**500,674**	**83,381**	**70,236**	**226,896**	**1,318,482**
Liabilities								
Bank credit and loans	131,801	-	87,160	167,153	94,889	-	2,926	483,929
Suppliers	21,140	4,482	5,560	24,085	3,725	583	11,224	70,799
Other current payables	11,261	9,481	7,303	14,615	2,475	3,219	8,905	57,259
Retirement benefits	1,071	-	-	11,278	19,772		99	32,220
Deferred tax	11,573	-	4,477	12,496	2,796	955	8,253	40,550
Other non-current	42,572	-	-	787	-	3,650	35,032	82,041
Total liabilities	**219,418**	**13,963**	**104,500**	**230,414**	**123,657**	**8,407**	**66,439**	**766,798**
Capital equity								**551,684**
Net balance	**100,446**	**(2,913)**	**1,882**	**270,260**	**(40,276)**	**61,829**	**160,457**	**0**

F. 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	**4.292**	**4.097**	**3.902**	**3.707**	**3.512**
	US$ 000s				
Cash and cash equivalents	(42)	(21)	418	21	42
Customers	(1,027)	(514)	10,273	514	1,027
Other accounts receivable	(33)	(16)	327	16	33
Other long-term receivables	(3)	(2)	32	2	3
	(1,105)	**(553)**	**11,050**	**553**	**1,105**
Bank Credit	-	-	-	-	-
Suppliers and service providers	448	224	4,482	(224)	(448)
Other payables	948	474	9,481	(474)	(948)
	1,396	**698**	**13,963**	**(698)**	**(1,396)**
Total exposure, net	**291**	**145**	**(2,913)**	**(145)**	**(291)**

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	**0.742**	**0.708**	**0.675**	**0.641**	**0.607**
	US$ 000s				
Cash and cash equivalents	(489)	(245)	4,894	245	489
Customers	(1,354)	(677)	13,543	677	1,354
Other accounts receivable	(80)	(40)	802	40	80
	(1,923)	**(962)**	**19,239**	**962**	**1,923**
Bank credit	8,716	4,358	87,160	(4,358)	(8,716)
Suppliers and service providers	556	278	5,560	(278)	(556)
Other payables	730	365	7,303	(365)	(730)
	10,002	**5,001**	**100,023**	**(5,001)**	**(10,002)**
Total exposure, net	**8,079**	**4,039**	**(80,784)**	**(4,039)**	**(8,079)**

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	**1.011**	**0.965**	**0.919**	**0.873**	**0.827**
	US$ 000s				
Cash and cash equivalents	(2,024)	(1,012)	20,237	1,012	2,024
Customers	(3,983)	(1,992)	39,834	1,992	3,983
Other accounts receivable	(497)	(248)	4,968	248	497
Other long-term receivables	(9)	(5)	90	5	9
	(6,513)	**(3,257)**	**65,129**	**3,257**	**6,513**
Bank credit	16,715	8,358	167,153	(8,358)	(16,715)
Suppliers and service providers	2,409	1,204	24,085	(1,204)	(2,409)
Other payables	1,462	731	14,615	(731)	(1,462)
	20,586	**10,293**	**205,853**	**(10,293)**	**(20,586)**
Total exposure, net	**14,073**	**7,036**	**(140,724)**	**(7,036)**	**(14,073)**

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	**1.094**	**1.044**	**0.994**	**0.945**	**0.895**
	US$ 000s				
Cash and cash equivalents	(358)	(179)	3,584	179	358
Customers	(390)	(195)	3,895	195	390
Other accounts receivable	(398)	(199)	3,983	199	398
	(1,146)	**(573)**	**11,462**	**573**	**1,146**
Bank credit	9,489	4,744	94,889	(4,744)	(9,489)
Suppliers and service providers	373	186	3,725	(186)	(373)
Other payables	248	124	2,475	(124)	(248)
	10,110	**5,054**	**101,089**	**(5,054)**	**(10,110)**
Total exposure, net	**8,964**	**4,481**	**(89,627)**	**(4,481)**	**(8,964)**

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	**80.645**	**76.979**	**73.314**	**69.648**	**65.982**
	US$ 000s				
Cash and cash equivalents	(628)	(314)	6,281	314	628
Customers	(1,484)	(742)	14,839	742	1,484
Other accounts receivable	(176)	(88)	1,761	88	176
	(2,288)	**(1,144)**	**22,881**	**1,144**	**2,288**
Suppliers and service providers	58	29	583	(29)	(58)
Other payables	322	161	3,219	(161)	(322)
Other long-term liabilities	365	183	3,650	(183)	(365)
	745	**373**	**7,452**	**(373)**	**(745)**
Total exposure, net	**(1,543)**	**(772)**	**15,429**	**772**	**1,543**

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	(1,138)	(569)	11,384	569	1,138
Customers	(3,630)	(1,815)	36,297	1,815	3,630
Other accounts receivable	(334)	(167)	3,338	167	334
	(5,102)	**(2,551)**	**51,019**	**2,551**	**5,102**
Bank credit	293	146	2,926	(146)	(293)
Suppliers and service providers	1,122	561	11,224	(561)	(1,122)
Other payables	891	445	8,905	(445)	(891)
Other long-term liabilities	3,503	1,752	35,032	(1,752)	(3,503)
	5,809	**2,904**	**58,087**	**(2,904)**	**(5,809)**
Total exposure, net	**707**	**353**	**(7,068)**	**(353)**	**(707)**

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	8	4	1,356	(4)	(8)
Total exposure to change in fair value	**8**	**4**	**1,356**	**(4)**	**(8)**

G. SUMMARY OF SENSITIVITY TEST TABLES

The functional currency of most Group companies is the local currency in their respective countries, and therefore currency translations of monetary balances of these companies have no effect on the 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	**4.292**	**4.097**	**3.902**	**3.707**	**3.512**
	US$ 000				
Total Exposure, net	**291**	**145**	**(2,913)**	**(145)**	**(291)**

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	**0.742**	**0.708**	**0.675**	**0.641**	**0.607**
	US$ 000				
Total Exposure, net	**8,079**	**4,039**	**(80,784)**	**(4,039)**	**(8,079)**

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	**1.011**	**0.965**	**0.919**	**0.873**	**0.827**
	US$ 000				
Total exposure, net	**14,073**	**7,036**	**(140,724)**	**(7,036)**	**(14,073)**

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	**1.094**	**1.044**	**0.994**	**0.945**	**0.895**
	US$ 000				
Total exposure, net	**8,964**	**4,481**	**(89,627)**	**(4,481)**	**(8,964)**

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	**80.645**	**76.979**	**73.314**	**69.648**	**65.982**
	US$ 000				
Total exposure, net	**(1,543)**	**(772)**	**15,429**	**772**	**1,543**

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	**707**	**353**	**(7,068)**	**(353)**	**(707)**

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, net	**8**	**4**	**1,356**	**(4)**	**(8)**

ASPECTS OF CORPORATE GOVERNANCE

A. DIRECTORS WITH ACCOUNTING AND FINANCIAL EXPERTISE AND INDEPENDENT DIRECTORS

Directors with Accounting and Financial Expertise

The Company's Board of Directors has determined that the minimum number of directors with accounting and financial expertise will be set at two. This number takes into account the nature of the Company's activity, its size, the scope of its activity and the complexity of its activity. The Board believes that this minimum number will enable it to fulfill its responsibilities and requirements in accordance with the law and the Company's Articles of Association, especially with respect to its responsibility to evaluate the Company's financial status and to prepare and approve the financial reports.

As of the date of this report's publication, the Board of Directors of the Company includes six directors with accounting and financial expertise: Dr. John J. Farber, Mr. Hans Abderhalden, Mr. Yacov Elinav, Mr. Isaac Angel, Mr. Gil Leidner and Ms. Dafna Sharir. For details regarding their skills, education, experience and knowhow, based on which the Company refers to them as directors with financial and accounting expertise, refer to regulation 26 in Chapter D of this set of reports (Additional Information on the Corporation).

Independent Directors

As of the date of this report, the Company has not adopted the instruction with respect to the ratio of independent directors (as the term is defined in the Companies Law 5759–1999) into its Articles of Association. The Company has four independent directors, including three external directors.

B. DETAILS ABOUT THE CORPORATION'S INTERNAL AUDITOR

The Company's Internal Auditor

Mr. Yoav Barak, CPA, was appointed internal auditor of the Company and began his work as internal auditor on January 17, 2005. The internal auditor complies with the provisions of section 146(b) of the Companies' Law 1999 and with the provisions of section 8 of the Internal Audit Law, 1992.

To the best of the Company's knowledge, the internal auditor does not hold securities of the Company.

To the best of the Company's knowledge, the internal auditor does not have material business relations or other material relations with the Group or with a related entity.

The internal auditor is not an employee of the Company, but provides the auditing services as an external contractor. The internal auditor does not fill other positions in the Company or provide additional external services.

Appointment Method

The appointment of the internal auditor was approved by the Company's Board of Directors on January 17, 2005, based on the Audit Committee's recommendation. The appointment was approved by the Company's Board of Directors after reviewing the internal auditor's education (as a CPA and economist), his experience in the field of internal auditing and his experience in various managerial positions. The Company's Board of Directors found the internal auditor to be suitable to serve in this position in light of Frutarom's size, scope of activity and complexity.

The Internal Auditor's Supervisor

The internal auditor reports to the Company's Audit Committee and to the Company's President & CEO.

Audit Work Plan

The audit work plan is an annual plan prepared by the internal auditor in coordination with the President of the Company and its management, and approved by the Company's Audit Committee. The preparation of the work plan is determined by the topics perceived as worthy of thorough analysis. The factors are determined according to their risk level with the goal of detecting faults, achieving efficiencies, ensuring the protection of the Group's assets and the compliance of the Group's procedures with the respective local laws. The annual audit work plan also includes a follow-up by the Company's management on the implementation of recommendations brought by the internal auditor and the Audit Committee. The internal auditor has independent discretion to deviate from the approved audit plan, subject to consultation with the Audit Committee. The internal audit is carried out in accordance with the approved annual audit plan and is updated as necessary in accordance with the findings of the audit. The internal audit is carried out through questionnaires and physical audits at the Company sites and held companies in Israel and throughout the world. Some of the audit topics are audited throughout the Group, while others are specific topics audited according to the annual work plan.

Auditing Outside of Israel or of Held Companies

The annual audit work plan refers to the activities of all the companies in the Group, both in Israel and abroad, including the Company's substantially held companies.

Scope of the Internal Auditor's Position

The scope of the internal auditor's position is adjusted to the Group's scope of activity and its needs as they arise from to time. The internal auditor is engaged to the extent of two and a half to three working days per week.

	Number of hours invested in internal auditing in the Company in 2015
Activity in Israel	365
Activity outside of Israel	832

The scope and level of complexity of the Group's activity were taken into account in determining the scope of the internal auditor's position.

The Internal Auditor's scope of services totaled 1,197 working-hours in 2015, compared to 1,165 working-hours in 2014.

Performing the Internal Audit

As reported to the Company by the internal auditor, the work of internal audit is conducted according to professional standards accepted in Israel and the world, including the professional standards of the Israel Institute of Internal Auditors, which ensure a professional, reliable and independent audit. The audit reports are based on the findings of the audit and the documented facts. The Board of Directors is of the opinion that the internal auditor meets the requirements set forth in the above-mentioned professional standards, taking into account the professionalism, qualifications, experience, familiarity with the Group and the manner in which he prepares, submits and presents the findings of his audit.

Open Access for the Internal Auditor

The internal auditor has free and independent access to the Group's information systems, including those of held companies (whether ordinary or computerized), to all databases and to all programs for automatic data processing of the Company and its related companies, including financial data. The internal auditor may enter any and all assets of the Company, including its held companies, and examine them.

The Internal Auditor's Report

The internal auditor prepares the audit reports in writing and submits them to the Audit Committee and to the members of the Company's management.

Over the course of the year the Audit Committee held meetings to discuss the findings of the internal auditor on March 12, 2015, on May 17, 2015 and on December 3, 2015. The members of the Company's Audit Committee and the Company's President & CEO, Executive Vice President & CFO, Executive Vice President for Global Supply Chain and Operations, Global VP Legal Affairs and Corporate Secretary, and VP Finance along with other relevant managers in the Group received the audit reports prior to the Audit Committee meetings in which discussions were held on the internal auditor's findings. Relevant managers were present at the Audit Committee's meetings when the audit reports relating to their activity were reviewed, as decided by the Committee Chairman.

Board of Director's Assessment of the Internal Auditor's Activity

In the opinion of the Audit Committee, the scope, character and continuity of the internal auditor's activity and work plan are reasonable under the circumstances and fulfill the goals of the internal audit of the Company.

Compensation

The internal auditor's compensation in 2015 was NIS 296 thousand. No securities were granted to the internal auditor as part of his terms of engagement. The Company believes that this compensation will not affect the internal auditor's professional judgment. The internal auditor's remuneration is not in any way dependent on the results of his work.

C. DETAILS ON THE CORPORATION'S INDEPENDENT AUDITOR

The independent auditor of the Company is Kesselman & Kesselman, a member firm of PricewaterhouseCoopers. The fees paid by the Company to its auditor are as follows:

1. Total fee for auditing services, for services related to the audit and for tax services in 2015 totaled US$ 1,658 thousand (compared to US$ 1,576 thousand in 2014) in Israel and in the subsidiaries abroad (22,855 hours in 2015 compared to 23,184 hours in 2014). The amount paid for tax services does not exceed 45% of the total fees detailed in this paragraph.

2. Other fees for additional services - the overall fees for services provided by the independent auditor which are not included in paragraph 1 above totaled US$ 246 thousand in 2015 (compared to US$ 65 thousand in 2014) in Israel and in subsidiaries abroad.

The Company's general meeting of shareholders approved the appointment of the independent auditor and authorized the Company's Board of Directors to determine its fees.

D. APPROVAL PROCEDURE FOR THE FINANCIAL STATEMENTS

The Company's financial statements are submitted for approval to the Board of Directors, the Company's overall supervising body, several days after the Board of Directors' committee for the review of the financial statements (the "**Balance Sheet Committee**") has discussed the financial statements and formed recommendations to the Board of Directors in accordance with the Companies Regulations (Instructions and Terms for the Approval Procedure of the Financial Reports), 2010 ("**Reports Approval Regulations**").

Members of the Company's Board of Directors

The Board of Directors of the Company has eight members, six of whom are directors having accounting and financial expertise as detailed above. For more details regarding the Company's Board of Directors, see regulation 26 to Chapter D of this set of reports (Additional Information on the Corporation).

Members of the Balance Sheet Committee

The members of the Balance Sheet Committee are Mr. Yacov Elinav, External Director and the chairman of the committee, Mr. Isaac Angel, External Director, and Mr. Gil Leidner, Director. It should be noted that the committee's membership is not identical to that of the Audit Committee which, in addition to the directors mentioned above also includes Ms. Dafna Sharir, an External Director. The Balance Sheet Committee members have financial and accounting expertise and the ability to read and comprehend financial reports, and have provided the Company with a written declaration to this effect. Mr. Yacov Elinav and Mr. Isaac Angel are independent directors by virtue of their status as External Directors. Mr. Gil Leidner is an independent director in accordance with the determination of the Company's Audit Committee from May 19, 2011 and the Board of Director's resolution dated August 17, 2011. For details regarding the skills, education, experience and knowhow of the members of the Balance Sheet Committee, based on which the Company refers to them as directors with financial and accounting expertise, refer to regulation 26 in Chapter D of this set of reports (Additional Information on the Corporation).

Procedures Undertaken by the Balance Sheet Committee for Forming its Recommendation to the Board of Directors

The Company's financial reports were discussed at the meeting of the Balance Sheet Committee held on March 13, 2016. Members of the committee were sent the financial statements for 2015 two business days prior to the meeting. All three members of the Balance Sheet Committee attended the meeting, as well as the Company's independent auditors, the Company's President & CEO Mr. Ori Yehudai, the Executive Vice President & CFO Mr. Alon Granot, Vice President Finance Mr. Guy Gill, and Ms. Tali Mirsky, Global Vice President Legal Affairs and Company Secretary. Presentations were made at the meeting by the Company and by the independent auditors. The Balance Sheet Committee discussed at the meeting, inter alia, the estimates and evaluations in the financial reports, the effectiveness of the internal control on financial reporting, the completeness and fairness of the disclosure in the financial reports, the accounting policy adopted, the accounting handling of the Group's material issues, and the valuations, including the assumptions and estimations on which the information in the financial reports is based. In the framework of the discussion, the Balance Sheet Committee formed its recommendations to the Board of Directors in accordance with the Reports Approval Regulations. The committee's recommendations were delivered to members of the Company's Board two business days before the Board's meeting at which the financial reports were discussed, which members of the Board consider a reasonable period of time in light of the scope and complexity of the recommendations.

Financial Statements' Procedure of Approval by the Board of Directors

The members of the Board of Directors receive a draft of the financial statements several days before the date of the Board meeting at which they are submitted for approval. The Company's independent auditors and members of the Company's senior management are also invited to attend the meeting, including the President & CEO Mr. Ori Yehudai, Executive Vice President & CFO Mr. Alon Granot, Executive Vice President and COO Global Supply Chain Mr. Amos Anatot, Vice President Finance Mr. Guy Gill, and Ms. Tali Mirsky, Global Vice President of Legal Affairs and Corporate Secretary or another of the Company's legal counsel. The Company's internal auditor, Mr. Yoav Barak, is also invited to the meeting. During the meeting, the Board of Directors discusses the recommendations of the Balance Sheet Committee regarding the financial statements, and the President & CEO and the Executive Vice President & CFO also present to the Board the Group's business and financial results for the relevant period in comparison to previous periods, with emphasis on noteworthy developments that transpired over the period. During the presentation of the Group's results, members of Company management answer questions and address comments from the Directors. Following the presentation of the Company's financial results, the Company's independent auditors answer the Directors' questions. In conclusion the Board of Directors votes on approving the financial statements. All of the members of the Board of Directors were present at the Board meeting held on March 16, 2016 where the financial statements for 2015 were unanimously approved.

E. CHANGE TO THE COMPANY'S ARTICLES OF ASSOCIATION

On April 27, 2015 the General Meeting of the Company approved, *inter alia*, the amending of the Company's Articles of Association such that Section 21 to the Company's Articles of Association was changed so that subsections (a) through (d) would be deleted and in their place would be written: "Written notice about General Shareholders' Meetings will not be sent to shareholders listed in the registry of shareholders unless the Board of Directors resolves otherwise with regards to a specific meeting."

After the balance sheet date, on March 16, 2016, the Company's Board of Directors recommended an amendment to the Company's Articles of Association which will be brought for approval before the General Meeting for 2016. The purpose of the amendment is to allow the Company to conduct itself efficiently regarding the issuance of stock certificates such that if the amendment is approved, a stock certificate could also be signed by one person appointed for this purpose by the Board of Directors and the Corporate Secretary. In addition, in accordance with the proposed amendment, the Board of Directors shall be entitled to decide that such signature or signatures be performed by means of electronic signature or by other mechanical means, as it so determines.

For further information see the Company's immediate report from March 16, 2015 on calling the General Meeting and from April 27, 2015 on the results of the meeting.

F. SENIOR OFFICE HOLDERS' REMUNERATION

(1) On January 14, 2014 the General Meeting approved the compensation policy for senior office holders in the Company after the policy was also approved by the Compensation Committee and the Company's Board of Directors. For details regarding the compensation policy, see the Company's immediate report on this matter from December 29, 2013.

(2) On March 15, 2015 the Company's Board of Directors approved, following its approval by the Board of Directors' Compensation Committee (the "**Compensation Committee**") of March 12, 2015, the bonuses for senior office holders in the Company for 2014, which are in accordance with the compensation policy. The bonuses were approved following detailed discussion held by the Compensation Committee and by the Board of Directors with regard to each of the senior office holders (except for the President & CEO) individually.

(3) In addition, on the same date the Company's Board of Directors approved the purchase of Company shares for the purpose of granting them to office holders and others in the framework of the 2012 Plan. For further details regarding this resolution and the grant made pursuant thereto, see the Company's immediate reports on this matter from March 15, 2015, April 1, 2015, and April 26, 2015.

(4) On August 26, 2015 the Company's Board of Directors approved the purchase of Company shares for the purpose of granting them to office holders and others in the framework of the 2012 Plan. For further details regarding this resolution and the grant made pursuant thereto, see the Company's immediate reports on this matter from August 26, 2015, October 1, 2015 and October 22, 2015.

(5) On March 16, 2016 the Company's Board of Directors approved, following its approval by the Board of Directors' Compensation Committee (the "**Compensation Committee**") of March 13, 2016, the bonuses for senior office holders in the Company for 2015, which are in accordance with the compensation policy. The bonuses were approved following detailed discussion held by the Compensation Committee and by the Board of Directors with regard to each of the senior office holders (except for the President & CEO) individually.

(6) In addition, on the same date the Company's Board of Directors approved the purchase of Company shares for the purpose of granting them to office holders and others in the framework of the 2012 Plan. For further details regarding this resolution and the grant made pursuant thereto, see the Company's immediate report on this matter from March 17, 2016.

(7) Also, on March 16, 2016 the Company's Board of Directors approved, following approval by the Company's Compensation Committee, amendments to the compensation policy which are subject to approval by the General Meeting of 2016. For further details see regulation 22 in Section D ("Additional Information on the Corporation") of the Company's Annual Report for 2015.

DISCLOSURE RELATING TO THE CORPORATE FINANCIAL REPORTING

A. DIVIDEND DISTRIBUTION IN 2015

On March 15, 2015 the Company's Board of Directors declared a dividend distribution of NIS 0.38 per share. On May 4, 2015 the dividend totaling US$ 5,774 thousand was paid out to shareholders.

B. EVENTS MENTIONED IN THE FINANCIAL STATEMENTS SUBSEQUENT TO THE DATE OF REPORT ON FINANCIAL

On March 16, 2016, concurrently with the approval of the financial statements for December 31, 2015, the Company's Board of Directors resolved on the distribution of a dividend in the amount of NIS 0.41 per share for a total amount of NIS 24,273 thousand (approx. US$ 6,217 thousand as of the date of this report's publication).

C. CRITICAL ACCOUNTING ESTIMATIONS

Preparation of the Company's financial reports in accordance with IFRS demands the use of critical accounting estimates, requiring Company management to use its judgment in the process of implementing the Company's general accounting policies in order to prepare estimates and make assumptions that influence the amounts presented in the financial reports.

Below are the critical accounting estimations used in preparing the Company's financial reports; during their implementation, management was required to make assumptions regarding circumstances and events involving significant uncertainty. In using its discretion to determine these estimates, Company management relied on past experience, various facts and on reasonable assumptions in accordance with the appropriate circumstances for each estimate. Actual results may differ from management's estimates. Regarding the material accounting estimates used in preparing the Company's financial reports, see also Note 4 to the Company's financial statements dated December 31, 2015 attached to this report.

Taxes on Income and Deferred Taxes

The Company is assessed for tax purposes in numerous jurisdictions; accordingly, the Company's management is required to exercise discretion in order to determine the overall provision in respect of taxes on income. The Company records provisions in its books based on its estimates of whether additional taxes will be due. Where the final tax outcome of these matters as determined by tax authorities is different from the amounts that were initially recorded, such differences will be carried to income and loss in the period in which the final tax assessment is determined by the tax authorities.

The Company also records deferred tax assets and liabilities based on the differences between the book value of its assets and liabilities and the amounts taken into account for tax purposes. The Company regularly reviews its deferred tax assets for recoverability based on historical taxable income, projected future taxable income, the expected timing of the reversals of existing temporary differences and the implementation of tax planning strategies. If the Company is unable to generate sufficient future taxable income, or if there is a material change in the actual effective tax rates or time period within which the underlying temporary differences become taxable or deductible, the Company could be required to eliminate a portion of the deferred tax asset resulting in an increase in its effective tax rate and an adverse impact on operating results.

Severance Pay

The present value of the Company's liabilities with regard to severance pay is dependent on several factors that are determined on an actuarial basis, based on a number of assumptions. The assumptions used in the calculation of the net cost (income) in regards to severance pay include the long-term yield rate on the related severance pay funds and the rate of discount. Changes in those assumptions will impact the carrying amount of the assets and liabilities in respect of severance pay. The assumption regarding the expected yield on severance pay funds is determined uniformly in accordance with long-term historical yields.

The assumption regarding the required discount rate is determined by external actuaries at the end of each year. This discount rate shall be used in determining the estimated updated value of the future cash flows that will be required for covering the severance pay liabilities. In cases where the market of high quality corporate bonds is not sufficiently liquid to serve as a basis for determining the discount rate, the determination of the discount rate shall be based on the interest rates applicable to government bonds denominated in the currency in which the benefits will be paid and which have a term to maturity approximating the period of the relevant liabilities. Other key assumptions relating to pension liabilities, such as future payroll raises, are based on existing rates of payroll inflation.

Provision for Contingent Liabilities

Provisions for contingent legal liabilities are recorded in the books at the discretion of Company management regarding the likelihood that the cash flows will be used to meet such liabilities, and on the basis of the management's estimate regarding the present value of the expected cash flows that would be required to meet the existing liabilities.

Provision for Impairment of Goodwill and Intangibles

The need for a provision for impairment of goodwill and intangibles is evaluated once a year with respect to the recoverable value of the Company's cash generating units. The recoverable amount of a cash generating unit is determined in

accordance with the assumptions and calculations made by the Group's management.

D. EXCLUSION OF THE COMPANY'S SEPARATE FINANCIAL REPORT UNDER REGULATION 9(C) OF THE REGULATIONS (“Solo Report”)

The Company did not include a separate financial report as set forth in Regulation 9C 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 9C 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.

Company management has also examined the warning signs specified in Regulation 10(14) of the Regulations and found that they do not exist.

The Board of Directors of the Company held five meetings during 2015.

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

March 16, 2016

SECTION C

FINANCIAL REPORTS

C

FRUTAROM INDUSTRIES LTD.

2015 FINANCIAL STATEMENTS

FRUTAROM INDUSTRIES LTD.

2015 FINANCIAL STATEMENTS

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REPORT OF THE AUDITORS

To the shareholders of

FRUTAROM INDUSTRIES LTD.

Regarding the audit of the components of internal control over financial reporting in accordance with section 9B(c) to the Israeli Securities Regulations (Periodic and Immediate Reports), 1970

We have audited components of internal control over financial reporting of Frutarom Industries Ltd. and its subsidiaries (hereinafter - the Company), as of December 31, 2015. These components of internal control were set as explained in the next paragraph. The Company's Board of Directors and Management are responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of components of internal control over financial reporting included in the accompanying periodic report for the above date. Our responsibility is to express an opinion on the components of internal control over financial reporting based on our audit.

Components of internal control over financial reporting were audited by us according to Audit Standard no. 104 of the Institute of Certified Public Accountants in Israel "Audit of the Internal Control Components over Financial Reporting" (hereafter - "Audit Standard 104"). These components are: (1) entity level controls, including controls on the preparation process and closing of the financial reporting and general controls of information systems, (2) controls over the process of purchasing process, consumption of materials and inventory (3) controls over the sales and receivables process (4) purchase price allocation process (5) impairment testing process (all of these together are called the "audited control components").

We conducted our audits in accordance with Audit Standard 104. This standard requires that we plan and perform the audit to identify the audited control components and to obtain reasonable assurance whether these control components have been maintained effectively in all material respects. The audit includes obtaining an understanding of internal control over financial reporting, identifying the audited control components, assessing the risk that a material weakness exists in the audited control components, as well as review and assessment of effective planning and maintaining of these audited control components based on the estimated risk. Our audit, for those audited control components, also included performing such other procedures as we considered necessary under the circumstances. Our audit referred only to the audited control components, unlike internal control of all material processes over financial reporting, and therefore our opinion refers only to the audited control components. In addition, our audit did not take into account the mutual influences between the audited control components and those which are not audited, and therefore our opinion does not take into account such possible effects. We believe that our audit provides a reasonable basis for our opinion in the context described above.

REPORT OF THE AUDITORS (continued)

Due to inherent limitations, internal control over financial reporting in general and components of internal controls in particular, may not prevent or detect a misstatement. Also, making projections on the basis of any evaluation of effectiveness is subject to the risk that controls may become inadequate because of changes in circumstances, or that the degree of compliance with the policies or procedures may be adversely affected.

In our opinion, the company effectively maintained, in all material respects, the audited control components as of December 31, 2015.

We also audited, the Company's financial statements as of December 31, 2015 and 2014 and for each of the three years in the period ended December 31, 2015, in accordance with International accepted auditing standards, and our report, of March 16, 2016 included an unqualified opinion on these financial statements.

Haifa, Israel
16, March, 2016

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

REPORT OF THE AUDITORS

To the shareholders of

FRUTAROM INDUSTRIES LTD.

We have audited the accompanying consolidated financial statements of Frutarom Industries Ltd. (hereafter - the Company) which comprise the consolidated statements of financial position as at December 31, 2015 and 2014, and the related consolidated statements of income, statements of comprehensive income, changes in equity and cash flows for each of the three years in the period ended on December 31, 2015 and the related summary of accounting policies and other explanatory notes.

Owner's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of those consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements, that are free from material misstatement, whether due to fraud or error.

Auditor responsibilities

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conduct our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and preform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves preforming procedures to obtain audit evidence about amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor judgment, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Frutarom Industries Ltd. and its subsidiaries as at December 31, 2015 and 2014 and their financial performance and cash flows for each of the three years in the period ended on December 31, 2015, in accordance with International Financial Reporting Standards (hereafter – IFRS) .

We have also audited in accordance with standard No. 104 of the Institute of Certified Public Accountants in Israel "Audit of the Internal Control Components over Financial Reporting", internal control components over financial reporting of the company as at December 31, 2015, and our report in March 16, 2016 included an unqualified opinion on the effectiveness of those components.

Haifa, Israel
16, March, 2016

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	As of 31 December	
		2015	2014
		U.S. dollars in thousands	
A s s e t s			
CURRENT ASSETS:			
Cash and cash equivalents	18	68,997	63,975
Accounts receivable:	15		
Trade		155,871	140,429
Other		24,290	14,551
Prepaid expenses and advances to suppliers		14,305	8,696
Inventory	16	213,297	171,100
		476,760	398,751
NON-CURRENT ASSETS :			
Property, plant and equipment	7	232,786	198,799
Intangible assets	2f.8	473,807	339,810
Payments on account of acquisition of subsidiary	22b	131,838	-
Deferred income tax assets	13d	3,063	3,042
Other	17	228	41
		841,722	541,692
T o t a l assets		1,318,482	940,443

Dr. John Farber
Chairman of the Board

Ori Yehudai
President and CEO

Alon Granot
Executive Vice President and CFO

Date of approval of the financial statements by the Board of Directors: March 16, 2016.

FRUTAROM INDUSTRIES LTD.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	As of 31 December 2015	2014
		U.S. dollars in thousands	
Liabilities and shareholders' equity			
CURRENT LIABILITIES:			
Short-term bank credit and loans and current maturities of long-term loans	9	264,480	67,750
Accounts payable:			
Trade	19a	70,799	59,771
Other	19b	57,259	46,378
		392,538	173,899
NON-CURRENT LIABILITIES:			
Long-term loans net of current maturities	9	219,449	163,696
Retirement benefit obligations, net	10	32,220	30,991
Deferred income tax liabilities	13d	40,550	23,542
Liability for put option for the shareholders of a subsidiary	3c	54,732	19,967
Other	3c	27,309	6,329
		374,260	244,525
COMMITMENTS AND CONTINGENT LIABILITIES	11		
TOTAL LIABILITIES		766,798	418,424
EQUITY:	12		
Equity attributable to owners of the parent:			
Ordinary shares		16,912	16,822
Other capital surplus		110,466	106,664
Translation differences	2c	(113,249)	(48,159)
Retained earnings		533,880	445,653
Less - cost of Company shares held by the company		(3,111)	(2,587)
NON-CONTROLLING INTERESTS		6,786	3,626
TOTAL EQUITY		551,684	522,019
TOTAL EQUITY AND LIABILITIES		1,318,482	940,443

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

FRUTAROM INDUSTRIES LTD.

CONSOLIDATED INCOME STATEMENTS

	Note	Year ended 31 December		
		2015	2014	2013
		U.S. dollars in thousands, (except for per share data)		
SALES		872,796	819,547	673,693
COST OF SALES	20a	534,737	498,995	416,897
GROSS PROFIT		338,059	320,552	256,796
Selling, marketing, research and development expenses - net	20b	141,237	140,296	115,223
General and administrative expenses	20c	63,742	60,516	52,131
Other expenses - net	20d	2,826	816	2,685
INCOME FROM OPERATIONS		130,254	118,924	86,757
FINANCIAL EXPENSES– net	20e	12,197	10,089	7,528
INCOME BEFORE TAXES ON INCOME		118,057	108,835	79,229
INCOME TAX	13e	21,972	21,219	15,608
NET INCOME FOR THE YEAR		96,085	87,616	63,621
PROFIT ATTRIBUTED TO:				
Owners of the parent company		94,859	86,654	63,129
Non-controlling interest		1,226	962	492
		96,085	87,616	63,621
		U.S dollars		
EARNINGS PER SHARE:	2v			
Basic		1.62	1.49	1.09
Fully diluted		1.60	1.47	1.08

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

FRUTAROM INDUSTRIES LTD.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended 31 December		
	2015	**2014**	**2013**
	U.S. dollars in thousands		
INCOME FOR THE YEAR	96,085	87,616	63,621
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of net defined benefit Liability	(858)	(8,156)	2,153
ITEMS THAT COULD BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS			
Translation differences	(65,293)	(75,504)	10,622
Total comprehensive income for the Year	29,934	3,956	76,396
ATTRIBUTABLE TO:			
Owners of the parent	28,911	3,043	75,829
Non-controlling interest	1,023	913	567
TOTAL INCOME	29,934	3,956	76,396

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

FRUTAROM INDUSTRIES LTD.

CONSODLIATED STATEMENTS OF CHANGES IN EQUITY

		EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT							
	Note	Ordinary shares	Other capital surplus	Translation differences	Retained earnings	Cost of company shares held by the company	Total attributed to owners of parent company	Non-controlling interest	Total
		U.S. dollars in thousands							
BALANCE AT 1 JANUARY 2013		16,713	102,099	16,749	310,477	(3,043)	442,995	2,235	445,230
CHANGES DURING THE YEAR ENDED 31 DECEBMBER 2013:									
Comprehensive income:									
Income for the year		-	-	-	63,129	-	63,129	492	63,621
Other comprehensive income	2c	-	-	10,547	2,153	-	12,700	75	12,775
Total comprehensive income for the year		-	-	10,547	65,282	-	75,829	567	76,396
Plan for allotment of Company shares to employees of subsidiary:									
Acquisition of the Company shares by the Company	2r	-	-	-	-	(851)	(851)	-	(851)
Receipts in respect of allotment of Company shares to employees	12b	-	(1,276)	-	-	1,913	637	-	637
Allotment of shares and options to senior employees- Recognition of compensation related to employee stock and option grants	12b	-	1,510	-	-	-	1,510	-	1,510
Proceeds from issuance of shares to senior employees		68	1,960	-	-	-	2,028	-	2,028
Dividend paid to the non-controlling interests in subsidiary		-	-	-	-	-	-	(97)	(97)
Dividend paid	12c	-	-	-	(3,892)	-	(3,892)	-	(3,892)
		16,781	104,293	27,296	371,867	(1,981)	518,256	2,705	520,961
Non-controlling interest from business combination		-	-	-	-	-	-	98	98
BALANCE AT 31 DECEMBER 2013		16,781	104,293	27,296	371,867	(1,981)	518,256	2,803	521,059

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

FRUTAROM INDUSTRIES LTD.

CONSODLIATED STATEMENTS OF CHANGES IN EQUITY

		EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT							
	Note	**Ordinary shares**	**Other capital surplus**	**Translation differences**	**Retained earnings**	**Company shares held by the company**	**Cost of owners of parent company**	**Total attributed to Non-controlling interest**	**Total**
		U.S. dollars in thousands							
BALANCE AT 1 JANUARY 2014		16,781	104,293	27,296	371,867	(1,981)	518,256	2,803	521,059
CHANGES DURING THE YEAR ENDED 31 DECEBMBER 2014:									
Comprehensive income:									
Income for the year		-	-	-	86,654	-	86,654	962	87,616
Other comprehensive income	2c	-	-	(75,455)	(8,156)	-	(83,611)	(49)	(83,660)
Total comprehensive income for the year		-	-	(75,455)	78,498	-	3,043	913	3,956
Plan for allotment of Company shares to employees of subsidiary:									
Acquisition of the Company shares by the Company	2r	-	-	-	-	(1,131)	(1,131)	-	(1,131)
Receipts in respect of allotment of Company shares to employees	12b	-	(350)	-	-	525	175	-	175
Allotment of shares and options to senior employees- Recognition of compensation related to employee stock and option grants	12b	-	1,480	-	-	-	1,480	-	1,480
Proceeds from issuance of shares to senior employees		41	1,241	-	-	-	1,282	-	1,282
Dividend paid to the non-controlling interests in subsidiary		-	-	-	-	-	-	(90)	(90)
Dividend paid	12c	-	-	-	(4,712)	-	(4,712)	-	(4,712)
		41	2,371	-	(4,712)	(606)	(2,906)	(90)	(2,996)
BALANCE AT 31 DECEMBER 2014		16,822	106,664	(48,159)	445,653	(2,587)	518,393	3,626	522,019

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

FRUTAROM INDUSTRIES LTD.

CONSODLIATED STATEMENTS OF CHANGES IN EQUITY

	Note	EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT							
		Ordinary shares	Other capital surplus	Translation differences	Retained earnings	Company shares held by the company	Cost of owners of parent company	Total attributed to Non-controlling interest	Total
		U.S. dollars in thousands							
BALANCE AT 1 JANUARY 2015		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 income	2c	-	-	(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	2r	-	-	-	-	(1,085)	(1,085)	-	(1,085)
Receipts in respect of allotment of Company shares to employees	12b	-	(374)	-	-	561	187	-	187
Allotment of shares and options to senior employees- Recognition of compensation related to employee stock and option grants	12b	-	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	12c	-	-	-	(5,774)	-	(5,774)	-	(5,774)
		90	3,802	-	(5,774)	(524)	(2,406)	(58)	(2,464)
Non-controlling interest from business combination	5j	-	-	-	-	-	-	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 financial statements.

FRUTAROM INDUSTRIES LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Note	Year ended 31 December		
		2015	2014	2013
		U.S. dollars in thousands		
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash generated from operations (see Appendix)		112,625	99,201	98,493
Income tax received (paid) - net		(20,963)	(18,358)	(9,802)
Net cash provided by operating activities		91,662	80,843	88,691
CASH FLOWS USED IN INVESTING ACTIVITIES:				
Purchase of property, plant and equipment		(23,900)	(21,392)	(20,111)
Purchase of intangibles		(717)	(1,197)	(868)
Interest received		428	493	276
Acquisition of subsidiaries - net of cash acquired	5	(143,777)	(34,723)	(114,620)
Payments on account of acquisition of subsidiary	22b	(131,838)	-	-
Proceeds from sale of property and other assets		2,191	800	264
Net cash used in investing activities		(297,613)	(56,019)	(135,059)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Dividend paid to the non-controlling interests in subsidiary		(542)	(90)	(97)
Receipts from senior employees in respect of allotment of shares		2,725	1,282	2,028
Interest paid		(3,973)	(2,414)	(3,456)
Receipt of long-term bank loans		185,616	32,892	45,693
Repayment of long-term bank loans		(48,638)	(52,214)	(41,750)
Receipt (repayment) of short-term bank loans and credit - net		87,463	14,980	52,809
Acquisition of the Company shares by the Company – net of receipts in respect of the Shares		(898)	(956)	(214)
Dividend paid		(5,774)	(4,712)	(3,892)
Net cash provided (used) by financing activities		215,979	(11,232)	51,121
INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS AND BANK CREDIT		10,028	13,592	4,753
Balance of cash and cash equivalents and bank credit at beginning of year		63,975	57,612	53,933
Profits (losses) from exchange differences on cash, cash equivalents and bank credit		(5,006)	(7,229)	(1,074)
BALANCE OF CASH, CASH EQUIVALENTS AND BANK CREIDT AT END OF YEAR		68,997	63,975	57,612

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

FRUTAROM INDUSTRIES LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

APPENDIX TO CONDENSED CONSOLIDATED STATEMENT CASH FLOWS

	Year ended December 31		
	2015	2014	2013
	U.S. dollars in thousands		
Cash generated from operations:			
Income before tax	118,057	108,835	79,229
Adjustments required to reflect the cash flows from operating activities:			
Depreciation and amortization	31,385	30,551	27,693
Recognition of compensation related to employee stock and option grants	1,541	1,480	1,510
Liability for employee rights upon retirement - net	1,428	586	166
Loss (gain) from sale and write-off of fixed assets and other assets	(250)	(147)	(150)
Erosion of long term loans	(3,096)	(1,336)	1,212
Interest paid - net	3,545	1,921	3,180
Changes due to liabilities for put options	13,118	(4,108)	-
	47,671	28,947	33,611
Changes in operating asset and liability items:			
Decrease (increase) in accounts receivable:			
Trade	1,293	(10,937)	(8,966)
Other	(13,447)	1,868	(848)
Decrease (increase) in other long-term receivables	(106)	80	258
Increase (decrease) in accounts payable:			
Trade	(7,226)	1,911	3,432
Other	(5,484)	(5,922)	(2,999)
Increase (decrease) in other long-term payables	321	(230)	(117)
Decrease (increase) in inventories	(28,454)	(25,351)	(5,107)
	(53,103)	(38,581)	(14,347)
Cash flows from operating activities	112,625	99,201	98,493

NOTE 1 – GENERAL

Information on the activities of Frutarom Industries Ltd. and its subsidiaries (hereafter - the "Group").

Frutarom Industries Ltd. (hereafter – the Company) is a global company, founded in 1933. 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. On December 31, 2015 Frutarom operated 46 production sites, 62 research and development laboratories, and 78 sales offices in Europe, North America, Latin America, Israel, Asia, Africa and New Zealand, marketed and sold over 43,000 products to more than 22,000 customers in more than 150 countries and employed 3,734 people throughout the world.

Frutarom operates in the framework of two main activities: the Flavors activity and the Fine Ingredients activity (the "core businesses"). In addition, the Company imports and markets raw materials that it does not itself manufactured, as part of the service offered to customers, which includes providing them comprehensive solutions for their needs. This activity is presented as part of trade and marketing operations. Segment information for the reporting years is presented as part of Note 6.

The Company is a limited liability company incorporated and domiciled in Israel. The address of its registered office is 25 Heshaish St., Haifa Bay. The Company's controlling shareholder is ICC Industries Inc.

The Company's shares have been listed on the Tel-Aviv Stock Exchange (the "TASE") since 1996. Since February 2005, Company shares are also listed through Global Depository Receipts on the official list of the London Stock Exchange (the "LSE").

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

a. Basis of Preparation:

1) The Group's financial statements as of 31 December 2015 and 2014 and for each of the three years in the period ended 31 December 2015, are in compliance with International Financial Reporting Standards (hereafter – IFRS) and interpretations to IFRS issued by the International Financial Reporting Interpretations Committee (IFRIC) and include the additional disclosure required under the Securities Regulations (Annual Financial Statements), 2010.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

The significant accounting policies described below have been applied consistently in relation to all the years presented, unless otherwise stated.

The financial statements have been prepared under the historical cost convention, subject to adjustments in respect of revaluation of amounts funded for severance pay, financial assets at fair value through profit or loss presented at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4. Actual results could differ significantly from those estimates and assumptions.

2) The period of the Group's operating cycle is 12 months.

3) The Group analyses the expenses recognized in the income statements using the classification method based on the functional category to which the expense belongs.

b. Principles of Consolidation

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases

The group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary (hereafter – the acquired company) is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group.
The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred.
Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination (except for certain exceptional items specified in IFRS 3 – "Business Combinations") (as amended), hereafter – IFRS 3R) are measured initially at their fair values at the acquisition date. The Group recognizes non-controlling interest in an acquired company which are present ownership instruments and entitle their holders to a pro rata share of the entity's net assets in the event of liquidation in accordance with the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets. All other components of non-controlling interest are measured at fair value unless another measurement basis is required by IFRSs

Any contingent consideration accrued to the Group as part of a business combination is measured at fair value at the date of business acquisition. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with IAS 39 "Financial Instruments" either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

The excess of the overall amount of the transferred consideration, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired and the liabilities assumed is recorded as goodwill – (see also f(1) below).

In cases where the net amount at acquisition date of the identifiable assets acquired and of the liabilities assumed exceeds the overall consideration that was transferred, the amount of non controlling interest in the acquiree and the fair value as of date of acquisition of any previous equity interest in the acquiree as above, the difference is recognized directly in income or loss at date of acquisition.

Inter-company transactions, balances, including income, expenses and dividends on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognized in assets (in respect of inventory and fixed assets) are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

c. Translation of Foreign Currency Balances and Transactions:

1) Functional and Presentation Currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which that entity operates (the "Functional Currency"). The consolidated financial statements are presented in U.S. dollars, which is the Company's functional and presentation currency.

2) Transactions and balances.

Foreign currency transactions in currencies different from the functional currency (hereafter – foreign currency) are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are attributed to income or loss.
Gains and losses arising from changes in exchange rates are presented in the statement of income among "financial expenses".

3) Translation of Financial Statement of Group Companies

The results and financial position of all the Company's entities (none of which has the currency of hyperinflationary economy) that have a Functional Currency different from the presentation currency are translated into the presentation currency as follows:

(a) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
(b) Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates: in which case income and expenses are translated at the rate on the dates of the transactions);
(c) All resulting exchange differences are recognized among other comprehensive income.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

On consolidation of the financial statements, exchange differences arising from the translation of the net investment in foreign operations and from loans and other currency instruments designated to serve as hedges to those investments are carried to other comprehensive income. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in other comprehensive income are recognized in the statement of income as part of the gain or loss on realization or sale.

Goodwill and fair value adjustments arising on the acquisition of foreign operations are treated as assets and liabilities of the foreign operations and translated at the closing rate. Exchange differences arising from translation as above are recognized in other comprehensive income.

4) Information regarding exchange rates:

	NIS	Pound Sterling	Euro	Swiss Franc	Ruble
Exchange rate as of December 31:					
2015	3.90	0.67	0.92	0.99	73.31
2014	3.89	0.64	0.82	0.99	59.67
2013	3.47	0.60	0.73	0.89	32.79
Increase (decrease) of the dollar: during the year	%	%	%	%	%
2015	0.3	5.2	11.6	0.4	22.9
2014	12.0	6.1	13.4	11.1	82.0
2013	(7.0)	(2.2)	(4.3)	(2.8)	7.7

	NIS	Pound Sterling	Euro	Swiss Franc	Ruble
Average exchange rate during the year:					
2015	3.89	0.65	0.90	0.96	60.99
2014	3.58	0.61	0.75	0.91	38.96
2013	3.61	0.64	0.75	0.93	31.84
Increase (decrease) during of the dollar during the year:	%	%	%	%	
2015	8.6	7.8	19.7	5.2	56.6
2014	(0.9)	(5.0)	(0.1)	(1.4)	19.6
2013	(6.3)	1.3	(3.3)	(1.2)	2.7

d. Segment Reporting (see also note 1)

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker in the Group, who is responsible for allocating resources and assessing performance of the operating segments.

The Group is organized and managed on a worldwide basis in two major operating activities: Flavors and the Fine Ingredients. Another operation is Trade and Marketing. Each activity constitutes a segment.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

e. Property, Plant and Equipment:

The cost of a property, plant and equipment item is recognized as an assets only if: (a) it is probable that the future economic benefits associated with the item will flow to the Group and (b) the cost of the item can be measured reliably.

Property, plant and equipment is stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items and only when the two criteria mentioned above for recognition as assets are met.
The carrying amount of a replaced part is derecognized. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

The cost of a property, plant and equipment item includes:

(a) Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.

(b) Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Depreciation and impairment of property, plant and equipment are recognized in the income statement.

Land owned by the Group is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost less their residual values over their estimated useful lives, as follows:

	Percentage of Annual Depreciation
Buildings and land under financial lease	2-4
Machinery and equipment	5-10
Vehicles and lifting equipment	15-20
Computers	20-33
Office furniture and equipment	6-20
Leasehold improvements	See below

Leasehold improvements are amortized by the straight-line method over the terms of the lease, which are shorter than the estimated useful life of the improvements.

The asset's residual values, the depreciation method and useful lives are reviewed, and adjusted if appropriate, at least once a year.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2g).

Gains or losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statement of income among "other income - net".

f. Intangible Assets:

1) The overall amount of goodwill arising on acquisition of a subsidiary, associated company or a proportionately consolidated company represents the excess of the consideration transferred in respect of acquisition of a subsidiary over the net amount as of acquisition date of the identifiable assets acquired and the liabilities assumed. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'.
   For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash generating units (CGUs), or groups of CGUs that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes and which is not larger than an operating segment (before aggregation) (see also g. below).
   Impairment reviews of CGUs (or groups of CGUs) are undertaken annually and whenever there is any indication of impairment of CGU or group of CGUs. The carrying value of the CGU (or group of CGUs) is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell.
   Any impairment loss is allocated to write-down the carrying amount of the CGU's assets (or CGUs) in the following order: first, the write down of any goodwill allocated to a cash generating unit (or a group of CGUs); and afterwards to the remaining assets of the CGU or (group of CGUs) on a proportionate basis using the carrying amounts of each asset of the CGU (or group of CGUs). Any impairment is recognized immediately as an expense and is not subsequently reversed.

2) Product formulas acquired as part of a business combination transaction are initially recorded at fair value and amortized on a straight-line basis over their useful lives of 20 years.

3) Customer relationships acquired in a business combination are measured at fair value at the acquisition date. The customer relations have a finite useful life and are carried at the recognized amount less accumulated amortization. Amortization is calculated using the straight-line method over the expected life of the customer relationship (7-10 years).

4) Separately acquired trademarks and licenses are shown at historical cost. Trademarks and licenses acquired in a business combination are recognized at fair value at the acquisition date. Trademarks and licenses have a definite useful life and are presented at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of trademarks over their estimated useful lives (20 years).

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

5) Computer software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software licenses. These costs are amortized over their estimated useful lives (3-5 years) using the straight line method.

Costs associated with maintaining computer software programs are recognized as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets.

Computer software development costs recognized as assets are amortized over their estimated useful lives using the straight line method (3-5 years) commencing the point in time when the asset is available for use, i.e., it is in the location and condition necessary for it to be capable of operating in the manner intended by management

6) Research and Development

Research expenses are accounted for as expenses as incurred. Cost incurred in respect of development projects (attributable to the design and testing of new or improved products) are recognized as intangible assets when the following criteria are met:

- It is technically feasible to complete the intangible assets so that it will be available for use;
- Management intends to complete the intangible asset and use it or sell it;
- There is an ability to use or sell the intangible asset;
- It can be demonstrated how the software product will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- The expenditure attributable to the intangible asset during its development can be reliably measured.

Other development costs that do not qualify for recognition as assets are recognized as cost as incurred. Development costs previously recognized as an expense are not recognized as an asset on a subsequent period. Capitalized development costs are presented as intangible assets and amortized as from the time the asset is available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management through its useful life in accordance with the straight-line method.

The Group fully recognized the R&D expenses as incurred.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

g. Impairment of non-financial assets

Assets that have an indefinite useful life, such as goodwill or intangibles that are not yet available for use are not subject to amortization and are tested annually for impairment or more often if events have occurred or changes in circumstances indicate that the carrying amount may not be recoverable.
Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.
An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets, other than goodwill, that were subject to impairment are reviewed for possible reversal of the impairment recognized in respect thereof at each statement of financial position date.

h. Government Grants

The group's research and development activities are supported in some of the countries in which it operates, and in Israel through the Israel Chief Scientist in the Ministry of Industry, Commerce and Labour (hereinafter - the OCS) by way of grants. Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.
Government grants relating to costs are recognized in the income statement on a systematic basis over the periods in which the Group recognizes the relating costs (the costs that the grants are intended to compensate).

i. Financial assets:

1) Classification

The Group classifies its financial assets in the following categories: Financial assets at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Group management determines the classification of its financial assets at initial recognition.

a) Financial assets at fair value through profit or loss

This category includes two sub-categories: financial assets held for trade and financial assets designated at fair value through profit or loss. A financial asset is classified into this category if it was acquired principally for the purpose of selling in the short term or if was designated to this category by management. Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise they are classified as non-current.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

b) Receivable

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the statement of financial position date. These are classified as non-current assets. Receivables of the Group are classified as "accounts receivable" in the statement of financial position (Note 2k below).

2) Recognition and measurement

Regular purchases and sales of financial assets are recognized on the settlement date, which is the date on which the asset is delivered to the Group or delivered by the Group. Investments are initially recognized at fair value plus transaction costs for all financial assets not measured at fair value through profit or loss. Financial assets measured at fair value through profit or loss, are initially recognized at fair value, and transaction costs are expensed in the statement of income. Financial assets are derecognized when the rights to receive cash flows there from have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are measured in subsequent periods at amortized cost using the effective interest method.

Gains or losses that stem from changes in the fair value of financial assets at fair value through profit or loss are presented in statement of income under "financial expenses - net" in the period in which they incurred. Dividend income from financial assets at fair value through profit or loss are recognized in statement of income under "other income - net" when the group is eligible to these payments.

3) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

4) Impairment of financial assets

Financial assets are presented at amortized cost.

The Group assesses at the each statement of financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment of a financial assets or group of financial assets include observable: information that came to the attention of the Group in connection with the following loss events:

- Significant financial difficulty of the issuer or obligor;
- breach of contract, such as a default or delinquency in interest or principal payments;
- The Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganization;
- The disappearance of an active market for that financial asset because of financial difficulties;
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
  (i) Adverse changes in the payment status of borrowers in the portfolio; or
  (ii) National or local economic conditions that correlate with defaults on the assets in the portfolio.

Where objective evidence for impairment exists, the amount of the loss is measured as the difference between the asset's carrying amount of the financial assets and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed for the asset upon initial recognition). The asset's carrying amount is reduced and the amount of the loss is recognized in the statement of income.

If the amount of impairment loss in a subsequent period decreases, and this decrease may be attributed to an objective event that took place after the impairment was recognized (like improved credit rating of the borrower), reversing the previously recognized impairment loss is recorded in income statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

j. Inventories

Inventories are measured at the lower of cost or net realizable value. Raw material cost is determined using the "moving average" method.

The cost of finished goods and work in progress comprises raw materials, direct labor, other direct costs and related production overheads (based on normal operating capacity) but excludes capitalization of borrowing costs.

Net realizable value is the estimated selling price in the ordinary course of business, less the applicable and variable selling expenses.

k. Trade Receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less they are classified as current assets. If not, they are classified as non-current assets.

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for doubtful accounts (hereafter – "provision for impairment" or "provision for doubtful accounts"). As to the way the impairment provision is determined and accounting treatment applied thereto subsequently see i4) above.

l. Cash and Cash Equivalents

Cash and cash equivalents include cash in hand, short-term bank deposits and other highly liquid short-term investments, the maturity of which does not exceed three months, bank overdrafts (repayable upon demand).

m. Share Capital

Ordinary shares of the Company are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in the equity as a deduction, net of tax, from the proceeds of issuance.

Where any Group company purchases the Company’s equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the company’s equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects are included in equity. Any difference between the cost of acquisition of the treasury shares and the consideration is carried to premium on shares.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

n. Trade Payables

Trade payables are obligations of the Group to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less.

If not, they are classified as non-current liabilities.
Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

o. Loans

Loans are recognized initially at their fair value, net of transaction costs incurred. Loans are subsequently measured at amortized cost; any difference between the consideration (net of transaction costs) and the redemption value is recognized in the statement of income over the period of the loan using the effective interest method.
Loans are classified as current liabilities unless the Group has an unconditional right to defer settlement of the loans for at least 12 months after the end of the reporting period, in which case they are classified as non-current liabilities.

p. Current and Deferred Income Taxes

The tax expenses for the reported years comprise of current and deferred tax. Tax is recognized in the statement of income, except for taxes related to equity and other comprehensive income items.

The current income tax charge is calculated on basis of the tax laws enacted or substantially enacted at the statement of financial position date in the countries where the Company and the subsidiaries operate and generate taxable income. Management periodically evaluates tax issues related to its taxable income, based on relevant tax law, and makes provisions in accordance with the amounts payable to the Income Tax Authorities.

Deferred income tax is recognized using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Nevertheless, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affect neither accounting nor taxable income.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. The amount of deferred income taxes is determined using tax rates (and laws) that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax is not calculated on temporary differences arising on investments in subsidiaries, as long as the timing of reversal of the differences is controlled by the Group and it is expected that no such reversal will take place in the foreseeable future.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

The group recognizes deferred income tax assets in respect of temporary differences deductible for tax purposes only if it is expected that the temporary difference is revered in the foreseeable future and to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax assets and liabilities are offset only if:

- There is a legally enforceable right to offset current tax assets against current tax liabilities; and

- When the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

As stated in Note 13c, upon distribution of dividends from tax-exempt income of "approved enterprises" or "benefited enterprises", the amount distributed will be subject to tax at the rate that would have been applicable had the company not been exempted from payment thereof. The amount of the related tax is charged as an expense in the statement of comprehensive income, when such dividend is distributed.

q. Employee Benefits:

1) Pension Obligations and retirement benefits

The companies in the group operate a number of post-employment employee benefit plans, including defined benefit and defined contribution plans.

A defined contribution plan is a pension plan under which the group pays fixed contributions into a separate entity. The group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

A defined benefit plan is a pension plan that is not a defined contribution plan.

The companies in the group operate a number of pension plans. The plans are funded through payments to insurance companies or pension funds that are managed in trust.

According to their terms, those pension plans satisfy the above definition of a defined contribution plan.

According to labor laws and agreements in Israel and the practices of the companies in the Group, Group companies are obligated to pay retirement benefits to employees dismissed or retiring in certain circumstances.

According to the obligation of group companies to employees who participate in a defined benefit plan, the amounts of benefits those employees are entitled to upon retirement are based on the number of years of services and the last monthly salary.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

The obligation of the group companies to all other employees is a defined contribution plan, in which regular contributions are made to a separate and independent entity, and the companies of the Group have no legal or constructive liability to make any further payments if the assets of the funds are insufficient to pay all employees the benefits for work services in the current and past periods.

The total retirement benefit obligation presented in the statement of financial position is the present value of defined benefit contribution as of the date of financial position, less the fair value of plan assets. The defined contributions benefit is measured on an annual basis by an actuary using the projected unit credit method.

The present value of the liability is determined by discounting expected future cash flows (after taking into account the expected rate of payroll hikes) based on the interest rate of government/corporate bonds denominated in the currency in which the benefits will be paid and whose terms to maturity approximate the term of retirement benefit obligation.

According to IAS 19 "Employee Benefits", the discount rate used for calculating the actuarial obligation is determined by using the market return of high-quality corporate bonds on the date of the statement of financial position. However, IAS 19 indicates that in countries where there is no deep market in such bonds, the market rates on government bonds are used.

The group recognizes remeasurements of net obligations (the asset) for defined benefit plan to other comprehensive income in the period in which they incurred. Those remeasurements are created as a result of changes in actuary assumptions, difference between past assumptions and actual results and differences between plan assets return and the amounts included in net interest on net liabilities (the asset) for defined benefit.

Past-service costs are recognized immediately in income.

Amount funded for severance benefits are measured at fair value. The amounts funded are plan assets as defined by IAS 19, and therefore were offset from the balance of retirement benefit obligation for presentation purposes in the statement of financial position.

As discussed above, the group purchases insurance policies and makes contributions to pension and severance pay funds to fund its obligation under defined contribution plan. The group has no further payment obligations once the contributions have been paid. The contributions are defined as an expense for employee benefits concurrently to receiving services from employees that entitle them for contributions. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

2) Vacation and Recreation Fees

Under the law in various countries, employee is entitled for vacation days and recreation fees (in Israel), both computed on an annual basis. The entitlement is based on the period of employment. The Group records a liability and an expense in respect of vacation and recreation fees, based on the benefit accumulated for each employee.

3) Bonus plans

Some of the Group's employees are entitled to receive an annual bonus in accordance with the bonuses plan determined by Group management for that year. The Group provides for payment of the bonus in accordance with meeting the targets of the plan and in accordance with Group's estimate as to the total amount of bonuses to be paid to employees.

r. Share-Based Compensation

The group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Company. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- Excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- Including the impact of any non-vesting conditions (for example, the requirement for employees to save).

s. Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation and it is possible to prepare a reliable estimation of the amount of liability.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole.

Provisions are measured at the present value of the cash flow expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

t. Revenue Recognition Policy

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods in the ordinary course of business. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

Revenues from sale of goods are recognized by the Group when all of the following conditions are met:

(a) The significant risks and rewards of ownership of the goods have been transferred by the Group to the buyer;
(b) The group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.
(c) The amount of revenues can be reliably measured.
(d) It is probable that future economic benefit relating to the transaction will flow to the Group; and
(e) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

The amount of revenue is not considered to be reliably measurable until all contingencies relating to the transaction have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

The products are occasionally sold with volume discounts; customers have a right to return faulty products. Sales are recorded based on the selling price, net of the estimated volume discounts and returns at the time of sale. Accumulated experience is used to estimate and provide for the discounts and returns. The volume discounts are assessed based on anticipated annual purchases. No element of financing is present as the sales are made with an average credit term, which is not higher than the market practice.

u. Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.
Long term lease contracts for lease of land from the Israel Land Administration and from other countries are presented among fixed assets.

v. Earnings per Share

Basic:

The computation of basic earnings per share is based, as a general rule, on the profit attributable to holders of ordinary Company shares divided by the weighted average number of ordinary shares in issue during the period, excluding Company shares held by group subsidiaries (Notes 2m).

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Fully Diluted:

When calculating the diluted earnings per share, the Group adds to the average number of shares outstanding that was used to calculate the basic earnings per share also the weighted average of the number of shares to be issued assuming the all shares that have a potentially dilutive effect would be converted into shares. The potential shares, as above are only taken into account in cases where their effect is dilutive (reducing the earnings per share or increasing the loss per share).

The weighted average number of shares used in calculating Basic and Diluted earnings per share is as follows:

	Basic	Diluted
	In thousands	In thousands
Year end 31 December:		
2015	58,573	59,141
2014	58,228	59,078
2013	57,976	58,559

w. Dividends

Dividend distribution to the Company's owners is recognized as a liability in the Group's statement of financial position on the date on which the dividends are approved by the Group's Board of Directors. Dividend paid includes an erosion component (from date of approval of dividend through date of payment thereof).

x. New International Financial Reporting Standards, Amendments to Standards and New interpretations

New standards and amendments to existing standards that will become effective for reporting periods beginning on January 1, 2015:

1. Amendment to IAS 19 "Employee Benefits" (hereinafter - IAS 19R)

IAS 19R clarifies the accounting for defined benefit plans that require employees or third parties to contribute towards the cost of the benefits that relate to the service of the employee.

The amendment to IAS 19 considers contributions from employees or third parties when accounting for defined benefit plans. IAS 19 requires such contributions that are linked to service to be attributed to periods of service as a reduction of service cost. The amendment include guidelines on how to reduce the ultimate cost of service, and makes a distinction between contributions that are dependent or independent of the number of years of service.

The amendment to IAS 19 will be applied retrospectively. Its first-time implementation is not expected to have material impact on the consolidated financial statements of the Group.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

2. IFRS 9 "Financial Instruments"

IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces most of the guidance of IAS 39 "Financial Instrument: Recognition and Measurement" that relates to the classification and measurement of financial assets. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling.

The standard presents a new expected loss impairment model to replace the current model used in IAS 39, which is based on the incurred loss model.

No changes were introduced for the classification and measurement of financial liabilities, except for the recognition of changes in own credit risk in other comprehensive income for liabilities designated at fair value through profit or loss.

IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39.

The standard is effective retrospectively for accounting periods beginning on or after January 1, 2018. Early adoption is permitted. The group is assessing IFRS 9’s impact on its financial statements.

3. IFRS 15 "Revenue from Contracts with Customers"

Upon first-time adoption, IFRS 15 will replace existing IFRS guidance on revenue recognition.

The core principle of IFRS 15 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.
IFRS 15 introduces a single model for revenue recognition, in which an entity recognizes revenue in accordance with that core principle by applying the following five steps:

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when (or as) the entity satisfies a performance obligation

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

IFRS 15 provides guidance about various issues related to the application of that model, including: recognition of revenue from variable consideration set in the contract, adjustment of transaction for the effects of the time value of money and costs to obtain or fulfill a contract.

IFRS 15 extends the disclosure requirements regarding revenue and requires, among other things, that entities disclose qualitative and quantitative information about significant judgments made by management in determining the amount and timing of the revenue.

On July 22, 2015 the IASB released a decision on deferral of the effective date of the standard by one year, and the standard will be applied retrospectively for annual periods beginning on January 1, 2018, with transitional provisions. Early adoption is permitted. The Group is exploring the expected impact of IFRs 15 on its financial statements.

4. IFRS 16 "Leases"

IFRS 16 will replace upon first-time implementation the existing guidance in IAS 17 - "Leases"(hereafter – "IAS 17"). The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases, and is expected to have material impact mainly on the accounting treatment applied by the lessee in a lease transaction.

IFRS 16 changes the existing guidance in IAS 17 and requires lessees to recognize a lease liability that reflects future lease payments and a "right-of-use asset" in all lease contracts (except for the following), with no distinction between financing and capital leases. IFRS 16 exempts lessees in short-term leases or the when underlying asset has a low value. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

IFRS 16 changes the definition of a "lease" and the manner of assessing whether a contract contains a lease.

IFRS 16 will be effective retrospectively for annual periods beginning on or after January 1, 2019, taking into account the reliefs specified in the transitional provisions of IFRS 16. Under the provisions of IFRS 16, early adoption is permitted only if IFRS 15 has also been applied. The Group is assessing the expected impact of IFRS 16 on the financial statements.

NOTE 3 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT:

a. Financial Risk Management

1) Financial Risk Factors

The Group’s activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group’s overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group’s financial performance.

NOTE 3 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT:

Risk management is carried out under policies approved by the board of directors and senior management. These policies cover specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of non-derivative financial instruments, and investment of excess liquidity. Group policies also cover areas such as cash management and raising short and long-term debt.

The Group's business is characterized by considerable dispersion. The Group produces tens of thousands of products intended for tens of thousands of customers throughout the world, using tens of thousands of raw materials purchased from a wide range of suppliers worldwide. As stated, the Group is not significantly dependent on any of its customers, products or suppliers.

Discussions on implementing the risk management policy as relates to currency exposure and interest are conducted by the Group's management once each quarter.

The Group does not use derivative financial instruments for its hedge or speculative purposes.

a) Market Risks:

1) Foreign Exchange Risk

The Group operates globally and is exposed to movements in foreign currencies affecting its net income and financial position, as expressed in U.S. dollars.
Transaction exposure arises because the equivalent amount in local currency paid or received in transactions denominated in foreign currencies may vary due to changes in exchange rates. Most Group entities produce their income primarily in the local currency. A significant amount of expenditures, especially for the purchase of goods for resale are in foreign currencies. Similarly, transaction exposure arises on net balances of financial assets held in foreign currencies. Since raw materials purchases for the Group's production are also conducted in various currencies, currency exposure is reduced.
The Group's subsidiaries manage this exposure locally. In addition, Group management monitors total global exposure of the Group.

Translation exposure arises from the consolidation of the Foreign Currency denominated financial statements of the Company's subsidiaries. The effect on the Group's consolidated comprehensive income is shown as a currency translation difference.

The following table presents currency exposure in respect of balance denominated in currencies that are different than the functional currency of the reporting company and also the effect on income after taxes. At 31 December 2015 and 2014, if the currencies specified below had weakened/strengthened by 1% against the other functional currencies of group companies, with all other variables unchanged:

NOTE 3 – FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued):

	31 December 2015			
	U.S. dollars in thousands			
	NIS	Pound Sterling	Euro	Swiss Franc
Financial asset(liabilities), net	(2,913)	528	(144,689)	1,857
Gain (loss) from change:				
Impact of 1% weakening	29	(5)	1,447	(19)
Impact 1% strengthening	(29)	5	(1,447)	19

	31 December 2014			
	U.S. dollars in thousands			
	NIS	Pound sterling	Euro	Swiss Franc
Financial asset(liabilities), net	(2,586)	19	(21,354)	1,570
Gain (loss) from change:				
Impact of 1% weakening	26	*	214	(16)
Impact 1% strengthening	(26)	*	(214)	16

* Represents amounts lower than $1 thousand.

2) Cash Flow Risk Relating to Interest Rates

Since on a current basis the Group does not have significant assets bearing interest, its revenues and operating cash flow are not dependent on changes in interest rates.

The Group's interest rate risk arises from long-term and short-term borrowings. Borrowings received at variable rates expose the Group to cash flow interest rate risk.

The Group analyses its interest rate exposure. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing. Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies. The scenarios are run only for liabilities that represent the major interest-bearing positions.

Based on the simulations performed, the impact on post tax profit for the year 2015 of a 0.1% shift in interest rate on loans would have been a change of $ 233 thousand (2014 - $ 193 thousand; 2013 - $171 thousand).

b) Credit Risk

Credit risk arises from the possibility that the counter-party to a transaction may be unable or unwilling to meet their obligations causing a financial loss to the Group.

Trade receivables are subject to a policy of active risk management, which focuses on the assessment of country risk, credit limits, ongoing credit evaluation and accounting monitoring procedures.

NOTE 3 – FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued):

There are no significant concentrations within trade receivables of counter-party credit risk due to the large number of customers that the Group deals with and their wide geographical spread. Country risk limits and exposures are continuously monitored. Collateral is generally not required.

The provision for impairment of trade receivables is determined on basis of a periodic test of all amounts due.

The exposure of other financial assets and liabilities to credit risk is controlled by setting a policy for limiting credit exposure to counter-parties, continuously reviewing credit ratings, and limiting individual aggregate credit exposure accordingly.

Group entities must have sufficient availability of cash to meet their obligations. Each company is responsible for its own cash management, including the short-term investment of cash surpluses and the raising of loans to cover cash deficits, subject to Group policies and to monitoring of Group management.

The table presented below classifies the Group's financial liabilities into relevant maturity groupings based on the remaining period at 31 December 2015 to the contractual maturity date. Group entities do not have derivative financial liabilities. The amounts presented in the table represent the projected undiscounted cash flows.

	Less than 1 year	Between 1 and 3 years	Between 3 and 5 years
	U.S. dollars in thousands		
As of 31 December 2015:			
Borrowings – Variable interest	244,996	150,507	2,355
Borrowings – Fixed interest	20,768	66,785	434
Liability for put option for the shareholders of a subsidiary	-	46,116	10,972
Accounts payable and accruals	128,058	20,621	4,332
	393,822	284,029	18,093
As of 31 December 2014:			
Borrowings	69,790	122,257	44,789
Liability for put option for the shareholders of a subsidiary	-	20,216	-
Accounts payable and accruals	107,151	3,233	3,096
	176,941	145,706	47,885

c) Liabilities in respect of put options

As part of the transaction for several acquisitions, the former owners of the acquired entities were granted an option to sell the company their remaining shares, and the company has an option to buy those shares; (the price and the conditions of the call options are identical to the price of the put option). This mechanism exists in the following acquisitions:

NOTE 3 – FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued):

1. Protein Technologies Ingredients ("PTI"), see note 5l.2.
2. Sonarome Private Ltd. ("Sonarome"), see note 5e.
3. Investissements BSA Inc. ("BSA"), see note 5f.

As of December 31, 2015, the total amount of the options amounted to $ 54,732 thousands; the value of the liability was estimated in accordance with the average EBITDA to be achieved during the period of the agreement. The annual weighted capitalization rate of the option is 1.86%.

The main unobservable data used by the company for the purpose of estimating the value of the option is the future EBITDA to be achieved. For the purpose of estimating the value of the liabilities for the options and their update, the company used its current business results and the company forecast.

b. Capital management

Group's objective is to maintain, as possible, stable capital structure. In the opinion of Group's management its current capital structure is stable. Consistent with others in the industry, the Group monitors capital, including others also, on the basis of the gearing ratio.

This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated statement of financial position plus net debt.

The gearing ratios at 31 December 2015 and 2014 were as follows:

	2015	2014
	U.S. dollars in thousands	
Total borrowings (Note 9)	483,929	231,446
Less - cash and cash equivalents (Note 18)	(68,997)	(63,975)
Net debt	414,932	167,471
Total equity	551,684	522,019
Total capital	966,616	689,490
Gearing ratio	42.9%	24.3%

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will by definition, not necessarily be equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

a. Estimate of impairment of goodwill

The Group tests annually for impairment of goodwill, in accordance with the accounting policy states in Note 2g. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (Note 8).

b. Taxes on income and deferred taxes

The Group is subject to income taxes in a large number of countries. Judgment is required in determining the worldwide provision for income taxes. The group is involved in transactions and computations whose final tax liabilities cannot be determined with certainty in the normal course of business. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due as a result of the tax audits. Where the final tax outcome of these matters, determined by tax authority is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax liabilities provisions in the period in which such determination is made.

The Group recognizes deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and the tax bases of assets and liabilities. The Group regularly reviews its deferred tax assets for recoverability, based on historical taxable income, projected future taxable income, the expected timing of the reversals of existing temporary differences and the implementation of tax planning strategies. If the Group is unable to generate sufficient future taxable income, or if there is a material change in the actual effective tax rates or time period within which the underlying temporary

differences become taxable or deductible, the Group could be required to eliminate a portion of the deferred tax asset resulting in an increase in its effective tax rate and an adverse impact on operating results.

c. Severance pay

The present value of the liabilities in respect of severance pay is dependent on several factors that are determined on an actuarial basis in accordance with various assumptions. The assumptions used in the calculation of the net cost (income) in respect of severance pay include, inter alia, the yields rate and the rate of discount. Changes in those assumptions shall influence the carrying amount of the assets and liabilities in respect of severance pay.

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The assumption regarding the required rate of discount is determined by the external actuaries at the end of each year. This rate of discount shall be used in determining the estimated updated value of the future cash flows that would be required to cover the severance pay liabilities. The company uses the market of high-quality corporate bonds when this market available, when his not, government bonds is sufficient to serve as basis for determining the rate of discount. Therefore, in determining this rate the Group uses interest rate in the currency in which the benefits will be paid.
Other key assumptions relating to severance pay liabilities, such as future payroll raise and retirement rates are partially based on existing market conditions on that time and on past experience.

d. Provisions

Provision for legal liabilities are recorded in the books of accounts in accordance with Group management’s judgment (based on the opinion of its legal advisors) regarding the reasonability that the cash flows shall indeed by used to meet the liabilities, and on the basis of the estimate determined by the management regarding the present value of the expected cash outflows that would be required to meet the existing liabilities.

NOTE 5 – BUSINESS COMBINATIONS:

a. Acquisition of FoodBlenders

On February 2, 2015 Frutarom signed, through a subsidiary in the United Kingdom, an agreement for the purchase of 100% of the share capital of the UK flavors company FoodBlenders Limited ("FoodBlenders") in exchange for payment of approximately US$ 2.2 million (£ 1.45 million) plus an additional payment contingent on performance which is estimated in the amount of US$ 1.1 million (£ 724 thousands). The acquisition was completed at the time of signing and was financed from independent sources.

Established in 1998, FoodBlenders develops, manufactures, and markets savory solutions which mainly include spice and seasoning mixes, functional ingredients, marinades and sauces for the food industry, with particular emphasis on the convenience foods segment. In 2014 FoodBlenders posted sales of approximately US$ 3 million (£ 2 million) with profit margins similar to those of Frutarom in the same area of activity. FoodBlenders has a site in England where it develops, manufactures and markets its products which is located in close proximity to Frutarom's Wellingborough site, and it has a wide customer base which includes British food and private label manufacturers.

FoodBlenders' product line and technologies complement the product portfolios and activities of UK-based Savoury Flavours and EAFI which were acquired by Frutarom in 2012 and 2011 respectively and which also specialize in savory flavor solutions. The proximity to the Frutarom site at Wellingborough and the complementary line of products promise to generate synergies between FoodBlenders' activity and Frutarom's expanding savory activity in the UK and throughout the world.

NOTE 5 – BUSINESS COMBINATIONS (continued):

a. Acquisition of FoodBlenders (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 intangible assets which were recognized include: product formulas amounting to £ 360 ($ 543 thousands), customer relations amounting to £ 442 ($ 667 thousands) and goodwill amounting to £ 1,293 ($ 1,951 thousands). 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 FoodBlenders at date of acquisition:

	Fair value
	U.S. dollars In thousands
Current assets:	
Cash and cash equivalents	54
Trade	450
Inventory	158
Others	47
Non-current assets:	
Property, plant and equipment	106
Intangible assets	3,161
Current liabilities :	
Trade payables	(309)
Other account payables	(1,100)
Non-current liabilities:	
Deferred income taxes	(255)
Other	(113)
	2,199

From the date it was consolidated with the financial statements of the Company through December 31, 2015, the acquired operations have yielded revenues of $ 3,149 thousands and net profit of $ 297 thousands (net of acquisition costs).

b. Acquisition of Ingredientes Naturales Seleccionados, S.L

On February 2, 2015 Frutarom signed, through a subsidiary in Spain, an agreement for the purchase of 100% of the share capital of the Spanish company Ingredientes Naturales Seleccionados, S.L ("Ingrenat") in exchange for cash payment of approximately US$ 4.4 million (€3.9 million) and the assumption of debts amounting to approximately US$ 2.8 million (€ 2.5 million) plus an approx. additional $US 715 thousands (€ 650 thousands) which is contingent on Ingrenat's 2015 performance. The acquisition was completed at the time of signing and was funded using bank financing.

NOTE 5 – BUSINESS COMBINATIONS (continued):

b. Acquisition of Ingredientes Naturales Seleccionados, S.L (continued):

Ingrenat specializes in the research and development, production, and sales and marketing of natural extracts from plants which include, among others, paprika rosemary, bixin, alfalfa and more which deliver taste, color, and antioxidant activity solutions for the food industry.

Numbering among its customers are food manufacturers and leading flavor, fragrance, and natural color producers. Ingrenat's sales grew 10% in 2014 to approx. US$ 9.8 million (€ 7.4 million).

Ingrenat has 28 employees, an R&D and sales and marketing center, and a production site in Murcia, Spain with large production capacity and the possibility of extensive expansion, of which Frutarom will look to gain full advantage and achieve significant operational savings.

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 amounting to € 1,935 ($ 2,195 thousands), customer relations amounting to € 1,688 ($ 1,915 thousands) and goodwill amounting to € 376 ($ 427 thousands). 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 Ingredientes at date of acquisition:

	Fair value
	U.S. dollars In thousands
Current assets:	
Cash and cash equivalents	94
Trade	1,218
Inventory	1,962
Others	608
Non-current assets:	
Property, plant and equipment	1,847
Others	293
Intangible assets	4,537
Current liabilities :	
Trade payables	(747)
Other account payables	(470)
Bank credit and loans	(2,841)
Non-current liabilities:	
Deferred income taxes	(788)
Other	(1,309)
	4,404

From the date it was consolidated with the financial statements of the Company through December 31, 2015, the acquired operations have yielded revenues of $ 8,313 thousands and net profit of $ 25 thousands (net of acquisition costs of $ 88 thousands).

NOTE 5 – BUSINESS COMBINATIONS (continued):

c. Acquisition of Taiga

On March 16, 2015 Frutarom signed, through a Belgian subsidiary, an agreement for the purchase of 100% of the share capital of the Belgian company Taiga International NV ("Taiga"), in exchange for payment of approximately US$ 3 million. The transaction was completed upon signing and was independently financed.

Taiga, which was established in 1992, engages in the development, production and marketing of flavors for the food, beverages and tobacco industries, including to leading manufacturers of chocolates. The company has 14 employees and serves a broad customer base extending from Europe to North America from its site in Belgium which is home to all its production, research and development, and marketing activities. In 2014 Taiga's sales turnover amounted to US $4.9 million.

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 amounting to € 566 thousands ($ 608 thousands), customer relations amounting to € 152 thousands ($ 163 thousands) and goodwill amounting to € 1,586 thousands ($ 1,703 thousands). 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 Taiga at date of acquisition:

	Fair value
	U.S. dollars
	In thousands
Current assets:	
Cash and cash equivalents	192
Trade	387
Inventory	475
Others	65
Non-current assets:	
Property, plant and equipment	56
Others	26
Intangible assets	2,474
Current liabilities :	
Trade payables	(120)
Other account payables	(245)
Deferred income taxes	(262)
	3,048

From the date it was consolidated with the financial statements of the Company through December 31, 2015, the acquired operations have yielded revenues of $ 3,123 thousands and net profit of $ 211 thousands (net of acquisition costs).

NOTE 5 – BUSINESS COMBINATIONS (continued):

d. Acquisition of Vitiva

On February 4, 2015 Frutarom signed, through a subsidiary in Slovenia, an agreement for the purchase of 92% of the share capital of the Slovenian company Vitiva ("Vitiva"), giving it the right to acquire 100% of Vitiva's share capital, in exchange for a cash payment of approximately US$ 5.2 million and the assumption of debts amounting US$ 3.4 million (€ 3 million). On April 23, 2015 Frutarom completed the purchase of Vitiva's remaining shares and from this date holds Vitiva's entire share capital.

Vitiva specializes in the research and development, production, marketing and sales of specialty natural extracts from plants exhibiting antioxidant activity or scientifically proven health attributes backed up by clinical studies and of natural colors for customers in the food, pharmaceutical, nutraceutical, and cosmetics markets. Vitiva's revenues have grown from US$ 8.7 million in 2013 to approximately US$ 11 million for the 12-month period ending November 2014 (27% increase). Its activity will be integrated within the framework of Frutarom's specialty fine ingredients division.

Vitiva has an R&D, marketing and sales center and a modern, efficient production site in Slovenia with large output capacity along with the possibility for significant expansion. Vitiva has 61 employees.

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 amounting to € 1,134 thousands ($ 1,287 thousands) and customer relations amounting to € 829 thousands ($ 940 thousands). 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 Vitiva at date of acquisition:

	Fair value
	U.S. dollars In thousands
Current assets:	
Cash and cash equivalents	82
Trade	1,569
Inventory	1,837
Others	255
Non-current assets:	
Property, plant and equipment	6,399
Software	106
Intangible assets	2,227
Current liabilities :	
Trade payables	(2,134)
Other account payables	(944)
Non-current liabilities:	
Loans	(3,400)
Deferred income taxes	(361)
Other	(418)
	5,218

NOTE 5 – BUSINESS COMBINATIONS (continued):

d. Acquisition of Vitiva (continued):

From the date it was consolidated with the financial statements of the Company through December 31, 2015, the acquired operations have yielded revenues of $ 9,718 thousands and net profit of $ 953 thousands (net of acquisition costs).

e. Acquisition of Sonarom

On May 14, 2015, Frutarom completed, through a subsidiary in the United Kingdom, the acquisition of 60% of the share capital of the Indian flavor and fragrances company Sonarome Private Ltd (Sonarome) for US$ 17.7 million in cash. The transaction was completed upon signing date and was funded using bank financing.

The acquisition agreement offers a mutual option for Frutarom to purchase Sonarom's remaining 40% of shares starting from the end of the second year and until the end of the seventh year, on the basis of the business performances achieved over the two years preceding exercise and other performance factors. As of acquisition date the price of the option is estimated in the amount of $ 19,690 thousands and is presented as a non-current liability. Considering the fact that terms of the option are identical for all parties of the transaction, the group recorded the acquisition of full control (100%) in Sonarom including recording the entire liability amount arising from exercise of the option in its discounted value.

Sonarom was founded in 1981 and is engaged in the development, production and marketing of flavors and fragrances. Sonarome sales turnover amounted approximately US$ 12 million in 2014. Sonarome has a production, research and development site in Bangalore, India, which has additional production capacity. In addition to the activity in India, Sonarome has an extensive operation in Africa.

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 amounting to $ 3,264 thousands, customer relations amounting to $ 5,815 thousands and goodwill amounting to $ 24,317 thousands. 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 5 – BUSINESS COMBINATIONS (continued):

e. Acquisition of Sonarom (continued)

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

	Fair value
	U.S. dollars In thousands
Current assets:	
Cash and cash equivalents	349
Trade	2,868
Inventory	1,515
Others	851
Non-current assets:	
Property, plant and equipment	3,890
Intangible assets	33,396
Current liabilities :	
Short term loan and current maturities	(789)
Trade payables	(692)
Other account payables	(698)
Non-current liabilities:	
Liability for put option for the shareholders of a subsidiary	(19,690)
Loans	(18)
Deferred income taxes	(3,215)
Other	(99)
	17,668

From the date it was consolidated with the financial statements of the Company through December 31, 2015, the acquired operations have yielded revenues of $ 8,497 thousands and net profit of $ 1,139 thousands (net of acquisition costs).

f. Acquisition of Investissements BSA Inc.

On June 1, 2015, Frutarom, through a Canadian subsidiary, completed the acquisition of 95% of the share capital of Investissements BSA Inc. ("BSA") for CA$ 45 million in cash (approximately US$ 36 million). The transaction was completed upon signing date and was funded using bank financing.

The acquisition agreement offers a mutual option for Frutarom to purchase BSA's remaining 5% of shares starting from the end of the second year, on the basis of the business performances achieved over the two years preceding exercise and other performance factors. As of acquisition date the price of the option is estimated in the amount of $ 2,153 thousands and is presented as a non-current liability. Considering the fact that terms of the option are identical for all parties of the transaction, the group recorded the acquisition of full control (100%) in BSA including recording the entire liability amount arising from exercise of the option in its discounted value.

NOTE 5 – BUSINESS COMBINATIONS (continued):

f. Acquisition of Investissements BSA Inc. (continued)

BSA was founded in 1989 and has a production site in Montreal with 140 employees. The main activity of BSA is the development, production and marketing of unique and innovative savory flavor solution, including mixes and functional ingredients for the food industry, with special focus on processed meat products and comfort food. In 2014 (12 months ended August 2014) BSA sales turnover amounted approximately CA$ 37 million (approximately US$ 34 million).

In addition to its activity in North America, in recent years BSA has developed activity in India, in which it has 90% share interest and additional 10% are being held by a local partner that also manages the operation. The Indian company has a local production site and is providing savory flavor solutions to customers in the Indian market.

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 amounting to CA$ 6,780 thousands ($ 5,433 thousands), customer relations amounting to CA$ 7,604 thousands ($ 6,093 thousands), goodwill amounting to CA$ 17,975 thousands ($ 14,403 thousands) and software amounting to CA$ 736 thousands ($ 589 thousands). 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 BSA at date of acquisition:

	Fair value
	U.S. dollars
	In thousands
Current assets:	
Cash and cash equivalents	692
Trade	3,353
Inventory	5,653
Others	1,189
Non-current assets:	
Property, plant and equipment	7,652
Intangible assets	26,518
Current liabilities :	
Short term loan and current maturities	(185)
Trade payables	(1,535)
Other account payables	(1,342)
Non-current liabilities:	
Deferred income taxes	(3,738)
Liability for put option for the shareholders of a subsidiary	(2,153)
	36,104

NOTE 5 – BUSINESS COMBINATIONS (continued):

f. Acquisition of Investissements BSA Inc. (continued)

From the date it was consolidated with the financial statements of the Company through December 31, 2015, the acquired operations have yielded revenues of $ 20,038 thousands and net profit of $ 395 thousands (net of acquisition costs).

g. Acquisition of Taura

On June 18, 2015, Frutarom, through a subsidiary in the United Kingdom, completed the acquisition of 100% of the share capital of Taura Natural Ingredients Holding Pty Ltd. ("Taura"), an Australian company, for $44 million in cash and assumption of debts amounting $26.5 million. The acquisition agreement includes an additional US$3.5 million payment (approximately €3 million) that is conditioned on meeting an EBITDA target for the 12 months ending June 30, 2016. The transaction was completed upon signing date and was funded using bank financing.

Taura was founded in 1973 as part of a New Zealand agricultural cooperative. Taura has production sites in New Zealand and Belgium and sales offices in the US and UK with a total of 130 employees. Its main activity is in the development, production and marketing of innovative solutions combining flavors and fruits using unique technology that allows adding natural fruit to many food products, and especially health snacks, cereal, sweets, comfort food and pastry, resulting in higher fruit concentration in the product, improving and enhancing flavor and extending shelf life of the product while using natural materials and flavors only. Taura sales turnover amounted approximately US$ 40 million in the 12 months ended March 31, 2015. Taura has a broad customer base, which includes global and local food and beverage manufacturers in the US, Asia Pacific and Europe.

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 amounting to € 6,969 thousands ($ 7,615 thousands), customer relations amounting to € 10,937 thousands ($ 11,950 thousands), goodwill amounting to € 34,848 thousands ($ 38,075 thousands) and software amounting to € 104 thousands ($ 113 thousands). 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 5 – BUSINESS COMBINATIONS (continued):

g. Acquisition of Taura (continued):

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

	Fair value
	U.S. dollars In thousands
Current assets:	
Cash and cash equivalents	5,544
Trade	6,273
Inventory	6,862
Others	1,087
Non-current assets:	
Property, plant and equipment	9,177
Intangible assets	57,753
Current liabilities :	
Short term loan and current maturities	(866)
Trade payables	(2,909)
Other account payables	(2,832)
Non-current liabilities:	
Loans	(26,553)
Deferred income taxes	(6,422)
Other	(3,234)
	43,880

From the date it was consolidated with the financial statements of the Company through December 31, 2015, the acquired operations have yielded revenues of $ 23,488 thousands and net profit of $ 651 thousands (net of acquisition costs).

h. Acquisition of F&J

On June 29, 2015, Frutarom through a US subsidiary, completed the acquisition of 100% of the share capital of the US flavors company Crestmont Investment Co., which holds the entire share capital of The Foote & Jenks Corporation as well as the acquisition of 100% of the share capital of the US flavors company Eden Essentials Inc. (hereinafter all three companies are called: "F&J") for US$ 4.2 million. The transaction was completed upon signing date and was funded using bank financing.

F&J is engaged in development, production and marketing of flavor extract for the pharmaceutical, food and beverage industries. F&J has 10 employees and a production, research and development site in New Jersey as well as a broad customer base in North America. F&J sales turnover amounted approximately US$ 2.9 million in 2014.

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 amounting to $ 431 thousands, customer relations amounting to $ 822 thousands and Goodwill amounting to $ 1,810 thousands. The product formulas and customer relations are amortized over economic useful lives of 20 years and 10 years, respectively.

NOTE 5 – BUSINESS COMBINATIONS (continued):

h. Acquisition of F&J (continued):

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 F&J at date of acquisition:

	Fair value
	U.S. dollars In thousands
Current assets:	
Trade	368
Inventory	666
Others	49
Non-current assets:	
Property, plant and equipment	107
Intangible assets	3,063
Current liabilities :	
Trade payables	(34)
Other account payables	(44)
	4,175

From the date it was consolidated with the financial statements of the Company through December 31, 2015, the acquired operations have yielded revenues of $ 1,555 thousands and net profit of $ 404 thousands (net of acquisition costs).

i. Acquisition of Scandia operations

On July 28, 2015 Frutarom has entered into an agreement for the acquisition of the business operations and assets of Scandia Citrus LLC (hereafter – "Scandia") – a company based in Florida USA - in consideration for a cash payment of $ 6 million plus an additional conditional consideration which is estimated in the amount of US$ 8,393 thousands. The transaction was completed on the date of signing the said agreement and was financed through bank credit.

Scandia Citrus specializes in R&D, manufacture, sale and marketing of specialty citrus solutions for leading global clients in the flavor, food and beverages markets. The operations of Scandia are, to a large extent, synergetic with the operations of CitraSource, which was acquired by Frutarom last year. In 2014, Scandia's sales amounted to approximately US $8 million. Scandia's operation was merged into the CitraSource operation in the 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 amounting to $ 710 thousands, customer relations amounting to $ 1,783 thousands and Goodwill amounting to $ 7,916 thousands. The product formulas and customer relations are amortized over economic useful lives of 20 years and 10 years, respectively.

NOTE 5 – BUSINESS COMBINATIONS (continued):

i. Acquisition of Scandia operations (continued):

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 Scandia at date of acquisition:

	Fair value
	U.S. dollars In thousands
Current assets:	
Inventory	3,001
Trade	1,000
Non-current assets:	
Intangible assets	10,409
Current liabilities:	
Others	(1,740)
Non-current liabilities:	
Others	(6,653)
	6,017

j. Acquisition of Nutrafur

On September 3, 2015 Frutarom signed an agreement for the acquisition of 79% of the share capital of the Spanish company Nutrafur S.A. (hereafter - "Nutrafur") for $8.3 million (approximately € 7.4 million) and an additional conditional payment of $ 530 thousands (€ 475 thousands). The transaction was completed on the date of signing the agreement and was financed through bank credit.

Nutrafur specializes in the research and development, manufacture, sale and marketing of specialty natural plant extracts bearing antioxidant properties or scientifically proven health qualities, which are supported by clinical studies. Nutrafur's products are sold to the food, pharma, nutraceutical and cosmetics industries.

In the 12-month period ending June 2015 Nutrafur's sales amounted to approximately US$ 13 million. Nutrafur has an R&D and sales center and an efficient manufacturing site in Murcia, Spain with large production capacity. This site can be significantly extended. Nutrafur has 67 employees.

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 amounting to € 1,341 thousands ($ 1,511 thousands), customer relations amounting to € 1,331 thousands ($ 1,500 thousands) and goodwill amounting to € 607 thousands ($ 684 thousands). The product formulas and customer relations are amortized over economic useful lives of 20 years and 10 years, respectively. The fair value of the assets and liabilities is subject to a final PPA, which had not been completed, as of the date of approval of these financial statements.

NOTE 5 – BUSINESS COMBINATIONS (continued):

j. Acquisition of Nutrafur (continued):

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

	Fair value
	U.S. dollars In thousands
Current assets:	
Cash and cash equivalents	114
Trade	2,220
Inventory	4,442
Others	629
Non-current assets:	
Property, plant and equipment	6,238
Intangible assets	3,695
Current liabilities :	
Short term loan and current maturities	(1,271)
Trade payables	(1,353)
Other account payables	(1,490)
Non-current liabilities:	
Loans	(1,648)
Other non-current	(210)
Non-controlling interests	(2,195)
Deferred income taxes	(844)
	8,327

From the date it was consolidated with the financial statements of the Company through December 31, 2015, the acquired operations have yielded revenues of $ 3,891 thousands and net profit of $ 409 thousands (net of acquisition costs).

k. Acquisition of Inventive

On December 8, 2015 Frutarom signed an agreement for the purchase of 100% of the share capital of the Hong Kong companies Inventive Technology Ltd. and Prowin International Ltd. and their subsidiaries (collectively: "Inventive") for $ 17 million (partly including the assumption of Inventive's debts). The purchase agreement includes a mechanism for future consideration conditional on the company's business performance over the three year period following the acquisition.

The transaction was completed at the time of signing and financed using bank debt.

Inventive has manufacturing, research and development, and marketing facilities at Zhàoqìng in southern China where it has excess production capacity, as well as an R&D and sales center in Shanghai and sales and marketing offices in Hong Kong. The company has a broad customer base which includes blue-chip global food and beverage makers along with leading Chinese food and beverage manufacturers, and its products are sold in China, Southeast Asia, the Middle East and South America.

NOTE 5 – BUSINESS COMBINATIONS (continued):

k. Acquisition of Inventive

In the 12 months ending October 2015 sales for Inventive reached $ 13.7 million.

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 amounting $ 2,688 thousands, customer relations amounting to $ 3,341 thousands and goodwill amounting to $ 18,292 thousands. 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 Inventive at date of acquisition:

	Fair value
	U.S. dollars In thousands
Current assets:	
Cash and cash equivalents	1,399
Trade	1,968
Inventory	1,691
Others	1,767
Non-current assets:	
Property, plant and equipment	4,194
Intangible assets	24,321
Software	32
Current liabilities :	
Short term loans	(3,907)
Trade payables	(1,916)
Other account payables	(1,045)
Non-current liabilities:	
Deferred income taxes	(1,493)
Others	(12,247)
	14,764

From the date it was consolidated with the financial statements of the Company through December 31, 2015, the acquired operations have yielded revenues of $ 1,014 thousands and net profit of $ 82 thousands (net of acquisition costs).

NOTE 5 – BUSINESS COMBINATIONS (continued):

l. Acquisitions carried out in 2013

1) L. Acquisition of JannDeRee (Pty) Limited

On May 2, 2013 the Company signed, through a subsidiary, an agreement for the acquisition of 100% of the share capital of the South African flavors company JannDeRee (Pty) Limited (hereafter – "JannDeRee") in consideration for $ 4,957 thousands (44,400 thousands Rand) in cash and 5% of the share capital of Frutarom South Africa (Which was estimated in about $ 610 thousands).

2) Acquisition of Vantodio Holdings Limited:

On November 18, 2013 Frutarom signed, through a Swiss subsidiary, an agreement for the acquisition of 75% of the share capital of the Cypriot Vantodio Holdings Limited company ("Vantodio"), holder of the Russian Protein Technologies Ingredients group ("PTI") in consideration for a cash payment of $ 50.3 million (based on company value of $ 67 million). The acquisition was completed on November 20, 2013. The acquisition agreement offered a mutual option for Frutarom to purchase Vantodio's remaining 25% of shares starting from the end of the third year until the end of the fifth year, on the basis of a multiplier of between six and seven on the average EBITDA achieved over the three years preceding exercise and other performance factors.
Considering the fact that terms of the option are identical for all parties of the transaction, the group recorded the acquisition of full control (100%) in PTI including recording the whole liability arising from exercise of the option in the discounted value.

3) Acquisition of International Aroma Group

On November 25, 2013, Frutarom signed, through a Swiss subsidiary, an agreement for purchase of the full share capital of the International Aroma Group, a Panamanian company, holder of the Guatemalan Aroma group ("Aroma"), in return for a net cash payment of $ 12.5 million ($13 million, net of Aroma's cash balance and cash equivalents in the amount of $ 0.5 million as of acquisition date). A total of $ 1.5 million out of the said amount has not yet been paid. This amount serves as collateral to secure to sellers liability under the purchase agreement; the said amount shall be released in installments through March 30, 2017. The share purchase agreement contains a mechanism for payment of future consideration.

4) Acquisition Hagelin & Company Inc. and BRC Operating Company LLC

On December 12, 2013, Frutarom, signed an agreement, through a Frutarom subsidiary in the United States, for the acquisition of 100% of the share capital of the US based Hagelin & Company Inc. and all holdings in the US based BRC Operating Company LLC (jointly: "Hagelin"), in return for a cash payment of $ 52,400 thousands.

NOTE 5 – BUSINESS COMBINATIONS (continued):

m. Acquisitions carried out in 2014:

1) Acquisition of CitraSource

On February 24, 2014 Frutarom signed, through a Frutarom subsidiary in the United States, agreements for purchase of the business activity and assets of CitraSource LLC. and 100% of the issued share capital of CitraSource Holdings LLC of Florida, USA ("CitraSource"), which includes, inter alia, a plant for processing specialty citrus ingredients, and inventory, and an agreement for the purchase of a refrigerated tank farm used by CitraSource in its routine activities. The acquisition was made in return for a net cash payment of US$ 7.1 million and also includes additional future consideration.

2) Acquisition of the flavors and natural food colors division of Montana S.A.

In October 2014 Frutarom completed the acquisition of the flavors and natural food colors division of the Peruvian company Montana S.A. ("Montana Food"). The transaction was carried out in return for a cash payment of $ 24.9 million and assuming debt of $ 7.1 million.

3) Had the acquisitions, carried out in 2015 and 2014 ,been completed on January 1, 2014, based on the unaudited information provided by owners of the acquiree based on the pre-acquisition accounting activity, the revenue of the Group for the year ended December 31, 2015 would have been $ 935,024 thousand, and net income for that year would have been $ 100,578 thousands. Based on the above, the revenue of the Group for the year ended December 31, 2014 would have been $ 1,027,182 thousand, and net income for that year would have been $ 96,625 thousands. The change in revenues and profit are affected by the straightening U.S Dollar compared with the European currencies (Note 2c.4).

The above results include interest expenses for loans to finance the acquisition that would have been registered in that period, depreciation and amortization that may have been recognized in that period for amortization of intangible assets and one-off expenses recognized on acquisition date. In the aforesaid calculation were not taken in the account of synergies that would get accepted from merger of the acquisitions with activity of the company.

NOTE 6 – SEGMENT REPORTING

a. Operating Segments

The core activity of the Group is organized to support management to perform on a worldwide basis in two major operating activities: Flavors and Fine Ingredients. Another operating activity is Trade and Marketing (each operation is considered to be a reportable segment (Note 2d). Results of operating segments are measured based on operating income.

NOTE 6 – SEGMENT REPORTING (continued):

Frutarom's Flavors Activity develops, produces, markets and sells high-quality, value added sweet and savory flavors used mainly by manufacturers of food and beverages and other consumer products including flavors and Food Systems products (products combining fruits, vegetables and/or other natural ingredients, including sweet and non-sweet flavors. These products are used in a wide variety of food products such as dairy, ice cream, sweets, salty baked products, convenience food and other prepared meals). As part of Frutarom's Specialty Fine Ingredients Activity develops, produces, markets and sells natural flavor extracts, natural functional food ingredients, natural pharma/nutraceutical extracts, natural algae based biotechnical products, aroma chemicals specialty essential oils, unique citrus products, natural gums and stabilizers. The Specialty Fine Ingredients products are sold primarily to the food and beverage, flavor and fragrance, pharmaceutical/nutraceutical, cosmetics and personal care industries.

The Trade and Marketing activity is not considered a core activity, and focuses in trade and marketing of raw materials produced by third parties, as part of providing a complete set of solutions and services to customers;
These operations are the basis on which the Group reports its primary segment information.

Segment data provided to the chief operating decision-maker in respect of the reported segments for the year ended:

31 December, 2015 is as follows:

	Flavors operations	Fine ingredients operations	Trade and marketing operations	Eliminations	Total Consolidated
Income statement data:	U.S. dollars in thousands				
Sales – net:					
Unaffiliated customers	607,534	180,918	84,344	-	872,796
Intersegment	-	4,026	-	(4,026)	-
Total sales and other operating income	607,534	184,944	84,344	(4,026)	872,796
Segment results	108,751	18,900	2,870	(267)	130,254
Financial expenses – net					12,197
Taxes on income					21,972
Net income					96,085

31 December, 2014 is as follows:

	Flavors operations	Fine ingredients operations	Trade and marketing operations	Eliminations	Total Consolidated
Income statement data:	U.S. dollars in thousands				
Sales – net:					
Unaffiliated customers	589,763	151,264	78,520	-	819,547
Intersegment	-	7,111	-	(7,111)	-
Total sales and other operating income	589,763	158,375	78,520	(7,111)	819,547
Segment results	97,205	19,490	2,679	(450)	118,924
Financial expenses – net					10,089
Taxes on income					21,219
Net income					87,616

NOTE 6 – SEGMENT REPORTING (continued):

31 December, 2013 is as follows:

	Flavors operations	Fine ingredients operations	Trade and marketing operations	Eliminations	Total Consolidated
Income statement data:	U.S. dollars in thousands				
Sales – net:					
Unaffiliated customers	494,389	139,597	39,707	-	673,693
Intersegment	-	5,994	-	(5,994)	-
Total sales and other operating income	494,389	145,591	39,707	(5,994)	673,693
Segment results	68,754	17,237	916	(150)	86,757
Financial expenses – net					7,528
Taxes on income					15,608
Net income					63,621

b. Additional information:

1) Geographical Segment information

As of December 31, 2015 Frutarom operated 46 production sites, 62 research and development laboratories, and 78 sales offices in Europe, North America, Latin America, Israel, Asia, Africa and New Zealand, marketed and sold over 43,000 products to more than 22,000 customers in more than 150 countries.

2) Sales by Destination Based on End Customer Location

Following are data regarding the distribution of the Company's sales by:

	Year ended 31 December		
	2015	2014	2013
	U.S. dollars in thousands		
Emerging Market*	384,804	376,438	269,553
West Europe**	281,745	280,804	264,218
North America	136,633	96,298	71,561
Other	69,614	66,007	68,361
	872,796	819,547	673,693

* Sales in Russia amounted to $ 142,855 thousands, $ 165,638 thousands and $ 89,928 thousands in 2015, 2014 and 2013, respectively.

** Sales in Germany amounted to $ 66,018 thousands, $ 72,570 thousands and $ 71,943 thousands in 2015, 2014 and 2013, respectively.

The change in revenues is affected by the straightening U.S Dollar compared with the European currencies (See Note 2c.4).

NOTE 7 – PROPERTY, PLANT AND EQUIPMENT

a. Composition of assets, grouped by major classifications and changes therein in 2015 is as follows:

	Cost					Accumulated depreciation					Depreciated balance
	Balance at Beginning of year	Additions during the year	Retirements during the year	Other*	Balance at end of year	Balance at beginning of year	Additions during the year	Retirements during the year	Other*	Balance at end of year	31 December 2015
	U.S. dollars in thousands					U.S. dollars in thousands					
Land and buildings	162,988	8,560	(226)	17,260	188,582	47,743	3,954	(48)	4,056	55,705	132,877
Machinery and equipment	191,798	9,911	(11,460)	50,338	240,587	135,738	10,130	(11,372)	36,932	171,428	69,159
Vehicles and lifting Equipment	8,214	1,473	(1,039)	315	8,963	5,020	1,060	(696)	305	5,689	3,274
Furniture and office equipment (including computers)	41,082	1,283	(1,507)	2,836	43,694	23,374	56	(1,442)	2,071	24,059	19,635
Leasehold improvements	16,663	2,673	(1,002)	699	19,033	10,071	1,282	(514)	353	11,192	7,841
	420,745	23,900	(15,234)	71,448	500,859	221,946	16,482	(14,072)	43,717	268,073	232,786

NOTE 7 – PROPERTY, PLANT AND EQUIPMENT (continued):

Composition of assets, grouped by major classifications and changes therein in 2014 is as follows:

	Cost					Accumulated depreciation					Depreciated balance
	Balance at Beginning of year	Additions during the year	Retirements during the year	Other*	Balance at end of year	Balance at beginning of year	Additions during the year	Retirements during the year	Other*	Balance at end of year	31 December 2014
	U.S. dollars in thousands					U.S. dollars in thousands					
Land and buildings	170,324	7,894	(115)	(15,115)	162,988	49,241	3,937	(100)	(5,335)	47,743	115,245
Machinery and equipment	198,509	10,045	(1,961)	(14,795)	191,798	140,368	9,620	(1,580)	(12,670)	135,738	56,060
Vehicles and lifting Equipment	9,067	1,474	(971)	(1,356)	8,214	5,509	1,155	(734)	(910)	5,020	3,194
Furniture and office equipment (including computers)	44,419	1,072	(1,159)	(3,250)	41,082	24,665	1,555	(1,139)	(1,707)	23,374	17,708
Leasehold improvements	15,466	907	-	290	16,663	9,435	913	-	(277)	10,071	6,592
	437,785	21,392	(4,206)	(34,226)	420,745	229,218	17,180	(3,553)	(20,899)	221,946	198,799

* Arising from acquisition of consolidated companies and operations and from translation of foreign currency financial statements of consolidated subsidiaries.

NOTE 7 – PROPERTY, PLANT AND EQUIPMENT (continued):

b. Lease of land

1) Frutarom Ltd. has a leasehold right in land located in the Akko Industrial Zone and the Haifa Bay. The net capitalised lease fees as at December 31, 2015, in respect of the said lands, amount to $ 1,045 thousands (2014- $ 1,077 thousand). The leasing period is 49 years ending in the years 2032 through 2042. Frutarom Ltd. has a right to extend the leasing for an additional 49-year period.

2) A subsidiary in China has "Land Use Rights" on land in China. The rights are for a period of 50 years ending in 2046. Net capitalised lease fees as at December 31, 2015, in respect of the said land, amount to $ 151 thousand (2014 - $ 159 thousand).

3) In 2011, a subsidiary in China acquired "Land Use Rights" on land in China for the purpose of erecting a plant in China. The rights are for a period of 50 years. The cost of the plant (including land) presented in these financial statements is $ 9,812 thousands. The company expects the new plant in China to already begin operating in few months.

4) In 2013, Frutarom Ltd. received a permit for allocation of land for the purpose of building a plant in the Mevo'ot Gilboa Business Park. The term of the lease rights for the land is 49 years. The cost presented in these financial statements is $ 3,921 thousands. The preliminary planning stage has been completed.

NOTE 8 – INTANGIBLE ASSETS:

	Original amount		**Amortized balance**	
	31 December		**31 December**	
	2015	**2014**	**2015**	**2014**
Know-how and product formulas	96,736	72,699	73,112	52,285
Goodwill	336,741	247,203	335,538	245,968
Customer relations	92,405	61,959	60,707	35,777
Trademarks	653	576	156	218
Computer software	27,227	25,106	4,294	5,562
	553,762	407,543	473,807	339,810

NOTE 8 – INTANGIBLE ASSETS (continued):

Composition of Intangible Assets, Grouped by Major Classifications and Changes Therein is as Follows:

	Computer software	Know-how and Product formulas	Goodwill*	Customer relations	Trademarks	Total
			U.S. dollars in thousands			
Balance as of 1 January 2014 – net	8,108	59,853	272,475	43,121	172	383,729
Changes in the year ended 31 December 2014:						
Acquisitions	958	-	-	-	114	1,072
Retirements during the year	-	(15)	-	-	-	(15)
Adjustment arising from acquisition of consolidated companies	-	4,038	5,503	3,308	-	12,849
Exchange differences	(721)	(7,703)	(26,190)	(3,995)	(25)	(38,634)
Changes in the excess of cost of acquisition	-	-	(5,820)	-	-	(5,820)
Annual amortization charge (Note 2f)	(2,783)	(3,888)	-	(6,657)	(43)	(13,371)
Closing net book amount	5,562	52,285	245,968	35,777	218	339,810
Changes in the year ended 31 December 2015:						
Acquisitions	676	-	-	-	41	717
Retirements during the year	(60)	(50)	(597)	(72)	-	(779)
Adjustment arising from acquisition of consolidated companies	858	27,193	109,745	33,917	-	171,713
Exchange differences	(373)	(3,811)	(21,033)	(4,602)	290	(29,529)
Changes in the excess of cost of acquisition	79	1,824	1,455	3,420	-	6,778
Annual amortization charge (Note 2f)	(2,448)	(4,329)	-	(7,733)	(393)	(14,903)
Closing net book amount	4,294	73,112	335,538	60,707	156	473,807

NOTE 8 – INTANGIBLE ASSETS (continued):

Impairment test for goodwill

The goodwill recorded in the Group's books of accounts arises from acquisitions of consolidated companies and operations carried out by the Group over the years, the goodwill is allocated to the cash-generating units of the Group in accordance with the unit and the business segment from which it arises.

Set forth below is a summary of goodwill allocation between the various cash-generating units:

	31 December	
	2015	**2014**
	U.S. dollars in thousands	
Cash-generating unit 1	167,532	141,118
Cash-generating unit 2	100,005	88,556
Cash-generating unit 3	14,435	4,266
Cash-generating unit 4	12,325	12,028
Cash-generating unit 5	41,241	-
Total	335,538	245,968

In 2014, as part of the business combination transactions initiated by the Company, it began considering the reorganization of its business and the incorporation and merger of the newly acquired businesses into the existing business core aiming to create operational and marketing synergy. Upon making the new acquisitions (as described in Note 5) the Company continued the reorganization process, as a result of which some of the existing operations shall be merged and operated as a single combined operation thereby achieving the Company's strategic goal of operational and marketing synergy. Therefore, the Company has 8 cash-generating-units, 5 of which have goodwill.

As part of the process described above, which commenced at the beginning of 2015, the Company tested its goodwill for impairment on the basis of its operational structure as it was prior to the commencement of the abovementioned process; the test showed that there was no need to record goodwill impairment.

In light of the new acquisitions made by the specialty fine ingredients division and the continuing reorganization of its operations, Company's management shall continue reviewing the structure of its cash-generating-units on an ongoing basis and adjust it to allow the development of its business.

The changes in goodwill between the years are due to acquisitions of new companies/operations, changes in the exchange rate of the currency of the foreign operation compared with the dollar as explained in Note 5.

The recoverable amount of a cash-generating unit is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on past results of the unit, its budget for the following year and the projection for future years, cash flows from the fifth-year are extrapolated using a grow rate of 2.5%-3%, according to the activity area of the cash generating unit, which does not exceed the long-term growth rate for the food business and the relevant areas, in which the Group operates.

The average discount rate taken into account in the calculation is 13.75% before taxes.

NOTE 8 – INTANGIBLE ASSETS (continued):

Group management determined profit rates based on past performance and its expectations for developments in respect of each of the cash-generating units.

The recoverable amount of cash-generating unit 1, 2 and 4 was calculated and examined by an external assessor, whereas the recoverable amount of the remaining cash-generating units was calculated and examined by Group management.

The results of the above analysis show that the value of goodwill of each of the said cash-generating units has not been impaired, both in the basic calculations and in calculations performed for the purpose of sensitivity test.

NOTE 9 – BORROWINGS

	December 31	
	2015	**2014**
	U.S. dollars in thousands	
Non current borrowings	219,449	163,696
Current borrowings:		
Current maturities of long-term loans	104,245	33,581
Bank borrowings	160,235	34,169
	264,480	67,750
Total borrowings	483,929	231,446

Bank borrowings as of December 31, 2015 mature until 2019 and bears average interest of 1.38% according to the loan terms and Libor rates as of 31 December, 2015.
The exposure of the Group's cash flows to interest rate changes is dependent at the rate of Libor-Euro, Libor-Dollar, Libor-Swiss franc and Libor-Pound Sterling and it is updated on a quarterly basis.

Due to the above, the fair value of current and non-current borrowings equals their carrying amount, as the impact of discounting is not significant. The fair values are based on cash flows discounted the borrowings' discount rate.

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	Weighted average interest rates*	31 December	
		2015	**2014**
		U.S. dollars in thousands	
Pound sterling	1.78%	87,161	27
Dollars	1.66%	131,819	105,868
Euro	1.27%	167,460	21,356
Swiss Franc	0.59%	94,887	103,302
Other currencies	7.36%	2,602	893
		483,929	231,446

* Interest rates as of 31 December, 2015

NOTE 9 – BORROWINGS (continued):

The long term liabilities (net of current maturities) mature in the following years after the balance sheet dates:

	2015	2014
	U.S. dollars in thousands	
Second year	91,735	56,908
Third year	124,932	62,819
Fourth year	2,782	43,969
	219,449	163,696

The Group has several loans, in respect of which it has undertaken to meet certain financial covenants (see note 14). As of 31 December 2015, the Group meets all the required financial covenants.

NOTE 10 – LIABILITY FOR EMPLOYEE RIGHTS UPON RETIREMENT:

a. Labour laws and agreements in Israel and abroad require the Company and part of its consolidated companies to pay severance pay and/or pensions to employees dismissed or retiring from their employ in certain other circumstances. Group companies' liability is covered mainly by regular contributions in defined contribution plans. The amounts funded as above are not reflected in the balance sheets since they are not under the control and management of the companies.

b. Under the agreement with its employees, the U.S. subsidiary financed a defined benefit plan. As part of the collective agreement signed between the Company's subsidiary and the industrial labour union on 13 October, 2000, the U.S. subsidiary suspended the said plan and joined, as from that date, a comprehensive pension plan of the labour union, which is a defined contribution plan.
The U.S. subsidiary will continue financing its existing liabilities under the suspended pension plan. The amount of liability for employee rights upon retirement and amounts funded, as presented in the consolidated accounts, reflect, inter alia, the U.S. subsidiary's liability in respect of the suspended plan.

c. The Swiss and German subsidiaries have a liability for payment of pension to employees in Switzerland and Germany under a defined benefit plan. The said liabilities have been transferred to these subsidiaries as part of the acquisition of subsidiaries in 2003 and 2007, respectively. The consolidated companies make deposits with pension plans in respect of these liabilities. The amount of the liability for pension (net) included in the balance sheet reflects the difference between the liability for pension payments and the assets of the pension fund.

d. The Company's severance pay liability in respect of Israeli employees for whom the said liability is covered under section 14 of the Severance Pay Law is covered by regular deposits with defined contribution plans. The amounts funded as above are not reflected in the consolidated statements of financial position.

e. Amounts charged to income statement in respect of defined benefit plan in 2015, 2014 and 2013 are $ 2,927 thousands, $ 2,250 thousands and $ 2,622 thousands, respectively.

NOTE 10 – LIABILITY FOR EMPLOYEE RIGHTS UPON RETIREMENT (continued):

Changes in net liability (asset):

	Present value of obligation	Fair value of plan assets	Net liability (asset)
	US dollars in thousands		
Balance as of January 1, 2015	62,171	(31,180)	30,991
Current service cost	2,468	-	2,468
Interest expenses (income)	858	(388)	470
Other	(11)	-	(11)
	3,315	(388)	2,927
Remeasurements of the net liability (asset):			
Return on plan assets, excluding amounts included in interest expense (income)	-	(153)	(153)
Loss (gain) from change in demographic Assumptions	-	-	-
Loss (gain) from change in financial assumptions	1,036	-	1,036
Loss (gain) arising from experience adjustments	282	-	282
	1,318	(153)	1,165
Differences from translation of financial statements	(1,647)	188	(1,459)
Employer's contributions	825	(1,862)	(1,037)
Benefit payments	(4,483)	4,116	(367)
Balance as of December 31, 2015	61,499	(29,279)	32,220

Changes in net liability (asset):

	Present value of obligation	Fair value of plan assets	Net liability (asset)
	US dollars in thousands		
Balance as of January 1, 2014	56,872	(33,746)	23,126
Current service cost	1,747	-	1,747
Interest expenses (income)	1,338	(741)	597
Other	(94)	-	(94)
	2,991	(741)	2,250
Remeasurements of the net liability (asset):			
Return on plan assets, excluding amounts included in interest expense (income)	-	(227)	(227)
Loss (gain) from change in demographic Assumptions	-	-	-
Loss (gain) from change in financial assumptions	11,144	-	11,144
Loss (gain) arising from experience adjustments)	(310)	-	(310)
	10,834	(227)	10,607
Differences from translation of financial statements	(6,493)	3,184	(3,309)
Employer's contributions	938	(2,336)	(1,398)
Benefit payments	(2,971)	2,686	(285)
Balance as of December 31, 2014	62,171	(31,180)	30,991

NOTE 10 – LIABILITY FOR EMPLOYEE RIGHTS UPON RETIREMENT (continued):

The following amounts were recognized in the statement of financial position for post-employment defined benefit plans:

	December 31	
	2015	2014
	U.S. dollars in thousands	
Present value of obligations arising from fully or partially funded plans	61,499	62,171
Fair value of plan assets	(29,279)	(31,180)
Balance of liability recognized in the statement of financial position	32,220	30,991

Amounts recognized in the statement of financial position for post-employment defined benefit plans are predominantly non-current and are reported as non-current liabilities.

The Group operates defined benefit schemes in several countries for which the actuarial assumptions vary based on local economic and social conditions. The assumptions used in the actuarial valuations of the defined benefit plans, were as follows:

	U.S.A.			Germany			Switzerland		
	2015	2014	2013	2015	2014	2013	2015	2014	2013
Discount rates	3.55%	3.55%	3.55%	2.3%	2.28%	3.36%	0.75%	1.0%	2.0%
Projected rates of payroll raise				1.17%	1.17%	1.17%	1.5%	1.5%	2.0%

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions assuming all other assumptions remained unchanged and which were reasonably possible and the end of the reported period is:

	Increase (decrease) in defined benefit obligation
	December 31, 2015
	US dollars in thousands
Discount rate:	
1% increase	(9,615)
1% decrease	12,628
Salary growth rate:	
1% increase	1,042
1% decrease	(940)

The assumptions concerning future mortality data are based on public mortality tables.

NOTE 10 – LIABILITY FOR EMPLOYEE RIGHTS UPON RETIREMENT (continued):

Plan assets

The plan assets are composed as follows:

	2015	2014
	US dollars in thousands	
Government bonds	2,339	2,691
Real estate held abroad	2,925	3,121
Qualifying insurance policies	917	1,030
Cash and cash equivalents	20,549	21,619
other	2,549	2,719
Total	29,279	31,180

NOTE 11 – COMMITMENTS AND CONTINGENT LIABILITIES

a. Commitments:

1) Lease Commitments:

Some of the Group's premises, warehouses, sites and vehicles in the U.K., Germany, Belgium and Israel occupied by the Group are rented under various operating lease agreements. The lease agreements for the premises will expire on various dates between 2015 and 2021.

Minimum lease commitments of the Group under the above leases, at rates in effect on 31 December 2015, are as follows:

	$ in thousands
Year ending 31 December:	
2016	5,749
2017	3,166
2018	1,274
2019	872
2020	628
2021	673
	12,362

Rental expenses totaled $ 8,657 thousand, $ 8,027 thousand and $ 6,518 thousand, in the years ended 31 December 2015, 2014 and 2013, respectively.

NOTE 11 – COMMITMENTS AND CONTINGENT LIABILITIES (continued):

2) Royalty Commitments:

Frutarom Ltd. is committed to pay royalties to the Government of Israel on proceeds from sales of products in the research and development of which the Government participates by way of grants. Under the terms of Company's funding from the Israeli Government, royalties of 3%-5% are payable on sales of products developed from a project so funded, up to 100% of the amount of the grant received by the Frutarom Ltd., linked to the dollar (as from 1 January, 1999 – with the addition of an annual interest rate based on Libor).

The maximum royalty amount payable by Frutarom Ltd. at 31 December 2015 is $1,924 thousand. The Company has not recorded liability for these royalties due to low likelihood of payment.
In 2015, Frutarom Ltd. Has not received Chief Scientist grants (2014 - $53 thousand, therefore it carried this amount to income).

b. Contingent Liabilities:

The consolidated companies of the Group are not a party to legal procedures in the ordinary course of business, which in the opinion of Group's management are materially affect the Group's financial position.

NOTE 12 – EQUITY:

a. Share Capital:

1) Composed of ordinary shares of NIS 1 par value, as follows:

	Number of shares in thousands and the amount thereof, denominated in NIS	
	December 31	
	2015	**2014**
Authorized	100,000	100,000
Issued and paid	59,010	58,661

Company listed shares are quoted on the TASE at NIS 209 ($53.31) per share as of 31 December, 2015. The GDRs representing the Company's shares are quoted on the official list of the LSE.

2) Ordinary Company shares of NIS 1 par value, are held by the company and included in the issued and paid share capital constitute 0.5% (285,458 shares) and 0.5% (314,890 shares) of the balance of ordinary issued and paid shares of this type as of 31 December 2015 and 2014, respectively.
The purchase cost of those shares was deducted from equity as part of "Cost of Company's shares held by the company" balance. The shares are held as "Treasury Shares".

NOTE 12 – EQUITY (continued):

b. Employee Shares and Option Plans for Senior Employees of Subsidiaries:

1) Commencing 2003 and on a semi-annual basis, the Board of Directors resolves to allot options to senior managers and other senior employees based on the recommendations of the remuneration committee. In accordance with the Board of Directors' resolution and taking into consideration the number of shares available to the Company for the purpose of allotment of the options, the Company acquires Company shares in the Stock Exchange and grants the options against those shares.

   Until the first half of 2011 the options were granted in accordance with the 2003 option plan. Commencing 2012, the options are granted in accordance with the 2012 option plan ("the 2012 plan"). The options are exercisable in three equal batches at the end of every year for a period of 3 years from date of grant. The Board of Directors has the exclusive right to declare the exercise of the options at an earlier date, and with regards to senior office holders – in accordance with compensation policy, in extraordinary cases and under weighty considerations.
   The exercise price of the option granted in accordance with the said plans, as set determined by the Board of Directors equals a third of the average purchase price paid by the Company in respect of those shares. Options granted under this plan expire at the end of 6 years from date of grant. All tax liabilities arising from grant of options and/or from exercise thereof apply to the employee. The number of exercised shares in respect of each option, as well as the exercise price are adjusted in accordance with the changes in the Company's share capital, such changes originating in split of shares, consolidation of shares, dividend distributed in shares and/or creation of new types of shares, excluding a number of exceptions where the employer-employee relationship between the Company and an employee are terminated; in such a case the employee shall be entitled to exercise all the options exercisable at the date of termination of employer-employee relationship within 90 days from the said date. The remaining options granted to the employee and which were not exercised by the employee shall expire. Options that are not exercisable at the time of termination of the employer-employee relationship shall expire immediately upon termination of the relationship as above.

   Commencing 2013 the grant of options in accordance with plan 2012 to the Company's president and CEO ("CEO") is included in the equity component of the annual bonus; (for details regarding the compensation policy of the CEO, see Company's report of June 27, 2013 (reference 2013-01-076263)). Commencing 2014 and based on the Company's compensation policy which was approved on January 14, 2014, the grant of options in accordance with plan 2012 to all senior office holders including the Company's president and CEO is included in the equity component of the annual bonus; (for details regarding the compensation policy which was approved, see Company's report of December 29, 2013 (reference 2013-01-111694)).

NOTE 12 – EQUITY (continued):

The theoretical economic value of the options in respect of grants from 2010 through 2015, is based on the following assumptions: expected dividend yield of 0% for each one of the years 2010-2011, beginning from 2012 dividend yield expected between 0.39%-0.44%, expected standard deviation of 17.51%-43.05%; risk-free interest rate of 0.7%-3.98% (based on the expected term of the option until exercise): two years in respect of the first batch, three years in respect of the second batch and four years in respect of the third batch.

The 2012 plan is managed in compliance with the provisions in section 102 to the Israel Income Tax Ordinance. In accordance with the track chosen by the company and pursuant to the terms thereof, the company is allowed to claim, as an expense for tax purposes, the work income component credited to employees, and is not entitled to claim as an expense for tax purposes the amounts credited to employees as equity benefits.

2) Set forth below are data regarding the options under the 2003 & 2012 Plans, which have not yet been exercised by Company employees, as of December 31, 2015:

Year of grant	Number of options in respect of which the vesting period ended	Number of options in respect of which the vesting period has not yet ended	Exercise price $
2010	7,132	-	3.01-3.08
2011	22,912	-	2.83-3.10
2012	80,029	-	3.07-3.11
2013	49,893	28,975	4.24-5.15
2014	16,635	35,186	7.35-7.71
2015	-	41,370	12.35-12.60
	176,601	105,531	

As of 31 December, 2015, the remaining amount of compensation, computed as the excess or the fair value of the said options granted to employees over the exercise price at the date of grant not yet recorded as expenses in the income statements is approximately $730 thousand. The said remaining compensation will be charged to income using the accelerated method over the remaining vesting period.

As to options granted to the president of the Company - Note 21.a.2.

NOTE 12 – EQUITY (continued):

The changes in the number of options outstanding and their related weighted average exercise prices are as follows:

	2015		2014		2013	
	Average exercise price in U.S. $ Per share	Options	Average exercise price in U.S. $ per share	Options	Average exercise price in U.S. $ per share	Options
Outstanding at 1 January	4.37	314,340	3.99	317,801	3.10	462,036
Granted	12.47	43,171	7.55	59,698	5.25	103,192
Forfeited	6.06	(16,805)	4.41	(9,905)	3.26	(37,778)
Exercised	3.55	(58,574)	3.35	(53,254)	2.98	(209,649)
Balance at 31 December	4.54	282,132	4.37	314,340	3.99	317,801

The following table summarizes information about exercise price and the contractual terms of options outstanding at 31 December, 2015:

Share rights outstanding			Share rights exercisable		
Exercise Prices	Number outstanding at December 31, 2015	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at December 31, 2015	Weighted average remaining contractual life
$		Years	$		Years
3.08	789	0.25	3.08	789	0.25
3.01	6,343	0.75	3.01	6,343	0.75
3.10	6,056	1.25	3.10	6,056	1.25
2.83	16,856	1.75	2.83	16,856	1.75
3.11	28,315	2.25	3.11	28,315	2.25
3.07	51,714	2.75	3.07	51,714	2.75
4.25	42,001	3.25	4.25	26,206	3.25
5.15	36,867	3.75	5.15	23,687	3.75
7.35	25,866	4.25	7.35	8,075	4.25
7.71	25,955	4.75	7.71	8,560	4.75
12.35	20,600	5.25	12.35	-	5.25
12.60	20,770	5.75	12.60	-	5.75
	282,132			176,601	

3) On 15 July 2010 the Company's Board of Directors approved a plan to grant options to senior managers ("the 2010 plan").
The options granted under this plan are exercisable in three equal batches at the end of each year commencing the end of the second year from date of grant thereof. The Board of Directors has the exclusive authority to declare the exercise of the options at an earlier date. Options granted under these plans expire within six years from date of grant. All tax liabilities arising from grant of options and/or from exercise thereof apply to the employee.

NOTE 12 – EQUITY (continued):

The number of exercised shares in respect of each option, as well as the exercise price are adjusted in accordance with the changes in the Company's share capital, such changes originating in split of shares, consolidation of shares, dividend distributed in shares and/or creation of new types of shares, excluding a number of exceptions where the employer-employee relationship between the Company and an employee are terminated; in such a case the employee shall be entitled to exercise all the options exercisable at the date of termination of employer-employee relationship within 90 days from the said date. The remaining options granted to the employee and which were not exercised by the employee shall expire. Options that are not exercisable at the time of termination of the employer-employee relationship shall expire immediately upon termination of the relationship as above. As of this date, every two years, the Board decides on allocation of options to the management and senior employees, based on the recommendation of the compensation committee.

The exercise price of the options granted in 2010 is based on the closing price of the Company's share on the last trading day prior to Board's resolution on such allocation. The exercise prices of the options under 2010 plan, granted in 2011 and 2012 are based on the average closing prices of the ten consecutive trading days prior to a Board's resolution on such allocation. According to the Company's compensation committee approved on January 14, 2014 by the general meeting of the Company's shareholders, the exercise prices of any future allocation of options under the 2010 plan shall not be less than the average closing rate of the Company shares in the 30 days preceding the Company’s Board of Directors’ resolution regarding grant of options, plus 5%. The exercise price of options granted in 2014 is based on the compensation policy (applies to all offerees and not only to offerees which are subject to the compensation policy).

The fair value of the options at date of grant - computed based on the binomial model due to grants for 2012-2014. This value is based on the following assumptions: adjusted standard deviation of 23%-29% per year, risk-free interest rate of 0.33%-2.7% and termination rate (prior to end of the vesting period) of 11.1%-11.5%.This rate is based on a sample of the changes in manpower of offerees rank for the last several years prior to the grant.

As to the fair value of the options granted to the president – see note 21.a.2.

The 2010 plan is managed in compliance with the provisions in section 102 to the Israel Income Tax Ordinance.

The Group creates deferred taxes for grants that fall into the scope of IFRS 2 – "Share Based Payment" – in accordance with the proportionate part of the estimated amount deductible for tax purposes by the Group at date of exercise of benefit by the employee and in respect of which work services were provided by the employee.

through the date of the statement of financial position (i.e., the estimated overall amount deductible for tax purposes divided by the overall vesting period and multiplied by the vesting period that has elapsed through the date of the statement of financial position). The said deferred taxes are recognized in the statement of income.

NOTE 12 – EQUITY (continued):

c. Dividend and Retained Earnings

1) The amounts of the dividend paid presented in the statement of changes in shareholders' equity are net the share of the group companies holding Company shares (Note 2m). The group companies' share in the dividend is $ 29 thousand, $ 28 thousands and $ 30 thousand in 2015, 2014 and 2013, respectively.

   In determining the amount of retained earnings available for distribution as a dividend, the Companies Law stipulates that the cost of the Company's shares acquired by the group companies (that are presented as a separate item on the statement of changes in shareholders' equity) is to be deducted from the amount of retained earnings presented among Company's shareholders' equity.

2) In its meeting on March 16, 2016, the Company's Board of Directors resolved to distribute a final cash dividend out of retained earnings as of December 31, 2015 in the amount of NIS 0.41 per share, totaling to $ 6,217 thousand (NIS 24,253 thousand). Frutarom Ltd. does not intend to distribute dividend out of tax exempt income arising from "approved enterprise", as explained in Note 13c.

3) The dividend paid in 2015 and 2014 amounted to $ 5,774 thousand (NIS 0.38 per share) and $ 4,712 thousands (NIS 0.28 per share). As mentioned in 2) above, the dividend in respect of the year ended 31 December 2015 at NIS 0.41 per share and totaling $ 6,217 thousand was discussed in the Company's Board of Directors.

NOTE 13 - TAXES ON INCOME:

a. Corporate taxation in Israel

1) Commencing 2008, the results for tax purposes of the Company and its Israeli subsidiaries are measured in nominal values. The Israeli companies are companies of foreign investors and have elected to keep their books and records in dollars for tax purposes, as permitted under the Income Tax Regulations (Principles for the Bookkeeping of Foreign Invested Companies and of Certain Partnerships and the Determination of Their Taxable Income), 1986.

2) Tax rates

   The income of the Company and its Israeli subsidiaries (other than income from "approved" or "beneficiary enterprises") is taxed at the regular rate; under the provisions of the Law for Amendment of the Income Tax Ordinance, 2011, of December 6, 2011, the corporate tax rates in 2012 and thereafter will be 25%.

NOTE 13 - TAXES ON INCOME (continued):

On August 5, 2013, the Law for Change of National Priorities (Legislative Amendments for Achieving the Budgetary Goals for 2013-2014), 2013 (hereinafter - the Law) was published in the official gazette, which enacts, among other things the increase of the corporate tax rate to 26.5% beginning in 2014 and thereafter. (As to the increase of tax rates applicable to income from preferred enterprise as set out in the law for the Encouragement of Capital Investment, 1959, see c below).
The Law for the Amendment to the Income Tax Ordinance, New Version, 1961 (hereafter – "the Ordinance") (Amendment 216 to the Ordinance) (hereafter – "the amendment") was published in the official gazette in January 2016; the said law stipulated the reduction of the rate of corporate tax from 26.5% to 25% commencing January 1, 2016.

The deferred tax balances as of December 31, 2015 do not account for the expected effect of the law, as its legislation has not been effectively completed by that date. The effects of the law will be reflected in the financial statements issued beginning on the date when the legislation was effectively completed; i.e. the law will not have an effect on the balances of the Group's deferred tax assets as of December 31, 2015.

Capital gains are taxed at the corporate tax rate applicable for the relevant tax year.

b. Subsidiaries outside Israel

Subsidiaries that are incorporated outside of Israel are assessed for tax under the tax laws in their countries of residence. The principal tax rates applicable to subsidiaries outside Israel are as follows:

Companies incorporated in the USA – tax rate of 36% - 42%
Companies incorporated in Germany– tax rate of 30%
Company incorporated in Belgium – tax rate of 34%
Company incorporated in Italy – tax rate of 31.4%
Company incorporated in Norway – tax rate of 25%.
Companies incorporated in the UK – tax rate of 20% (April 2014 through March 2015 tax rate of 21%; commencing April 2015 - tax rate of 20%).
Company incorporated in the Switzerland – tax rate of 22%.
Company incorporated in Slovenia – tax rate of 17%
Companies incorporated in China – tax rate of 25%
Companies incorporated in Brazil – tax rate of 34%
Company incorporated in South Africa – tax rate of 28%
Companies incorporated in Russia – tax rate of 20%
Companies incorporated in Guatemala – tax rate of 7% of revenues
Company incorporated in the Peru – tax rate of 28%.
Company incorporated in Canada – tax rate of 28%
Companies incorporated in Spain – tax rate of 25%
Companies incorporated in India – tax rate of 34%

NOTE 13 –TAXES ON INCOME (continued):

c. Encouragement Laws in Israel

1) Tax benefits under the Israeli Law for the Encouragement of Capital Investments, 1959 (hereinafter - the Law)

Under the law, including Amendment No. 60 to the law that was published in April 2005, by virtue of the “approved enterprise” or “benefited enterprise” status granted to certain enterprises of the Company, and by virtue of the “Foreign Investors’ Company“ status it was granted, Frutarom Ltd. is entitled to various tax benefits.

2) Amendment to the Israel Capital Investment Encouragement Law, 1959

The Israel Law of Economic Policy for the Years 2011 and 2012 (Legislation Amendments), which was passed by the Knesset (the Israeli parliament) on December 29, 2010, includes an amendment to the Israel Capital Investment Encouragement Law, 1959 (hereinafter - the amendment). The amendment became effective on January 1, 2011.

The amendment sets out benefit tracks to replace those provided by the Law for Encouragement of Capital Investments, 1959 (hereafter – the law) before it was amended. Key changes in programs include a grants program for entities in development area A, and two new tax benefit programs ('preferred enterprise' and 'special preferred enterprise'). In essence, these provide a uniform tax rate on the entire preferred income of an entity, as the term preferred income is defined in the amendment.

Frutarom Ltd. elected to apply the amended law commencing 2011 and to apply the tax benefits available under the "preferred enterprise" track. Accordingly, commencing 2011, the following reduced tax rates shall be applicable to the preferred income of the companies, whose plants are located in development area A/an "other" development area: 2011 and 2012 – 10%/15%; 2013-2014 – 12.5%/7% and 2015 and thereafter – 12%/6%.

The Law for Change of National Priorities (Legislative Amendments for Achieving the Budgetary Goals for 2013-2014), 2013, which was published in the official gazette on August 5, 2013, enacts among other things, the increase of the tax rate applicable to preferred income to the effect that commencing 2014 and thereafter the tax rate on the preferred income of companies whose plants are located in development area A/an "other development area" shall be 9%/16%.

NOTE 13 –TAXES ON INCOME (continued):

c. Encouragement Laws in Israel (continued):

2) Amendment to the Israel Capital Investment Encouragement Law, 1959 (continued):

Through the 2010 tax year, the Company benefited from tax breaks under the Law for Encouragement of Capital Investments prior to its amendment, which provided reduced tax rates/tax exemptions on income attributed to "approved enterprises" or "benefited enterprises" they own.
In case of distribution of cash dividend out of income that was previously tax exempt as above, the Company would have to pay the tax in respect of the amount distributed, in accordance with the tax rate that would have been applicable to the income in the year it was accumulated, had the exemption not been granted.

3) The Law for the Encouragement of Industry (Taxation), 1969:

a. Frutarom Ltd. is an “industrial company” as defined by this law. As such, Frutarom Ltd. is entitled to claim amortization over 8 years of acquired product formulas, as well as depreciation at increased rates for equipment used in industrial activity as stipulated by regulations published under the inflationary adjustments law, and have done so.

b. The Company and Frutarom Ltd. file a consolidated tax return in accordance with the Law for the Encouragement of Industry. Accordingly, each company is entitled to set-off its tax losses (created commencing the year in which consolidated reporting for tax purposes began) against the taxable income of the other company, subject to certain restrictions.

NOTE 13 –TAXES ON INCOME (continued):

d. Deferred Income Taxes

1) Composition of deferred taxes as of dates of statements of financial position and changes therein in those years are as follows:

		Provisions for employee rights						
	Depreciable fixed assets	**Severance Pay**	**Vacation and recreation pay**	**Inventories**	**Other**	**Depreciable intangibles**	**In respect of Carry forward tax losses**	**Total**
	U.S. dollars in thousands							
Balance at 1 January, 2014	16,745	(3,440)	(251)	(2,488)	(1,847)	28,325	(6,384)	30,660
Changes in 2014:								
Additional taxes as a result of acquisition of Subsidiaries	-	-	-	-	28	-	-	28
Changes in the excess of cost of acquisition	-	-	-	-	-	(5,960)	-	(5,960)
Differences from translation of foreign currency financial statements of subsidiaries	(1,555)	586	-	281	(504)	(2,865)	788	(3,269)
Charged directly to the equity	-	(2,452)	-	-	-	-	-	(2,452)
Amounts carried to income statement	(300)	(685)	16	(446)	1,512	863	533	1,493
Balance at 31 December 2014	14,890	(5,991)	(235)	(2,653)	(811)	20,363	(5,063)	20,500
Changes in 2015:								
Additional taxes as a result of acquisition of Subsidiaries	652	-	-	(18)	(13)	16,596	161	17,378
Changes in the excess of cost of acquisition	-	-	-	-	-	2,127	-	2,127
Differences from translation of foreign currency financial statements of subsidiaries	(751)	217	-	133	44	(2,344)	889	(1,812)
Charged directly to the equity	-	(308)	-	-	-	-	-	(308)
Amounts carried to income statement	1,283	177	45	591	(575)	299	(2,218)	(398)
Balance at 31 December 2015	16,074	(5,905)	(190)	(1,947)	(1,355)	37,041	(6,231)	37,487

NOTE 13 –TAXES ON INCOME (continued):

2) Deferred taxes are presented in the statements of financial position as follows:

	December 31	
	2015	**2014**
	U.S. dollars in thousands	
Among non-current assets	3,063	3,042
Among non-current liabilities	(40,550)	(23,542)
	(37,487)	(20,500)

3) The deferred taxes in respect of Group activities in Israel are computed at the tax rate of 12.5%. This rate is an average taking into account the tax rates applicable to income from Frutarom Ltd.'s preferred enterprises (in accordance with the amendment to the law, see also note 13c.2).

Deferred taxes of foreign subsidiaries not in Israel are computed at the tax rates applicable to these companies (see b above).

e. Taxes on Income Included in The Income Statements for the presented periods:

1) As follows:

	2015	**2014**	**2013**
	U.S. dollars in thousands		
Current taxes:			
For the reported year's income	24,836	20,154	19,056
Adjustments in respect of previous years	(2,466)	(428)	(642)
	22,370	19,726	18,414
Deferred taxes:			
Creation and reversal of deferred taxes	(398)	1,493	(2,806)
T o t a l	21,972	21,219	15,608

Current taxes are computed in accordance with the statutory tax rates of Group entities around the world (see above) and in accordance with relevant tax benefits for each country.

NOTE 13 –TAXES ON INCOME (continued):

2) Following is a reconciliation of the theoretical tax expense, assuming all income is taxed at the regular tax rates applicable to companies in Israel (Note 13c above) and the actual tax expense:

	2015	2014	2013
	U.S. dollars in thousands		
Income before taxes on income, as reported in the income statements	118,057	108,835	79,229
Theoretical tax expense in respect of this income – at 26.5% (2014 – 26.5%; 2013 – 25%)	31,285	28,841	19,807
Less – tax benefit arising from approved enterprise /benefited enterprise status	(1,698)	(1,859)	(2,097)
Increase in taxes resulting from different tax rates applicable to foreign subsidiaries	(3,667)	(3,234)	(391)
Decrease in taxes arising from computation of deferred taxes at a rate which is different from the theoretical rate	(2,530)	(13)	(209)
Increase (decrease) in deferred taxes as a result of future changes in the tax rates	(208)	(650)	(2,089)
Increase (decrease) in taxes arising from permanent differences – disallowable expenses (income)	1,110	(1,231)	501
Decrease in taxes resulting from utilization, in the reported year, of carry forward tax losses and other expenses for which deferred taxes were not created (net of increase in taxes in respect of tax losses incurred in the reported year for which deferred taxes were not created)	(50)	(262)	(482)
Difference between the basis of measurement of income reported for tax purposes and the basis of measurement of income for financial reporting purposes – net			
Income taxes in different tax rates			
Other	196	55	(74)
Taxes on income for the reported year	24,438	21,647	14,966

f. Tax Assessments

The Company and its Israeli subsidiaries have received final tax assessments through the year 2009.

NOTE 13 –TAXES ON INCOME (continued):

g. Effect of adoption of IFRS in Israel on tax liability

As mentioned in Note 2a, the Group prepares its financial statements in accordance with IFRS.
As also indicated in the said note, IFRS vary from Accounting Principles Generally Accepted in Israel and accordingly, preparation of financial statements in accordance with IFRS may reflect a financial position, results of operations and cash flows that are materially different from the ones presented in financial statements presented in accordance with accounting principles generally accepted in Israel.

In accordance with the law for the amendment of the Income Tax Ordinance (No. 174 – Temporary Order as to Tax Years 2007, 2008 and 2009), 2010 that was passed in the Knesset on January 25, 2010 and published in the official gazette on February, 4, 2010 (hereafter – the amendment to the ordinance), Accounting Standard No. 29 issued by the Israel Accounting Standard Board would not apply upon determining the taxable income for tax purposes in respect of tax years 2007-2011; this would be the case even if the said accounting standard was applied for the said tax years in the financial statements.
The meaning of the amendment to the ordinance is that IFRS would actually not be applied upon computation of the income reported for tax purposes for the said tax years.
On 31 October, 2011 the Government of Israel published a law memorandum in connection with the amendment to the Income Tax Ordinance (hereafter – the law memorandum) resulting from application of IFRS in the financial statements. Generally, the law memorandum adopts IFRS. Nevertheless, the law memorandum suggests making several amendments to the Income Tax Ordinance, which will serve to clarify and determine the manner of computation of taxable income for tax purposes in cases where the manner of computation is not clear and IFRS do not comply with the principles of the tax method applied in Israel. At the same time, the law memorandum generally adopts IFRS. The legislation procedures relating to the law memorandum have not yet been completed and it is doubtful whether they shall be completed in the near future.
Since the legislation procedures relating to the law memorandum have not yet been completed the Company estimates that the term of the temporary order which applies to the years 2007 to 2014 shall be extended to 2015 as well. Therefore, the Group's management expects that at this stage the new legislation shall not apply to tax years preceding 2016.

NOTE 14 – LIABILITIES SECURED BY PLEDGES AND RESTRICTIONS PLACED IN RESPECT OF LIABILITIES:

a. To secure short-term borrowings and long-term loans received by a US subsidiary, this subsidiary recorded a negative pledge on its assets. Additional obligation for negative pledge on its assets carried out by a subsidiary in Israel.

b. To secure long-term loans and other services received by subsidiaries in Israel and the UK, the subsidiary in Israel and subsidiary in the UK recorded a negative pledge on their assets.

c. To secure long-term loans from financial institutions received by subsidiaries in Switzerland and Spain, these subsidiaries recorded a negative pledge on its assets.

d. To secure the long-term loan extended by local and international banks and financial institutions the Group has undertaken upon itself to meet the following financial criteria:
   1) The amount representing the Group's equity would not be lower than $300 million at any given time. As of 31.12.2015 the Group's equity amounts to $ $552 million.
   2) The amount representing the Group's equity would not be lower than 35% of total assets. As of 31 December, 2015, the Company's equity equals 42% of total Company balance sheet.
   3) The ratio, which is the result of dividing the total financial liabilities of the Group by its pre-tax pro-forma operating profit from operating activities plus depreciation and amortization, will not exceed 4.25 as of December 31, 2015. As of December 31, 2015 the above ratio is 2.2; if calculated on the basis of non-pro-forma data the said ratio as of that date is 2.5.

e. The Company has undertaken upon itself to meet restrictions regarding dividend distribution. The Company shall be allowed to distribute dividends as follows:

   1) Up to 50% of the retained earnings accumulated through 31 December 2011; based on the retained earnings balance recorded in the Company's balance sheet as of 31 December 2011.

   2) Up to 50% of the Company's net income for each calendar year based on the net income data recorded in the Company's statement of income for the calendar year during which the said income was accumulated.

As mentioned above, as of 31 December 2015, the Group meets its obligations.

NOTE 15 – ACCOUNTS RECEIVABLE:

	December 31	
	2015	**2014**
	U.S. dollars in thousands	
a. Trade – composed as follows:		
Open accounts	152,886	139,021
Cheques collectible	2,985	1,408
	155,871	140,429
The item includes – provision for doubtful accounts	5,355	5,906

As of 31 December, 2015 certain trade receivable balances– amounting to $ 36,059 thousands (2014 - $ 28,523 thousands) are in arrears of up to 120 days after date in which payment was due. A provision for doubtful account in the total amount of $214 thousand (2014 - $ 149 thousands) was made in respect of it of those balances. Those balances include the accounts of a large number of customers, in respect of which the Company has not encountered lately any collection problems. The carrying amount of accounts receivable is a reasonable approximation of their fair value since the effect of discounting is immaterial.

The aging analysis of these trade-receivable balances is as follows:

	December 31	
	2015	**2014**
	U.S. dollars in thousands	
Through 90 days	33,795	27,431
90 to 120 days	2,264	1,092
	36,059	28,523
Provision for doubtful accounts	(214)	(149)
	35,845	28,374

As of 31 December, 2015, the Company made a provision for doubtful accounts in respect of balances in the total amount of $6,471 thousand (2014 – $6,081 thousand) in arrears of more than 120 days. The amount of the provision as of 31 December, 2015 was $4,956 thousand (2014 – $5,724 thousand).

NOTE 15 – ACCOUNTS RECEIVABLE (continued):

The aging of the said balances is presented below:

	December 31	
	2015	**2014**
	U.S. dollars in thousands	
120 days to 1 year	1,863	2,134
Over 1 year	4,608	3,947
	6,471	6,081
Provision for impairment of receivables	(4,956)	(5,724)
	1,515	357

Amounts charged to provision for doubtful accounts or released therefrom were included among "selling, marketing, research and development expenses" in the statement of income (see note 20b).

	December 31	
	2015	**2014**
	U.S. dollars in thousands	
b. Other:		
Employees and institutions	440	440
Government institutions	15,518	11,771
Sundry	8,332	2,340
	24,290	14,551

NOTE 16 – INVENTORIES

	December 31	
	2015	**2014**
	U.S. dollars in thousands	
Raw materials and supplies	88,490	74,199
Products in process	16,965	11,431
Finished products	95,665	71,193
	201,120	156,823
Inventories for commercial operations – purchased products	12,177	14,277
	213,297	171,100

NOTE 17 – OTHER

	December 31	
	2015	**2014**
	U.S. dollars in thousands	
Prepaid expenses in respect of operating lease	32	41
Government institutions	90	-
Sundry	106	-
	228	41

NOTE 18 – CASH AND CASH EQUIVALENTS:

Classified by currency, linkage terms, the cash and cash equivalents are as follows:

	December 31	
	2015	2014
	U.S. dollars in thousands	
In Dollars	21,404	15,387
In Pounds sterling	4,894	4,684
In Euro	20,237	22,184
In Swiss Francs	3,584	1,754
Yuan	5,029	6,516
NIS	418	644
Guatemalan Quetzal	795	1,941
Peruvian sol	980	2,054
Brazilian real	1,146	1,989
Ruble	6,281	3,984
Canadian Dollars	908	-
Other	3,321	2,838
	68,997	63,975

NOTE 19 – ACCOUNTS PAYABLE:

	December 31	
	2015	2014
	U.S. dollars in thousands	
a. Trade:		
Open accounts	70,799	59,771
b. Other:		
Payroll and related expenses	15,953	10,787
Government institutions	16,907	15,830
Provision for commissions and discounts	3,436	2,632
Accrued expenses	8,085	11,051
Provisions	-	147
Conditional consideration in respect of acquisition of subsidiaries	7,881	3,061
Sundry	4,997	2,870
	57,259	46,378

The carrying amount of accounts payables is a reasonable approximation of their fair value since the effect of discounting is immaterial.

NOTE 20 – INCOME STATEMENT ANALYSIS:

	Year ended 31 December		
	2015	2014	2013
	U.S. dollars in thousands		
a. Cost of Sales:			
Industrial operations:			
Materials consumed	362,402	328,175	288,410
Payroll and related expenses	66,125	61,780	53,410
Depreciation and amortization	13,182	13,970	13,327
Other production expenses	41,265	39,837	35,901
	482,974	443,762	391,048
Decrease (increase) in work in process and finished products inventories	(11,326)	(4,464)	(6,817)
	471,648	439,298	384,231
Commercial operations – cost of products sold	63,089	59,697	32,666
	534,737	498,995	416,897
b. Selling, Marketing, Research and Development Expenses – net:			
Payroll and related expenses	71,925	72,820	59,017
Transportation and shipping	18,849	18,005	17,138
Marketing commissions	6,341	10,000	6,471
Doubtful accounts	506	1,332	982
Depreciation and amortization	13,990	12,203	9,230
Travel and entertainment	5,097	5,134	4,240
Office rent and maintenance	5,787	5,758	4,641
Other	18,742	15,044	13,504
	141,237	140,296	115,223
The item includes expenses for product development and research activities, net*	37,200	35,708	29,829
* net of participation from government departments and others	219	273	182

	Year ended 31 December		
	2015	2014	2013
	U.S. dollars in thousands		
c. General and Administrative Expenses:			
Payroll and related expenses	37,685	36,791	30,476
Depreciation and amortization	5,754	4,378	4,442
Professional fees	4,760	4,176	3,860
Communication, office supplies and Maintenance	5,449	5,586	5,319
Travel and entertainment	2,078	1,906	1,927
Other	8,016	7,679	6,107
	63,742	60,516	52,131

NOTE 20 – INCOME STATEMENT ANALYSIS (continued):

	Year ended 31 December		
	2015	**2014**	**2013**
	U.S. dollars in thousands		
d. Other Expenses (income) – net:			
Capital loss on sale of fixed assets	(250)	(147)	(150)
Expenses relating to acquisition of subsidiaries	2,049	767	918
Expenses for site shutdown	754	164	2,095
Other	273	32	(178)
	2,826	816	2,685
e. Financial Expenses – net:			
In respect of long-term loans and credit	3,208	3,446	2,498
In respect of cash and cash equivalents, short-term deposits and loans, short-term credit and other – net	2,104	2,104	3,122
In respect of exchange differences of trade receivables and trade payable balances – net	(3,043)	(202)	1,908
revaluation of put option	9,928	4,741	-
	12,197	10,089	7,528

NOTE 21 - RELATED PARTIES - TRANSACTIONS AND BALANCES:

a. Transactions with Related Parties:

"Interested parties" - As this term is defined in Israel Securities Regulations (Annual Financial Statements), 2010.
"A related party" - As this term is being defined in IAS 24 - "Related Party Disclosure" (hereafter – IAS 24R).

Key management personnel, who are included together with other officer holders, in the definition of "related party" as per IAS 24R) include the members of the board of directors and the president and CEO of the Company

The main shareholder of the company is ICC Industries Inc. which is holding 36.2% of company shares. The remaining shares are widely held. The controlling shareholder in ICC Industries Inc. is Dr. John Farber – the Chairman of the Board of Directors, who also holds 0.08% of Company's shares.

NOTE 21 – RELATED PARTIES – TRANSACTIONS AND BALANCES (continued):

1) Transactions with the controlling shareholder and its affiliates:

During the ordinary course of business, the Company and its affiliates conduct negligible transactions with the companies affiliated to the controlling shareholder. As part of these transactions, the Company's subsidiary sells to Fallek Chemical Japan, an affiliate of the controlling shareholder, products at market prices for marketing to a specific customer in Japan. In addition, as part of these transactions, the Company purchases from Azur S.A., an affiliate of the controlling shareholder, raw materials at cost prices and production services at market price. Additionally, subsidiaries of the company purchase raw materials at market value from companies affiliated to the controlling shareholder. These transactions were approved by the Company's Board of Directors and they are considered to be negligible as this term is defined by the Securities Regulations (Annual Financial Reports), 2010.

	2015	2014	2013
Income (expenses):	U.S. dollars in thousands		
Sales – affiliates (companies controlled by the controlling shareholder):			
Fallek Chemical Japan	119	239	206
Other	13	10	8
	132	249	214
Purchases:			
Affiliates (companies controlled by the ICC	157	-	-
controlling shareholder):			
Azur S.A	(2,012)	(1,588)	(1,744)
Dividend	(2,091)	(1,733)	(1,439)
Other expenses:			
Affiliates -			
Azur S.A.	(1)	(14)	(21)
Benefits to related parties:			
Wages and salaries	(3,023)	(3,056)	(2,810)
Director fees (in the Company)	(207)	(238)	(209)

2) Shares granted to the President of the Company

On August 19, 2014, the Company's board of directors approved the grant of 137,500 options to the President of the Company; the value of the benefit is computed in accordance with the binomic model and was estimated at $ 521 thousands at date of grant.

NOTE 21 – RELATED PARTIES – TRANSACTIONS AND BALANCES (continued):

The total benefit component granted to the President (see note 12) in the years 2015, 2014 and 2013 as computed at date of grant is $ 309 thousand, $ 772 thousand and $230 thousand, respectively.

Benefit costs that have been charged to the income statements, in respect of the said shares granted in the years 2015, 2014 and 2013 are $ 527 thousand $ 464 thousands and $ 423 thousand, respectively.

3) Terms of the employment for the President of the Company

On January 14, 2014, the general meeting of the Company's shareholders approved the compensation policy for senior office holders in the Company, including the Company's president; the general assembly approved the compensation policy after it was approved by the compensation committee and the Company's Board of Directors ("compensation policy"). For details regarding the compensation policy see Company's report of December 29, 2013 (reference 2013-01-111694).

Under the compensation policy the components of the president's compensation package include the following:

The terms of employment of Mr. Yehudai include a monthly salary (index-linked), social benefits as is customary in the economy (including executive insurance, education fund, disability insurance, recuperation pay, sick leave and vacation pay), a 13th month salary, other benefits (including mobile phone, landline at home and newspapers), and an executive car. Mr. Yehudai is also entitled to an annual bonus and is allocated options. The employment of Mr. Yehudai will end 6 months from the date on which the Company serves notice of its desire to end the engagement and 3 months from the date on which Mr. Yehudai notifies the Company of his desire to end the engagement. Should the Company inform Mr. Yehudai of the end of his employment within 12 months of the date from which ICC Handels AG holds less than 26% of the Company's share capital or voting rights, Mr. Yehudai shall be entitled to receive his salary from the Company (save for vacation pay, sick leave, bonuses and options) for a period of 12 months starting at the end of the notice period. In such case Mr. Yehudai will also be entitled to immediately exercise all options previously granted him even if their vesting period has not yet ended. Upon termination of his employment with the Company, Mr. Yehudai is entitled to receive double the amount of severance pay stipulated by law.

4) The articles of incorporation of the company allow insurance coverage to officials in the company as outlined by Israeli legislation. The company applied a policy of indemnifying officers and other officials in subsidiaries. The company decided to buy insurance to officers in relation to their job, subject to the law and other restrictions.

NOTE 21 – RELATED PARTIES – TRANSACTIONS AND BALANCES (continued):

b. Balances with Related Parties:

	31 December		
	2015	**2014**	**2013**
	U.S. dollars in thousands		
1) Current receivables – presented among "other receivables-other" and "trade receivables"			
Affiliated companies:			
Fallek	-	-	-
ICC	-	2	2
	-	2	2
Highest balance during the year	122	234	342
2) Current payables shareholder and related parties:			
Azur S.A.	347	157	228

NOTE 22 – SUBSEQUENT EVENTS

a. **Acquisition of Amco**

On November 10, 2015 Frutarom signed an agreement for the purchase of 75% of the share capital of the Polish company AMCO Sp. z o.o. ("AMCO") for approximately $ 20.7 million (82.25 million PLN). The purchase agreement includes an option to acquire the remaining balance of 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 completed on January 11, 2016 and was financed through bank debt.

b. **Acquisition of Wiberg**

On December 14, 2015 Frutarom signed agreements for the purchase of 100% of the shares of the Austrian company world wide Wiberg GmbH (formerly known as SAGEMA GmbH) and the purchase of 100% of the shares of the German company Wiberg GmbH (collectively: "Wiberg") for approximately $ 130.4 million (€ 119 million), which were deposited at a trustee until the fulfilment of a pending warranty – approval of the Austrian and the German Antitrust Authorities and transfer of control. The transaction was completed with the acceptance of the approvals on January 28, 2016. The company will be consolidated with the company's results beginning 2016. The transaction was financed through bank debt.

NOTE 22 – SUBSEQUENT EVENTS (continued):

c. **Investment in Algalo**

On January 3, 2016 Frutarom signed, an agreement for investing in Algalo Industries Ltd. ("Algalo"), whereby Frutarom will invest a total of NIS 10 million (equivalent to $ 2.56 million as of the date on which the report on the investment was published) 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 will have exclusive marketing rights worldwide for Algalo products.

Payment will be such that NIS 5 million of the overall amount will be paid in cash and the balance will be paid subject to the attaining of milestones set in the agreement. The transaction was completed at the time the agreement was signed and financed through bank debt.

d. **Acquisition of Ingredientes Naturales Seleccionados**

On January 11, 2016 Frutarom signed, an agreement for the purchase of 100% of the share capital of Grow in exchange for approximately $ 20 million. The purchase agreement includes a mechanism for future consideration conditional on 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 using bank debt.

e. **Distribution of dividend**

On March 16, 2016 the Company’s Board of Directors declared the distribution of a dividend of NIS 0.41 per share. Total amount of the dividend is $6,217 thousand (based on exchange rate as of date of confirmation of these financial statements).

NOTE 23 – LIST OF MATERIAL CONSOLIDATED SUBSIDIARIES AND INVESMENT IN SUBSIDIARIES

LIST OF MATERIAL CONSOLIDATED SUBSIDIARIES

Name of company	Percentage of shareholding and control	
	31 December	
	2015	2014
	%	%
Subsidiaries:		
Frutarom Ltd.	100	100
Frutarom Switzerland Ltd.	100	100
Frutarom (UK) Ltd.	100	100
Frutarom U.S.A. Inc.	100	100
Frutarom Savory Solutions GmbH	100	100
Frutarom Etol Tovarna arom in etericnih d.o.o.	100	100
Vantodio Holdings Limited	75	75
Frutarom Italy S.R.L	100	100
Frutarom Germany GmbH	100	100
Frutarom Belgium N.V	100	100
Frutarom Peru	100	100
Taura Natural Ingredients Holding Pty Ltd	100	-
Frutarom Canada	100	-

SECTION D

ADDITIONAL INFORMATION

D

Chapter D – Additional Information on the Corporation

Company name:	**Frutarom Industries Ltd.**
Registration number:	**52-004280-5**
Address:	**25 HaShaish St., Haifa Bay** **P.O.B. 10067, 2611001**
Email:	**info@frutarom.com**
Telephone:	**+972-4-846 2449**
Fax:	**+972-4-872 2517**
Balance Sheet date:	**December 31, 2015**
Date of report:	**March 16, 2016**
Period of report:	**January 1, 2015 - December 31, 2015**

Regulation 10A - Summary of Quarterly Profit and Loss Reports

Following is a summary of the of the corporation's overall P&L statement for each calendar quarter of the reported year:

IN US$ 000	Q1 - 2015		Q2 -2015		Q3 - 2015		Q4 - 2015		2015 Total	
SALES	**194,199**	**100.0%**	**218,512**	**100.0%**	**234,475**	**100.0%**	**225,610**	**100.0%**	**872,796**	**100.0%**
Cost of sales										
Material consumed	92,111	47.4%	106,281	48.6%	111,005	47.3%	107,721	47.7%	417,118	47.8%
Other manufacturing	26,956	13.9%	28,150	12.9%	31,587	13.5%	30,926	13.7%	117,619	13.5%
Total	**119,067**	**61.3%**	**134,431**	**61.5%**	**142,592**	**60.8%**	**138,647**	**61.5%**	**534,737**	**61.3%**
GROSS PROFIT	**75,132**	**38.7%**	**84,081**	**38.5%**	**91,883**	**39.2%**	**86,963**	**38.5%**	**338,059**	**38.7%**
R&D, Selling and G&A										
Selling expenses and R&D - net	31,262	16.1%	34,765	15.9%	36,656	15.6%	38,554	17.1%	141,237	16.2%
General & Administration	14,386	7.4%	15,813	7.3%	16,682	7.1%	16,861	7.5%	63,742	7.3%
Other expenses	320	0.2%	253	0.1%	1,571	0.7%	682	0.3%	2,826	0.3%
Total	**45,968**	**23.7%**	**50,831**	**23.3%**	**54,909**	**23.4%**	**56,097**	**24.9%**	**207,805**	**23.8%**
OPERATING PROFIT	**29,164**	**15.0%**	**33,250**	**15.2%**	**36,974**	**15.8%**	**30,866**	**13.7%**	**130,254**	**14.9%**
Financing expenses net	1,838	0.9%	1,677	0.8%	5,988	2.6%	2,694	1.2%	12,197	1.4%
PROFIT BEFORE TAX	**27,326**	**14.1%**	**31,573**	**14.4%**	**30,986**	**13.2%**	**28,172**	**12.5%**	**118,057**	**13.5%**
TAX	5,929	3.1%	5,448	2.5%	5,957	2.5%	4,638	2.1%	21,972	2.5%
Tax rate	21.7%		17.3%		19.2%		16.5%		18.6%	
NET PROFIT	**21,397**	**11.0%**	**26,125**	**12.0%**	**25,029**	**10.7%**	**23,534**	**10.4%**	**96,085**	**11.0%**

Regulation 10C - Use of Securities' Proceeds

Not relevant.

Regulation 11 – List of Investments in Subsidiaries and Affiliates

					Holding %		
Name of company	Type of Share	Par Value	Number of Shares	Total Par Value	Equity	Voting	Right to appoint directors
Frutarom Ltd.* 51-013293-9	Ordinary	NIS 1	23,972,645	23,972,645	100	100	100

* All other companies in the Frutarom Group are held through Frutarom Ltd., directly or indirectly. For further details regarding the consolidated companies in the Frutarom Group and holdings in them, see Note 23 to the Company's financial statements of December 31, 2015.

Regulation 12 - Changes in Investments in Subsidiaries and Affiliates

A. Ingrenat

On February 2, 2015 Frutarom signed an agreement for the acquisition of 100% of the share capital of the Spanish company Ingredientes Naturales Seleccionados S.L. ("**Ingrenat**") in consideration for a payment to the shareholders of approximately Euro 4.3 million (US$ 4.8 million) and an assumption of debt of approximately Euro 2.5 million (US$ 2.8 million). The agreement includes a mechanism for future consideration which the Company expects to stand at Euro 250 thousands (US$ 279 thousands). The transaction was completed at signing and financed using bank debt.

For further information on the acquisition of Ingrenat, see the Company's immediate report issued on February 3, 2015 (reference: 2015-01-023563).

B. VITIVA

On February 4, 2015 Frutarom completed the acquisition of 92% of the share capital of the Slovenian company Vitiva Proizvodnja in storitve d.d. ("**Vitiva**"), and on April 23, 2015 completed the purchase of the balance of Vitiva's share capital, in consideration for a total cash payment of approximately Euro 8 million (US$ 10 million). The acquisition was independently financed.

For further information on the acquisition of Vitiva, see the Company's immediate reports issued on December 23 2014, February 4 2015 and April 26 2015 (references: 2014-01-228354, 2015-01-025120 and 2015-01-005223, respectively).

C. FoodBlenders

On February 2, 2015 Frutarom signed an agreement for the acquisition of100% of the share capital of the English company FoodBlenders Limited ("**FoodBlenders**") in consideration

for approximately GBP 1.6 million (US$ 2.4 million), plus, an additional payment contingent on future performance of approximately GBP 574,000 (US$ 870,000) which was paid during 2015. The acquisition was independently financed.

For further information on the acquisition of FoodBlenders, see the Company's immediate report issued on February 3, 2015 (reference: 2015-01-023593).

D. Taiga International

On March 16, 2015 Frutarom signed an agreement for the acquisition of 100% of the share capital of the Belgian flavors company Taiga International ("**Taiga**") in consideration for a cash payment of approximately Euro 2.7 million (US$ 3 million). The transaction was completed at signing and was independently financed.

For further information on the acquisition of Taiga, see the Company's immediate report issued on March 18, 2015 (reference: 2015-01-053443).

E. Sonarome

On May 14, 2015 Frutarom signed an agreement for the acquisition of 60% of the share capital of the Indian flavors and fragrances company Sonarome Private Ltd. ("**Sonarome**") in consideration for approximately 1,104 million Indian Rupees (US$ 17.7 million). The purchase agreement includes an option for Frutarom to acquire the remaining balance of Sonarome's share capital starting two years following the purchase agreement signing date, at a price conditional upon Sonarome's business performance. The transaction was financed using bank debt.

For further information on the acquisition of Sonarome, see the Company's immediate report issued on May 14, 2015 (reference: 2015-01-019311).

F. BSA

On May 15, 2015 Frutarom signed an agreement for the acquisition of 95% of the share capital of the Canadian company Investissements BSA Inc. ("**BSA**") in consideration for a cash payment of approximately CAD 45 million ($US 36 million). The purchase agreement includes an option for Frutarom to acquire the remaining balance of BSA's share capital starting two years following the purchase agreement completion date at a price conditional upon BSA's business performance. The transaction was completed on June 1, 2015 and financed using bank debt.

For further information on the acquisition of BSA, see the Company's immediate reports issued on May 17, 2015 and the immediate report issued with respect to the closing of the transaction on June 2, 2015 (references: 2015-01-037653 and 2015-01-020208, respectively).

G. Taura

On June 18, 2015 Frutarom signed an agreement for the acquisition of 100% of the share capital of the Australian company Taura Natural Ingredients Holding Pty Ltd. ("**Taura**") in consideration for approximately Euro 62.7 million (US$ 71.0 million), which included an assumption of debt of Euro 24.3 million (US$ 26.5 million). The purchase agreement includes payment of an additional amount of approximately Euro 3 million (US$ 3.5 million)

conditional upon Taura's business performance for the 12-month period ending on June 30, 2016. The transaction was completed at signing and financed using bank debt.

For further information on the acquisition of Taura, see the Company's immediate report issued on June 18, 2015 (reference: 2015-01-050979).

H. F&J

On June 29, 2015 Frutarom signed an agreement for the acquisition of 100% of the share capital of the US flavors company Crestmont Investment, owner of the entire share capital of The Foote & Jenks Corporation, and the acquisition of 100% of the share capital of Eden Essentials Inc. (collectively: "**F&J**") in consideration for a cash payment of approximately US$ 4.2 million. The transaction was completed at signing and financed using bank debt.

For further information on the acquisition of F&J, see the Company's immediate report issued on June 30, 2015 (reference: 2015-01-060012).

I. Scandia

On July 28, 2015 Frutarom signed an agreement for the acquisition of the business operations and assets of Scandia Citrus LLC ("**Scandia**") located in Florida, USA, in consideration for a cash payment of approximately US$ 6 million. The transaction was completed at signing and financed using bank debt.

For further information on the acquisition of Scandia's activity, see the Company's immediate report issued on July 29, 2015 (reference: 2015-01-084372).

J. Nutrafur

On September 3, 2015 Frutarom signed an agreement for the acquisition of 79% of the share capital of the Spanish company Nutrafur S.A. ("**Nutrafur**") in consideration for approximately Euro 7.9 million (US$ 8.8 million). The transaction was completed at signing and financed using bank debt.

For further information on the acquisition of Nutrafur, see the Company's immediate report issued on September 6, 2015 (reference: 2015-01-113841).

K. Inventive

On December 8, 2015 Frutarom signed an agreement for the acquisition of 100% of the share capital of the Hong Kong companies Inventive Technology Ltd. and Prowin International Ltd. (collectively: "**Inventive**") in consideration for approximately US$ 17 million (partly through the assumption of Inventive's debts). The purchase agreement includes a mechanism for future consideration conditional on Inventive's business performance over the three year period following the acquisition date. The transaction was completed at signing, and was financed both independently and using bank debt.

For further information on the acquisition of Inventive, see the Company's immediate report issued on December 9, 2015 (reference: 2015-01-176355).

L. AMCO

On November 10, 2015 Frutarom signed an agreement for the acquisition of 75% of the share capital of the Polish company AMCO spółka z ograniczoną odpowiedzialnością ("**AMCO**") in consideration for approximately US$ 20.7 million (PLN 82.25 million). The purchase agreement includes an option for Frutarom to acquire the remaining balance of AMCO's share capital beginning two and a half years from the closing date of the transaction, at a price based on AMCO's business performance. The transaction was completed following the balance sheet date, on January 11, 2016, and financed using bank debt.

For further information on the acquisition of control of AMCO, see the Company's immediate report issued on November 11, 2015 (reference: 2015-01-152859) and the immediate report issued with respect to the closing of the transaction on January 12, 2016 (reference: 2016-01-008251).

M. Wiberg

On December 14, 2015 Frutarom signed agreements for the purchase of 100% of the share capital of the Austrian company SAGEMA GmbH (which owns, inter alia, 50% of Wiberg Corporation, a Canadian subsidiary and 51% of WIBERG BAHARAT SANAYİ VE TİCARET ANONİM SİRKETİ, a Turkish subsidiary) and for the purchase of 100% of the share capital of the German company Wiberg GmbH (collectively: "**Wiberg**") in consideration for approximately US$ 130.4 million (Euro 119 million). The transaction was completed following the balance sheet date, on January 28, 2016, and financed using bank debt.

For further information on the acquisition of Wiberg, see the Company's immediate report issued on December 14, 2015 (reference: 2015-01-178923) and the immediate report issued with respect to the closing of the transaction on January 31, 2016 (reference: 2016-01-019669).

N. Investment in Algalo

Following the balance sheet date, on January 3, 2016, Frutarom signed an agreement for the investment in Algalo Industries Ltd. ("**Algalo**") pursuant to which Frutarom shall invest a total amount of NIS 10 million (approximately US$ 2.56 million) which is intended mainly 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. Pursuant to the investment agreement, Frutarom was granted an exclusive marketing rights worldwide for Algalo products. NIS 5 million of the overall amount was paid in cash and the balance will be paid subject to the achivment of milestones set in the agreement. The transaction was completed at signing and financed using bank debt.

For further information on the investment in Algalo, see the Company's immediate report issued on January 4, 2016 (reference: 2016-01-001750).

O. Grow

Following the balance sheet date, on January 11, 2016, Frutarom signed an agreement for the acquisition of 100% of the share capital of US-based Grow Company Inc. ("**Grow**") in consideration for approximately US$ 20 million. The purchase agreement includes a

mechanism for an additional payment contingent on Grow future performance during a period of one year following the acquisition date. The transaction was completed at signing and financed using bank debt.

For further information on the acquisition of Grow, see the Company's immediate report issued on January 12, 2016 (reference: 2016-01-008257).

For further details regarding the Group's subsidiaries see Note 23 to the Company's financial statements of December 31, 2015.

Regulation 13 - Income of and from Subsidiaries and Affiliates

Company name	Profit (loss) for the reporting period (US$ 000)	Other profit (loss) (US$ 000)	Total profit (loss) for the reporting period	Dividend (US$ 000)		Management fee (US$ 000)		Interest	
				Until the reporting date	After the reporting date	Until the reporting date	After the reporting date	Until the reporting date	After the reporting date
Frutarom Ltd.	94,146	(65,948)	28,198	5,774	-	-	-	-	-

Regulation 14 – Loans

Granting loans is not one of the Group's main business activities.

Regulation 20 - Trading on Stock Exchange

During the reporting period the Company issued 349,172 additional ordinary shares of NIS 1 par value each upon the exercise of stock options by Company employees.

There was no suspension in the trading of the Company's shares during the reporting period.

Regulation 21 –Payments to Interested Parties and Senior Officeholders

Following is a breakdown of remuneration reflected in the Company's financial statements for the period ended December 31, 2015 to each of the five highest paid senior officeholders of the Company or a corporation under its control and provided to them in connection with their position in the Company or a corporation under its control:

Details of Officeholder				**Remuneration for Services [1]**							**Other Payments**			
Name	Position	% Position	% of Holdings [2]	Salary [3]	Bonus [4]	Shares' Based Payment [5]	Manag e-ment Fees	Consu -lting Fees	Comm -ission	Other	Interest	Rent	Other	**Total [1]**
Ori Yehudai	President & CEO [6]	100%	1.7% [7]	899	1,620	504	-	-	-	-	-	-	-	3,023
Amos Anatot	EVP – Supply Chain [9]	100%	0.17% [10]	250	130	137								517
Alon Granot	EVP & CFO [12]	100%	0.18% [13]	260	129	135	-	-	-	-	-	-	-	524
Tali Mirsky Lachman	Global VP – Legal & Company Secretary [15]	100%	0.08% [16]	200	57	66	-	-	-	-	-	-	-	324
Guy Gill	VP – Finance [18]	100%	0.11% [19]	170	53	65	-	-	-	-	-	-	-	288

Notes to the table above:
[1] Remuneration reflects cost to the Company. Amounts are in $US thousands.
[2] On a fully diluted basis as at the date of this report.
[3] Including fringe benefits (car maintenance, telephone, social benefits, provisions for termination of employment and any other payment made to the senior officeholders).
[4] The amounts of bonuses to senior officeholders were determined in accordance with the Compensation Policy and approved by the Compensation Committee and the Company's Board of Directors.
[5] The amounts in the table reflect the benefit component for the options granted under the 2003 Plan, the 2012 Plan and the 2010 Plan (for allocations performed from 2009 through 2015) as reflected in the Company's 2015 Financial Statements.
For further details on the Company's option plans see Note 12b to the Company's Financial Statements for December 31, 2015.
[6] Mr. Yehudai has been employed with the Company since 1986, and in 1996 began serving as its President and CEO. Mr. Yehudai's terms of employment include a monthly salary (index-linked), social benefits as is customary in the industry (including executive insurance, study fund, disability insurance, recuperation pay, sick leave and vacation pay), a 13th month salary, other benefits (including mobile phone, landline at home and newspapers), and an executive car. Mr. Yehudai is also entitled to an annual bonus and is granted options in accordance with the Company's options plans as specified in sections (7) and (8) below. (For details on the Compensation Policy see the Company's report on this subject from December 29, 2013). Mr. Yehudai's employment will end 6 months from the date on which the Company serves notice of its desire to terminate the engagement and 3 months from the date on which Mr. Yehudai notifies the Company of his desire to end the engagement. Should the Company inform Mr. Yehudai of the end of his employment within 12 months of the date from which ICC Handels AG holds less than 26% of the Company's share capital or voting rights, Mr. Yehudai shall be entitled to receive his salary from the Company (save for vacation pay, sick leave, bonuses and options) for a period of 12 months starting at the end of such notice period. In such case Mr. Yehudai will also be entitled to immediately exercise all options previously granted to him even if their vesting period has not yet ended. Upon termination of his employment with the Company, Mr. Yehudai is entitled to receive double the amount of severance pay stipulated by law.
[7] As of December 31, 2015 Mr. Yehudai held 537,201 options exercisable into 537,201 of the Company's ordinary shares.
[8] As at the date of this report, the balance of options granted to Mr. Yehudai under the 2012 Plan is 78,835 and the balance of options granted to Mr. Yehudai under the 2010 plan is 333,366. Beginning in 2013 the options granted under the 2012 Plan are part of the deferred equity component of the annual bonus.
[9] Mr. Anatot has been employed with the Company since 2010. Mr. Anatot's terms of employment include a monthly salary, social benefits as is customary in the industry (including executive insurance, education fund, disability insurance, recuperation pay, sick leave and vacation pay), an annual bonus in accordance with the Compensation Policy, a mobile phone and a vehicle. He is also granted options according to the Company's options plans as specified in sections (10) and (11) below. The engagement between the sides will end 3 months from the date on which either side serves notice on the other of a desire to terminate the engagement. Should the Company inform Mr. Anatot of the termination of his employment with the Company within 12 months of the date from which ICC Handels AG holds less than 26% of the Company's share capital or voting rights, Mr. Anatot shall be entitled to receive his salary from the Company (save for vacation pay, sick leave, bonuses and options) for a period of 6 months from the end

of such notice period. In such case Mr. Anatot will also be entitled to immediately exercise all options previously granted to him even if their vesting period has not yet ended.
[10] As of December 31, 2015 Mr. Anatot held 102,802 options exercisable into 102,802 of the Company's ordinary shares.
[11] As of the date of this report, the balance of options granted to Mr. Anatot under the 2012 Plan is 22,302 and the balance of options granted to Mr. Anatot under the 2010 Plan is 80,500.
[12] Mr. Granot has been employed with the Company since 2001. Mr. Granot's terms of employment include a monthly salary, social benefits as is customary in the industry (including executive insurance, education fund, disability insurance, recuperation pay, sick leave and vacation pay), a 13th month salary, an annual bonus in accordance with the Compensation Policy, other benefits (including mobile phone, newspapers, and a landline at home), and a vehicle. He is also granted options according to the Company's options plans as specified in sections (13) and (14) below. Mr. Granot's employment will end upon 3 months from the date on which either side serves notice on the other of a desire to end the engagement. Should the Company inform Mr. Granot of the termination of his employment with the Company within 12 months of the date from which ICC Handels AG holds less than 26% of the Company's share capital or voting rights, Mr. Granot shall be entitled to receive his salary from the Company (save for vacation pay, sick leave, bonuses and options) for a period of 6 months from the end of such notice period. In such case Mr. Granot will also be entitled to immediately exercise all options previously granted to him even if their vesting period has not yet ended.
[13] As of December 31, 2015 Mr. Granot held 105,993 options exercisable into 105,993 ordinary Company shares.
[14] As of the date of this report the balance of options granted to Mr. Granot under the 2012 Plan is 11,183 and the balance of options granted to Mr. Granot under the 2010 plan is 62,500.
[15] Ms. Mirsky has been employed with the Company since 2010. Ms. Mirsky's terms of employment include monthly salary, social benefits as is customary in the industry (including managers' insurance, education fund, disability, recuperation pay, sick days and vacation days), an annual bonus in accordance with the Compensation Policy, an acclimation bonus, a mobile phone and a vehicle. In addition, Ms. Mirsky is being granted options according to the Company's option plans, as detailed in sections (16) and (17) below. Ms. Mirsky's employment may be terminated with 3 months advance written notice given by either party. In the event a notice of termination is delivered to Ms. Mirsky by the Company within 12 months following the date upon which ICC Handels AG's holding (directly or indirectly) fall below 26% of the issued and paid up capital of the Company or the voting rights in the Company, all options previously granted to Ms. Mirsky will become immediately exercisable, even if their vesting period has not yet ended.
[16] As of December 31, 2015 Ms. Mirsky held 45,280 options exercisable into 45,280 ordinary shares of the Company.
[17] As of the date of this report, the balance of options granted to Ms. Mirsky under the 2012 Plan is 11,947 and the balance of options granted to Ms. Mirsky under the 2010 Plan is 33,333.
[18] Mr. Gill has been employed with the Company since 2006. Mr. Gill's terms of employment include a monthly salary, social benefits as is customary in the industry (including executive insurance, education fund, disability insurance, recuperation pay, sick leave and vacation pay), an annual bonus in accordance with the Compensation Policy, a mobile phone and a vehicle. He is also granted options according to the Company's options plans as specified in sections (19) and (20) below. The engagement between the sides shall end 3 months from the date on which either side serves notice on the other of a desire to terminate the engagement.

[19] As of December 31, 2015 Mr. Gill held 68,717 options exercisable into 68,717 ordinary Company shares.
[20] As of the date of this report, the balance of options granted to Mr. Gill under the 2012 Plan is 8,717 and the balance of options granted to Mr. Gill under the 2010 Plan is 60,000.

Section (a)(2)
There are no senior officeholders in the corporation receiving higher remuneration who are not included in the above table.

Section (a)(3)
There are no interested parties in the corporation who received remuneration not mentioned in the above table, except for directors. The remuneration paid to all of the directors in 2015, which does not deviate from the customary directors' remuneration, came to a total of US$ 207 thousand.

Section (b)
No remuneration has been given to senior officeholders after the reporting period and prior to the submission of this report in connection with their service or employment in the reporting period which were not reflected in the Financial Statements for the reporting period.

Regulation 21A – Control of the Corporation

The controlling shareholder in the Corporation is ICC Industries Inc., via its subsidiaries. The controlling shareholders of ICC Industries Inc. are Dr. John J. Farber and Mrs. Maya Farber.

Regulation 22- Transactions with Controlling Shareholders

Following are details, to the best of the Company's knowledge, of any transaction with the controlling shareholder or in which the controlling shareholder has personal interest in its approval, in which the Group engaged in 2015 or later, through the date of publication of this report or which is still valid at the time of the publication of the report:

Transactions included in Section 270(4) of the Companies Law, 1999 (the "**Companies Law**")

(a) According to a resolution of the Company's Board of Directors from February 9, 2011, passed after having been approved by the Audit Committee, starting as of February 10, 2011 an annual remuneration and participation remuneration is being paid to the Company's directors (including external directors and directors who are controlling shareholders or relatives thereof) in amounts equivalent to the fixed amount prescribed under the Companies Regulations (Rules Regarding Remuneration to External Directors) 2001, according to the Company level as may be from time to time.

(b) At the Company's annual general meeting of shareholders held on June 10, 2012, it was resolved to grant undertakings for indemnification of directors who are controlling shareholders or relatives thereof, for a period of 3 years. For further information with respect to the said transaction, see the Company's immediate reports in connection with

the general meeting issued on May 13, 2012 and June 11, 2012 (references: 2012-01-000649 and 2012-01-152565, respectively).

On March 16, 2016 the Company's Board of Directors approved, following the approval of the Company's Compensation Committee, the amendment and extension of the indemnification agreement for directors who are controlling shareholders or relatives thereof for a period of 3 additional years, subject to the obtaining of the approval of the Company's general meeting of shareholders. The Company's Board of Directors authorized the Company's management to set a date to issue a notice for an annual and special general meeting of shareholders, with its agenda including, inter alia, the approval of the amendment and extension of the indemnification agreement as set forth above (the "**2016 General Meeting**").

(c)

- **Compensation Policy**
  At the Company's annual general meeting held on January 14, 2014, it was resolved to approve the Company's Compensation Policy. On March 16, 2016 the Company's Board of Directors approved, following the approval of the Company's Compensation Committee, the following amendments to the Compensation Policy, which are subject to the approval of the 2016 General Meeting: (i) insurance – the Company may from time to time purchase insurance policies to cover Office Holders' liability (including purchase of run-off insurance), in the Company's customary scope of coverage in the amount of not less than US$80 million, provided that the annual premium shall not exceed the amount of US$200,000; (ii) deferred components – to the extent the provisions of the law will permit, inter alia, via the publishing in the records of the Companies Order (Change in the First Addendum to the Law), 5776-2015, the variable elements of the service and employment conditions (bonuses) of vice-presidents and office holders subordinate to a company's CEO shall not be subject to the requirement of being based on measurable criteria; (iii) Bonus Spread – the spread of the total bonus paid for office holders' (except for the President and CEO) between the cash component and the deferred equity component shall be updated such that the deferred equity component shall be not less than 25% of the total bonus.

- **Purchase of Insurance for Directors and Officeholders**

  At the Company's annual general meeting held on January 14, 2014, it was resolved to approve the purchase of insurance policies for directors and officeholders who are not controlling shareholders or relatives thereof, for a period of the later of 3 years from the date of approval of this resolution and the annual general meeting to be held in 2016, for an amount of coverage which will not exceed US$ 80 million, and the annual premium to be paid for said policy will not exceed US$ 200,000. The terms of the policy to be purchased will be those customary in the market with regard to the Company, the nature of its activities and its exposures. On February 16, 2016 the Company's Board of Directors, after receiving affirmation from the Company's Compensation Committee, affirmed that the Company's existing Directors' and Office Holders' insurance policy applies to all of the Directors and Office Holders of the Company, including *inter alia* Directors and Office Holders included among the

Company's controlling shareholders and relatives thereof, as well as to the Company's President& CEO.

For further information with respect to the said transaction, see the Company's immediate reports in connection with the general meeting issued on December 29, 2013 and January 14, 2014 (references: 2013-01-111694 and 2014-01-015376, respectively).

On March 16, 2016 the Company's Board of Directors approved, following the approval of the Company's Compensation Committee, and subject to the approval of the 2016 General Meeting (which includes an approval of the amendment to the Compensation Policy with respect to insurance as set forth above), the purchase of Directors' and Officers' liability insurance policies for the period of 3 years starting the date of approval by the 2016 General Meeting, in an amount of coverage which will not less than US$ 80 million, provided that the annual premium for said policy will not exceed US$ 200,000.

- **Granting of an Exemption to each of the Directors who is a Controlling Shareholder or a Relative thereof**
  On March 16, 2016 the Company's Board of Directors approved, following the approval of the Company's Compensation Committee, and subject to the approval of the 2016 General Meeting, subject to the provisions of the Companies Law, and to any legal provision that will come in their place, the Company will commit itself to exempt in advance each one of the directors and office holders who are a controlling shareholder or a relative thereof, from liability towards the Company, in whole or in part, for any damage that will be caused to it and/or has been caused to it, either directly or indirectly, due to a violation of the duty of care towards it, for a period of 3 years from the date of approval of the exemption by the 2016 General Meeting.

Transactions not included in Section 270(4) of the Companies Law

During its ordinary course of business, the Group executes negligible transactions with companies under the controlling shareholder's control. In the framework of such transactions, the Company's subsidiary sells products to a company controlled by the controlling shareholder for marketing to a specific customer in Japan. In the framework of such transactions the Company also purchases raw materials at cost and production services at market price from a company controlled by the controlling shareholder. In addition, the Company's subsidiaries purchase raw materials at market price from companies under the controlling shareholder's control. For more information regarding the above transactions, see Note 21 of the Financial Reports.

Transactions are classified as negligible in accordance with the approval of the Board of Directors dated January 17, 2011, setting guidelines and rules for the classification of a transaction of the Company or of its consolidated or related company with an interested party as negligible ("**Negligibility Procedure**"). According to the above resolution, the Company follows these guidelines in order to examine the extent of the Company's disclosure in the periodic reports and the prospectus, including shelf proposal reports, with regards to transactions with interested parties as set out in the Securities Regulations (Annual Financial Reports), 2010

("**Financial Reports Regulations**") and with regards to transactions with controlling shareholders or such that a shareholder has a personal interest in their approval, as stated in regulation 22 of the Securities Regulations (Immediate and Periodic Reports), 1970 ("**Periodic Reports Regulations**") and in regulation 54 of the Securities Regulations (Prospectus' details, draft, shape and form), 1969. For details on the Negligibility Procedure, see the Company's Immediate Report dated January 18, 2011 (reference: 2011-01-020994).

Regulation 24 - Convertible Shares and Securities Held by Interested Parties

For details regarding holdings of interested parties in the Company see the immediate report on the status of holdings of interested parties and senior officeholders published on January 7, 2016 (reference: 2016-01-005995). To the best of the Company's knowledge, there have been no material changes in interested parties' holdings since the date referred to in this status report.

Regulation 24A – Registered and Issued Share Capital and Convertible Securities

As at the date of this report, the Company's registered share capital is NIS 100,000,000 divided into 100,000,000 shares of NIS 1 par value each.

As at the date of this report, the Company's issued share capital is NIS 59,153,660 divided into 59,153,660 shares of NIS 1 par value each.

Issued share capital after deduction of dormant shares: NIS 58,916,723 divided into 58,916,723 shares of NIS 1 par value each.

As of the date of this report the Company holds 236,937 of its shares in accordance with the Company's 2003 Plan and 2012 Plan. These shares are dormant shares under Section 308(A) to the Companies Law, and therefore do not confer any rights.

As at December 31, 2015 the balance of options existing under the option plans which the Board of Directors adopted in 2003, 2010 and 2012 is 13,189, 928,840 and 268,944, respectively. For further details regarding the above option plans, see regulation 21 above and Note 12 to the Company's Financial Statements

Regulation 24B - Registry of the Company's Shareholders

For the updated registry of the Company's shareholders, see the Company's immediate report dated February 10, 2016 (reference: 2016-01-026536).

Regulation 25A – Registered Office

Registered office:	25 HaShaish St., P.O.B. 10067, Haifa Bay 2611001, Israel
Email:	info@frutarom.com
Telephone:	+972 4 846 2402
Fax:	+972 4 872 2517

Regulation 26 – Members of the Board of Directors

Name of Director	**Dr. John J. Farber, Chairman**	**Maya Farber**	**Sandra Farber**	**Hans Abderhalden**
ID \Passport no.	520850285 (US Passport)	520777916 (US Passport)	453588940 (US Passport)	x4983003 (Swiss)
DOB	1925	1936	1957	1939
Address for service of court processes	435 E. 52 St., New York, N.Y. 10022, U.S.A.	435 E. 52 St., New York, N.Y. 10022, U.S.A.	340 Riverside Drive, New York, N.Y. 10025 US	Lerchenbergstrasse 114, 8703 Erlenbach 8703, Switzerland
Nationality	U.S.A.	U.S.A.	U.S.A.	Swiss
Member of BOD committees	No	No	No	No
Independent \ external director	No	No	No	No
Director with financial and accounting expertise or professional capacity	Financial and Accounting Expertise and Professional Capacity	Professional Capacity	Professional Capacity	Financial and Accounting Expertise and Professional Capacity
Company , subsidiary or related company employee or interested party	Chairman of ICC Industries Inc., the Company's controlling shareholder	No	Vice-Chair of ICC Industries Inc.	No
Year began serving as director	1996	1996	2011	2004
Education	Ph.D. in Chemistry from Polytechnic Institute of Brooklyn, New York	Hunter College, New York and Art Students' League	Juris Doctor, New York University School of Law	IMD Program for Executive Development from IMD, Switzerland
Occupation over past five years	Chairman of the Board of the Company and of ICC Industries Inc.	Artist	Vice-Chair of ICC Industries Inc.	Director in Frutarom Switzerland Ltd. and advisor

Names of corporations where serves as director	Chairman of the Board of ICC Industries Inc. and serves as Director in ICC Industries Inc. subsidiaries	ICC Industries Inc.	Vice-Chair of ICC Industries Inc. and director in ICC subsidiaries	Served as Director in Frutarom Switzerland Ltd. until August 2013
Relative of other Interested party in the corporation	Married to Ms. Maya Farber and father of Ms. Sandra Farber, both directors in the Company	Married to Dr. John J. Farber, Chairman of the Board and the mother of Ms. Sandra Farber, director in the Company	Daughter of Dr. John J. Farber, the Chairman of the Board and Ms. Maya Farber, director in the Company	No
Accounting and financial expertise for purposes of minimal no. of directors under section 92(A)(12) to the Companies Ordinance	Yes	No	No	Yes

Name of Director	Isaac Angel	Yacov Elinav	Gil Leidner	Dafna Sharir
ID \Passport no.	012735478 (Israeli)	006287338 (Israeli)	50776889 (Israeli)	23761455 (Israeli)
DOB	1956	1944	1951	1968
Address for service of court processes	43 HaParsa St., Tel Aviv	10 Hadudaim St., Herzliya	3 Ha'aliya St., Beit Yitzhak, 42920	17 Rabina St., Tel Aviv
Nationality	Israeli	Israeli	Israeli	Israeli
Member of BOD committees	Member of the Board's Audit Committee, Balance Sheet Committee and Compensation Committee	Member of the Board's Audit Committee, Balance Sheet Committee and Compensation Committee	Member of the Board's Audit Committee, Balance Sheet Committee and Compensation Committee	Member of the Board's Audit Committee and Compensation Committee
Independent \ external director	External director	External director	Independent director	External director
Director with financial and accounting expertise or professional capacity	Financial and Accounting Expertise and Professional Capacity	Financial and Accounting Expertise and Professional Capacity	Financial and Accounting Expertise and Professional Capacity	Financial and Accounting Expertise and Professional Capacity
Company , subsidiary or related company employee or interested party	No	No	No	No
Year began serving as director	2008	2008	2010	2014
Education	High school	BA in economics and business management, the Hebrew University, Jerusalem	LLB, Tel Aviv University	MBA from Insead, LLM New York University, LLB Tel Aviv University, BA in economics, Tel Aviv University

Occupation over past five years	Business advisor, CEO Ormat Technologies starting July 1, 2014	Chairman of the board of Dash Provident Fund Management Ltd., Chairman of Yellow Pages Ltd., Chairman of the Bank for Industrial Development Israel Ltd.	Managing partner at Galram Consultants	Consultant on mergers and acquisitions (2008-2010), member of the board of directors at Ormat Industries Ltd.
Names of corporations where serves as director	Did not serve as director at any other corporation during the reported year and as of the date of this report's release.	Elinav Consulting and Services Ltd.; Sapiens Ltd.; Ofer Investments Ltd; Global Box Ltd.; Excellence Provident Funds Ltd.; Tadir-Gan Ltd.; Epsilon Underwriting & Issuing Ltd.	Member of the Management Committee of the Research Fund of Tel Aviv Sourasky Medical Center	Served as a director at Ormat Industries Ltd. until February 2015.
Relative of other Interested party in the corporation	No	No	No	No
Accounting and financial expertise for purposes of minimal no. of directors under section 92(A)(12) to the Companies Ordinance	Yes	Yes	Yes	Yes

Regulation 26A - Senior Officeholders

Name of officeholder	Ori Yehudai	Alon Granot	Amos Anatot
Position in corporation, subsidiary, related company or interested party	President and CEO. Serves as director in Frutarom subsidiaries.	Executive Vice President and CFO. Serves as director in Frutarom subsidiaries and as the Group's officer responsible for managing market risks.	Executive Vice President Global Supply Chain and Operations. Serves as director in Frutarom subsidiaries.
ID no.	052731569	057210247	51923548
DOB	1954	1961	1953
Year began serving in the company	President and CEO as of 1996 (first began working for the Company in 1986)	2001	2010
Independent authorized signatory	No	No	No
Interested party in the corporation or relative of senior officeholder or of interested party	Interested Party by his service as the Company's President and CEO	No	No
Education	BA in Economics (Tel Aviv University) MA in Business Administration (Tel Aviv University)	BA in Economics and Business Administration (Haifa University) MA in Economics (Technion)	B.Sc. in Industrial Management (Technion)
Business experience over past five years	President and CEO of the Company	Executive Vice President and CFO of the Company	Executive Vice President Global Supply Chain and Operations

Name of officeholder	Tali Mirsky-Lachman	Guy Gill	Yoav Barak
Position in corporation, subsidiary, related company or interested party	Global Vice President, Legal Affairs and Corporate Secretary	Vice President Finance. Serves as director in Frutarom subsidiaries.	Internal Auditor
ID no.	029423837	24223380	53670352
DOB	1972	1969	1955
Year began serving in the company	2010	2006	2004
Independent authorized signatory	No	No	No
Interested party in the corporation or relative of senior officeholder or of interested party	No	No	No
Education	L.L.B in Law and Business Administration (IDC, Herzliya)	BA in Economics and Accounting (Haifa University)	BA in Economics and Accounting (Haifa University)
Business experience over past five years	VP General Counsel and Corporate Secretary at Alvarion Ltd. until 2010	VP Finance of the Company	Has served as Internal auditor for corporations and as chairman and a director in various companies.

Regulation 26B – Independent Signatories

The Company does not have independent signatories as the term is defined under clause 37(d) of the Securities Regulations, 1968.

Regulation 27 – Company Auditors

The Group's external auditors are Kesselman & Kesselman, Park Matam, Building no. 25, Haifa 3190500 Israel.

To the best of the Group's knowledge the auditors are not interested parties and/or related to any senior officeholder or interested party in the Group.

Regulation 28 – Changes to Articles of Association

During 2015 there was a change in the Company's Articles of Association pursuant to which it was determined that written notice about General Shareholders' Meetings will not be sent to shareholders listed in the registry of shareholders unless the Board of Directors resolves otherwise with regards to a specific meeting.

The agenda of the 2016 General Meeting will include an amendment to the Company's Articles of Association which is intended to enable the Company to conduct itself efficiently regarding the issuance of stock certificates such that if the amendment is approved, a stock certificate could also be signed by one person appointed for this purpose by the Board of Directors and the Corporate Secretary. In addition, in accordance with the proposed amendment, the Board of Directors shall be entitled to decide that such signature or signatures be performed by means of electronic signature or by other mechanical means, as determined by the Board of Directors.

Regulation 29 – Recommendations and Resolutions by the Directors and Resolutions of the Special General Meeting of Shareholders

Recommendations of the Board of Directors to the General Meeting of Shareholders and its resolutions that do not require the approval of the General Meeting of Shareholders:

a) On March 15, 2015 the Company's Board of Directors resolved on the distribution of a dividend of NIS 0.38 per share, totaling NIS 22,291 thousand.

b) After the balance sheet date, on March 16, 2016 the Company's Board of Directors resolved on the distribution of a dividend of NIS 0.41 per share, totaling NIS 24,253 thousand.

c) After the balance sheet date, on March 16, 2016 the Company's Board of Directors resolved to amend the Company's Articles of Association as set forth in regulation 28 above.

Resolutions of the Extraordinary General Meeting:

On April 27, 2015 the Company's general meeting of shareholders resolved, inter alia, to amend the Company's Articles of Association as set forth in regulation 28 above. For more details, including the full wording of the general meeting's resolutions, see the reports on the general meeting dated March 16, 2015 and April 27, 2015 (references: 2015-01-051994 and 2015-01-006627, respectively).

Regulation 29A – Company Resolutions

In this matter, see Regulation 22 above (transactions with controlling shareholders).

Date: March 16, 2016

Frutarom Industries Ltd.

By:	_____	_____
Name:	Dr. John Farber	Ori Yehudai
Office:	Chairman of the Board	President and Chief Executive Officer

SECTION E

Report on the
Effectiveness of the Internal
Controls on the Financial
Reporting and Disclosure

E

Annual Report on the Effectiveness of the Internal Controls on the Financial Reporting and Disclosure

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

For this matter, the members of 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

Internal control on financial reporting and disclosure includes controls and procedures which are conducted in the Corporation, which are planned by the President and CEO and the CFO and under their supervision, or by whoever fills these positions in practice, under the supervision of the Corporation'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 Corporation 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 Corporation, as stated, is required to disclose is gathered and delivered to the Corporation management including to the President and CEO, and to the highest ranking financial officer 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.

Management, supervised by the Board of Directors, tested and assessed the internal auditing of the financial reports and the Corporation’s disclosure and its effectiveness. The assessment of the effectiveness of the internal control on financial reporting and on disclosure performed by management, supervised by the Board of Directors, included:

Mapping out and identification of the business processes which management deems very material to the financial reports and disclosure. Testing key controls and testing the effectiveness of the controls. Components of the internal control included control of closing processes for accounting periods, preparation and editing of financial reports and disclosures, controls on the level of the organization, general controls on information systems and controls on business processes: (1) sales and customers (2) material consumption, inventory and procurement (3) the purchase price allocation process (4) the methodology use for the valuation of intangible assets.

Based on the assessment of effectiveness performed by management, supervised by the Board of Directors as explained above, the Board of Directors and Corporation's management have concluded that the internal control on the Corporation's financial reporting and disclosure as at December 31, 2015 is effective.

Manager's Declarations

Declaration of the President and CEO

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

1. I have reviewed the Periodic Report of Frutarom Industries Ltd. (the "**Corporation**") for 2015 (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 Corporation'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 Corporation's auditors, the Board of Directors and the Audit Committee of the Corporation'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 Corporation 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 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 Corporation, including its consolidated companies as defined in the Securities Regulations (Compiling Annual Financial Reports), 5770-2010, is brought to my attention by others in the Corporation 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. I have assessed the effectiveness of the internal control on the Corporation's financial report and on the disclosure, and presented the conclusions of the Board of Directors and of the management regarding said effectiveness of the internal control in this report as of the date of the report.

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

Date: March 16, 2016

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Ori Yehudai
President and CEO

Manager's 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 reports of Frutarom Industries Ltd. (the "**Corporation**") for 2015 (the "**Reports**");
2. To my knowledge, the financial reports and other financial information contained in 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 such representations 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 Corporation'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 Corporation'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 Corporation 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 Corporation:

   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 Corporation, including its consolidated companies as defined in the Securities Regulations (Compiling Annual Financial Reports), 5770-2010, 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 Corporation 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. I have assessed the effectiveness of the internal control on the Corporation's financial report and on the disclosure, insofar as such relate to the financial reports and to any other financial information contained in the reports as of the date of the reports; my conclusions regarding my aforesaid assessment has been brought before the Board of Directors and the management and is contained in this report. .

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

Date: March 16, 2016

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Alon Granot
Executive Vice President and CFO

Frutarom Industries Ltd.

Impairment Study - Flavours Segment EMEA
As Of December, 2015

March 2016

BDO Ziv Haft
Amot Bituach House Building B, 48
Menachem Begin Road, Tel Aviv
66180
Israel

Dear Sirs,

We were requested by Frutarom Industries Ltd. (hereinafter: **"Frutarom"** or the **"Company"**) to perform an Impairment Examination Study (hereinafter: the **"Study"**) of the Flavour EMEA (hereinafter: the "**Sector**" or the "**Unit"**) under the requirements of Statement of International Accounting standards 36 (**IAS 36**). To the best of our knowledge there is no prevention, legal or other, to perform the Study enclosed herein.

The Study was prepared for Frutarom and its management for the purpose of preparing its financial statements as of December 31, 2015, and may be provided to its external auditors. Unless required by applicable law (for instance, reference to a performance of an impairment test and its implications in the financial statements), it is not to be used or quoted in a prospectus and/or any other document without receiving our prior written consent.

In the course of our Annual Goodwill Impairment Test, we relied upon financial and other information, including prospective financial information obtained from Management and from various public, financial and industry sources. Our conclusion is dependent on such information being complete and accurate in all material respects.

The principal sources of information used in performing our Annual Goodwill Impairment Test include:

- Management reports about the units activities for 2013-2015:
- A multi-year forecast for the years 2016-2020 of the Unit;
- Financial and operational business, received from Frutarom's management;;
- Frutarom's "Barnea" reports of 2014;
- Information about the activities of European tastes;
- Other information about the Unit;
- Discussions with management of the Company;
- Public data.

Based on our study, we have concluded that the Unit's Goodwill is not deemed to be impaired, as of December 31, 2015.

The following table displays the Unit's revocable amount compared to the carrying amount (thousands €):

€000	31.12.2015
Recoverable amount	940,838
Carrying amount	401,859
Impairment amount	**–**

Source: BDO analysis.

In forming our opinion we have relied on sources, which appeared to us as reliable, and nothing came to our attention, which is likely to indicate the lack of reasonability of the data we used. We did not examine the data in an independent manner and, therefore, our work does not constitute verification of the correctness, completeness or accuracy of the data.

Details regarding the valuation specialist

BDO Consulting and Management Ltd. were founded by the partners of BDO Certified Public Accountants.

BDO Consulting and Management is part of the international BDO network, provides a full range of business services required for national and international businesses in any sector. Our company has vast experience in the following fields: business valuations, financial and tax due diligence, goodwill and intangible assets valuations, financial analyses, business plans, project finance PFI/PPP advisory, M&A, investment banking and more.

Respectfully submitted,
BDO Ziv Haft
Consulting & Management Ltd.

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Unit Overview

General

In the framework of its Flavours activity, Frutarom develops, produces, markets and sells sweet and savory flavour solutions, including flavouring additives, functional products, natural colors for food, and products also containing, in addition to flavour additives, elements of fruits or vegetables or other natural substances (food systems) used mainly in the manufacture of food and beverages and other consumer products. Frutarom develops thousands of different flavour solutions for its customers, most of them tailor-made to the needs of the specific customer. Frutarom also engages in developing new products and adapting them to changing consumer preferences and to future customer requirements.

Frutarom's Flavours activity expanded rapidly and profitably by combining organic growth and acquisitions. This accelerated growth is the result of focusing on the fast growing field of natural flavours, developing innovative unique solutions combining taste and health for the large multinational market sector, focusing on mid-size and local customers in developed and emerging markets with special focus on private label customers and emphasizing customized service for their particular needs which includes technological and marketing support, assistance in product development support and offering a high level of service and tailor-made solutions as are normally provided to large multi-national customers, and the result of strategic acquisitions which were and are still being successfully integrated with Frutarom's global activities.

From 2006 to 2015, Frutarom made several acquisitions within the flavours sector and with operating activities in Germany, Italy, Norway and the United Kingdom. These acquisitions have significantly increased the market share of the Company and the solutions that the activity offers to producers of meat and fish, snacks. A way that will contribute to the continued growth of activity in developing countries and developed countries in which it operates. These acquisitions have established Frutarom's position as one of the ten largest companies and leading flavour and enhance its presence and position as a worldwide leader in solutions tastes.

Customers

The Flavour's products sold to an extensive customer base comprised of thousands of large multinational, mid-sized, local and small customers. The customers are primarily food and they are located different countries worldwide.

The majority of sales are made to permanent customers. The Flavour's activity is characterized by long-term relationships and customer loyalty. As is customary in the flavour market, there are no long-term supply contracts.

The German activity's main customers are leading food producers in both East and West Europe especially in Germany, Austria, Switzerland, Sweden, Denmark, Russia, Ukraine and Bulgaria. The CH activity's customers are all over Europe while the River's activity customers are mainly in the Scandinavia countries.

The activity of the Italian CH is market to customers located throughout Europe, while Rieber markets its products primarily in Scandinavia.

Unit Overview

Balance Sheet

The following table presents the unaudited (see source below) balance sheet of the Unit as of December 31, 2015 (Thousands €):

€000	31.12.2015
Current Assets	
Cash & cash equivalents	34,266
Customers	83,343
Accounts receivable	13,751
Inventory	92,118
Other receivable	3,470
Total current assets	**226,948**
Long-term assets	
Other long term Debentures	15
Net fixed assets	105,299
Other assets, net	207,525
Deffered taxes	544
Related Parties	47,639
Total long-term assets	**361,022**
Total assets	**587,970**

Source: Management information (unaudited consolidated financial statements for 31 December 2015, based on audited financial statements of the companies comprising the Unit)

€000	31.12.2015
Current liabilities	
Suppliers	33,458
Short-term credit	109,267
Accrued expenses	56,701
Total current liabilities	**199,426**
Long term liabilities	
Other long term Liabilities	437
Bank loans	112,374
Employee Pension liability	19,079
Deferred tax	13,610
Total long term liabilities	**145,500**
Total liabilities	**344,926**
Total shareholder's equity	243,044
Total liabilities and equity	**587,970**

Source: Management information (unaudited consolidated financial statements for 31 December 2015, based on audited financial statements of the companies comprising the Unit)

Unit Overview

Profit & Loss

The following table present the profit and loss statements, of the Unit's activity, in a full year performance, as of December 31, 2013, 2014 and 2015 (Thousands €):

€000	2015
Revenue	423,299
Growth rate	*253%*
Cost of sales	242,065
% of revenue	*57%*
Gross profit	**181,234**
Gross margin	*43%*
S&M	56,909
% of revenue	*13%*
R&D	20,536
% of revenue	*5%*
G&A	29,687
% of revenue	*7%*
Operating profit	**74,101**
Operating margin	*18%*

Source: Management information (unaudited consolidated financial statements for 31 December 2015, based on audited financial statements of the companies comprising the Unit)

Section 2
Market Overview

Market Overview

Flavour and fragrance industry worldwide

The global market for Flavours, fragrances and raw materials in 2014, was estimated at approximately $24.9 billion. Frutarom is not active in the fragrances market, but is active in the market of natural functional food ingredients (excluding the above estimate), and therefore, it believes to sell in the markets where it operates, approximately $18.2 billion. According to Leffingwell & Associates, Frutarom is ranked as one of the ten largest companies in the field of taste and smell.

In 2015, the research company IAL Consultants, estimated that sales in industrialized countries (USA and Western Europe) in the Flavours markets, in which the Company operates, will grow at an annual rate of 2.4%, during the years leading to 2018. Frutarom estimates that sales of raw materials, in those markets, will grow at an annual rate, similar to the years 2015 to 2017. According to these estimates, the growth rate in emerging markets where the Company operates, such as Asia, Central and South America, Eastern Europe and Africa, is expected to be significantly higher due to changes in consumer preferences in these markets.

The manufacturers of the flavour, fragrance and fine ingredient markets can be divided into three main groups: large multinational companies; mid-sized companies; and local and small companies.

Large multinational manufacturers generally operate globally and have revenues in excess of $2.5 billion. In the global flavour and fragrance markets there are five such manufacturers which, according to Leffingwell & Associates, represent approximately

Flavour and fragrance industry worldwide

55% sales in the flavour, fragrance and fine ingredients markets (excluding sales of natural functional food ingredients and pharmaceutical/nutraceutical extracts). These multinational manufacturers focus primarily on customers who are large multinational food and beverage producers.

Local and small companies generally have revenues of less than $400 million (most of them are much smaller and sell only several million dollars). The Company estimates that in the global flavour and fragrance markets, there are approximately 700 such companies that, according to the estimation of Leffingwell & Associates, represent approximately 19% of the value of the flavour, fragrance and fine ingredients market (again excluding sales of natural functional food ingredients and pharmaceutical/nutraceutical extracts). These companies generally focus on smaller local customers and have limited capabilities in the areas of service, research and development and innovation.

Mid-sized companies, such as Frutarom, have revenues between $400 million and $2.5 billion. In the global flavour and fragrance markets there are only eight such mid-sized companies. According to the estimation of Leffingwell & Associates these eight companies represent approximately 25% of the value of the flavour, fragrance and fine ingredients market (excluding sales of natural functional food ingredients and pharmaceutical/nutraceutical extracts). Some of these mid-sized players focus heavily on specific geographic markets (such as the USA, France and Japan).

Market Overview

Flavours market

Flavours are the key building blocks that impart taste in processed food and beverage products and, as such, play a significant role in determining the consumer acceptance of the end products in which they are used.

The research company IAL Consultant, estimates that global 2013 sales of Flavours for the industry amounted to approximately US $11.6 billion. Flavour products are sold primarily to producers of prepared food, beverage, dairy, bakery, meat and fish, confectionery and pharmaceutical products.

The following are examples of end user products using Flavours:

- **Beverages** - carbonated, noncarbonated, sport and functional, alcoholic and juices.
- **Dairy** - yogurt, drinking yogurt, ice cream, cheese and chilled desserts.
- **Bakery** - cakes and cookies, crackers and cereals.
- **Confectionery** - candy, chocolate, jam and chewing gum.
- **Savory and convenience food** - ready meals, instant soup, ready sauces and instant noodles.
- **Snacks** - potato chips and other savory snacks.
- **Meat** - sausages and frankfurters.
- **Processed Fish**.
- **Oral hygiene and pharmaceuticals** - toothpaste, mouthwash, vitamins and medicines.
- **Others** - animal feed and pet food and tobacco**.**

The global market for Flavours has expanded rapidly over the last 60 years, primarily as a result of an increase in demand for, as well as an increase in the variety of, consumer end products containing Flavours. The demand for consumer goods containing flavour products has increased as a result of rapid population growth and consumer preferences resulting from various factors such as increases in personal income, leisure time, health concerns and urbanization. These factors have led to an overall increase in food and beverage products containing Flavours and to rapid growth in demand for convenience food and foods with healthier and more natural content.

Market Overview

Flavours market

The following table sets forth the sales of Flavours by region in 2013 and the projected annual growth rate in these geographic regions:

Country	World consumption in 2013 ($ million)	Average growth is expected in 2013-2018
Western Europe	2,187	2.4%
Eastern Europe	946	3.0%
North America	2,583	2.9%
South America	1,277	3.6%
Asia	3,885	4.8%
Middle East and Africa	727	4.7%
Total	**11,605**	**3.7%**

Flavours market

In 2013, Flavours in Asia accounted for approximately 33.5% of global Flavour sales, with North America in second with 22.3% of the market share.

The demand for Flavour products in developed countries is expected to grow moderately, with more rapid growth expected in emerging markets such as Asia, Central and South America, Eastern Europe and Africa. Sales in these emerging markets are expected to grow as a result of projected growth in GNP in these regions and from changes in consumer preferences.

Frutarom is enhancing its growth in these markets through a number of efforts including a focused strengthening of the research and development, production, marketing and sales infrastructure in the important target countries and exploring options for strategic acquisitions.

Market Overview

Flavours market - Characteristics

The following are the characteristics of the Flavour Market:

- **Reliable with high levels of service** - Food and beverage producers, the principal customers of flavour manufacturers, expect reliable, high-quality service to meet their needs in terms of support and lead time, while maintaining high quality, regulatory and safety standards. These requirements encourage the formation of long-term relationships between flavour producers and their customers. As a result, large multinational customers, and increasingly also mid-sized customers, have pruned the flavour suppliers that they will work with, placing those that remain on "core lists" creating a barrier to entry for small flavour manufacturers.

- **Research and development** - The development of flavour products in general and of new flavour extracts in particular is a complex, creative and technological process that calls for depth of knowledge and skill on the part of a flavour manufacturer's research and development personnel. Effective research and development is critical in ensuring a continuous stream of innovative products and in maintaining the profitability and growth of a flavour manufacturer. The initiative for the development of new flavour products can be spurred by the flavour manufacturer or by the customer who is in need of a specific flavour for use in a newly developed end product. As such, in order to anticipate market demands, a flavour manufacturer's research and development personnel are required to be familiar with the taste requirements of various end product types and target markets. In addition, as most Flavours are tailor made for a specific customer, a close collaborative relationship with the customer is essential. These flavour formulas are treated as commercial secrets and remain the proprietary asset of the flavour manufacturer.

Flavours market - Characteristics

As most flavour products are tailor-made for a customer, customers are less likely to replace suppliers for such flavour products during the course of the end products' life cycle.

- **Low price sensitivity** - Since flavour products play a major role in determining the flavour of the end product to which they contribute, they are a vital element of its success. Flavour products cannot be precisely matched and their cost, compared to the total cost of the end products, is negligible. When selecting a flavour supplier, a customer will generally place a greater emphasis on the reputation, innovation, service, quality and consistency of the supplier than on the price of its Flavours. The demand for Flavours is therefore generally less sensitive to changes in price.

- **Production processes** - Flavour products in general and Flavours in particular typically contain a variety of ingredients (typically over 30 per flavour), which are blended using unique formulas created by a manufacturer's flavour expert. The production processes involved in the manufacture of flavour products are less complex and capital intensive compared to those of fine ingredients. However, the production process for flavour products requires skill and knowhow to achieve the required consistency and quality.

- **High and relatively stable profitability** - As the Flavours market tends to be characterized by long-term relationships and high customer loyalty, combined with relatively low price sensitivity and simple production processes, it generally benefits from high and stable margins. This is true also in comparison to the fine ingredient industry.

Market Overview

Food and Beverage Market - Characteristics

Flavours are sold primarily to food and beverage producers; therefore the flavour market is generally driven by trends characterizing the demands of food and beverage consumers.

According to Data Monitor, global sales in the food and beverage market amounted to 4,784 $ billion in 2013. Frutarom estimates that over 60% of such total global sales are generated by mid-sized, local and small food and beverage producers. Although there has been a general trend towards consolidation in the food and beverage industry, Frutarom estimates that mid-sized (annual revenues of between 100 $ million and 1 $ billion) and local and small (annual revenues of below 100 $ million) food and beverage producers will continue to play a significant role in the market, and that new mid-sized, local and small producers will continue to emerge.

The large multinational flavour manufacturers often focus on large multinational food and beverage producers, offering their customers a high level of service and tailor-made product development. Frutarom believes that these Flavours producers focus to a lesser extent on mid- sized and local customers, offering limited service and offering less customizable product offering to these customers.

Food and Beverage Market - Characteristics

However, the Company believes that mid-sized and local food and beverage producers require the same level of service and tailor-made products as their larger counterparts, and also require short lead times and manufacturing flexibility. Small, localized flavour producers generally do not have the product variety and service capabilities to support the needs of these customers. A specific example of this type of customer is the private label customer. This situation creates a business opportunity for mid-sized flavour producers to service this segment.

Food and Beverage Market - Tendencies

The following are the main trends in the consumer market for food and beverages which in turn drive the flavour market:

- **Local and global tastes** - Taste preferences vary by geographic location and among different cultures. Flavour manufacturers must have thorough knowledge of local tastes in each of the countries in which they are active. It is also important for a global flavour manufacturer to have a physical presence in its key target markets in order to facilitate direct contact with customers, to better understand local tastes and to be able to respond quickly and efficiently to changes in consumer preferences. Additionally, the trend toward globalization now characterizes the flavour industry as multinational food and beverage customers are now launching global brands in many different markets simultaneously, often by changing the taste profile to meet the preferences of the respective populations worldwide.

Market Overview

Food and Beverage Market - Tendencies

- **Preference of natural products** - There has been a general increase in consumer demand for food and beverage products containing natural ingredients and having dietary values (reducing fat, salt, cholesterol, etc.). Natural products are generally perceived by consumers as being of higher quality, healthier and more environmentally friendly. Similarly, there is growing demand for organic products and 'clean label' products. As a result, natural food and beverage products are viewed as specialty, premium products that can command higher prices. This trend has created new opportunities for Flavours manufacturers to develop new and innovative natural flavour products.

  Private label - private label goods manufacturers, which tend to be mid-sized, local or small food manufacturers, are a growing customer segment in the flavour industry. Over the last decade consumers of food products have become increasingly price conscious, increasing sales of private label products in comparison to the branded food and beverage industry. This trend was accelerated in 2009 as a result of the economic crisis. As a result, supermarket chains and other retailers have been increasing their private label product offerings.

Food and Beverage Market - Tendencies

- **Continuously growing consumption of convenience food** - There is an increase in demand for processed foods with greater convenience (consumed both inside and outside of the home). This increase in demand for convenience foods has been spurred by new packaging and cooking technologies as well as changing social habits and consumer preferences. Examples of convenience foods include "ready to eat" meals, fresh pasta; ready-to-cook, fresh seasoned or marinated meat or poultry; salads; and sauces in liquid form. This has created new opportunities for flavour manufacturers in the savory Flavours and functional fine ingredients fields which are responsible for the creation of food texture and its extended shelf life, to develop and market Flavours and unique fine ingredients products for this segment.

- **Emerging markets** - In recent years, certain developing markets, such as Asia, Central and South America, Eastern Europe and Africa have experienced above-market-average growth in demand for Flavours products. Further, these markets have been characterized by a trend towards increased consumption of processed foods, which in turn has driven the emergence of mid-sized, local and small food companies, creating new market opportunities for flavour manufacturers.

Market Overview

Food and beverage market - Critical Success Factors

The critical success factors in the flavour segment are:

- **Long-term relationships** - Long-term relationships with customers and collaboration in the development of new products.
- **Global and local presence in target markets** - Knowledge of the various flavour preferences in the different markets and the ability to provide global and local support to customers.
- **Superior and reliable service** - The ability to provide a high level of service and the reliability of a Flavours manufacturer in giving service are critical for mid-sized, local customers and multinational customers.
- **Presence in emerging markets** - Emerging markets grow at considerably higher rates in comparison to developed markets. Presence in these key areas, along with knowledge and understanding of their unique needs and the ability to provide support to local manufacturers is a critical success factor.
- **Innovation in research and development** - The ability to develop innovative products both at the initiative of the flavour manufacturer and in collaboration with customers is of extreme importance.
- **Compliance with strict quality, regulatory and safety standards** - Since the Flavours are intended principally for the food and beverage and pharmaceutical markets, they must comply with strict quality, regulatory and safety standards.

Flavours Market - Competition

In the flavour market, Frutarom's main competitors consist of large global manufacturers, mid-sized companies and smaller, local manufacturers. Competition is based to a large extent on innovation, product quality, the ability to provide the customer with added value, and establish and maintain long term customer relationships, value added service, reliability and development of products which are tailor made for the customers' needs and the future market directions. As the cost of Flavours accounts for only a small percentage of the total cost of an end product, this market tends to display low price sensitivity. Flavour manufacturers must differentiate themselves by maintaining close collaborative relationships with customers, thorough knowledge and understanding of target markets, innovative abilities, effective research and development and an established reputation for consistent, reliable and effective service, product supply and quality, and the ability to supply product on short notice and with short lead time.

Large multinational flavour manufacturers are established, experienced companies with a global presence and established technical and commercial capabilities, focusing primarily on large multinationals customers. The large multinational Flavours producers with whom Frutarom competes include Givaudan, Firmenich, IFF Inc., Symrise and Takasago.

The midsized Flavours manufacturers with whom Frutarom competes, focus on both large multinational food and beverage producers as well as and mostly on mid-sized and smaller food and beverage producers who tend to operate in smaller geographical regions. Mid-sized flavour manufacturers with whom Frutarom competes include Sensient, Mane, Robertet, Kerry Ingredients, Wild and Dohler.

Market Overview

Competition

The Company estimates that there are approximately 700 small and local flavour manufacturers with more limited research and development capabilities who focus on narrow market segments and local customers. In recent years there has been a trend towards consolidation in the flavour manufacturing industry, resulting in increasing market concentration.

Risks Factors

The risks of the global market of Flavours, fragrances and fine Ingredients refers to macroeconomic risks and to risks related to the Industry.

Risks Factors - Macroeconomic Risks

The following are the main macroeconomic risk factors:

- **The effect of the global economy on the Company's activities** - Due to the nature of its global activity, Frutarom is exposed to fluctuations in the global economy. Economic crisis and recession in important target countries may cause dips in demand for the Company's products (mainly for premium products) and significantly slow down the development and launch of new products by the customers.

Risks Factors - Macroeconomic Risks

- **Stability in emerging markets** - Companies who operates in a number of countries outside of Western Europe and the United States, such as Russia, Turkey, Kazakhstan, Ukraine and China, is generally exposed to the political, economic and legal systems and conditions in these countries which are generally less predictable than in developed countries

- **Currency fluctuations** - The Company has sales, expenses, assets and liabilities denominated in currencies other than the U.S. due to that fact, fluctuations in the exchange rates of these foreign currencies could have an impact on a Company's results of operations.

- **Changes in interest rates** - The Company's sources of banking finance, as needed, for short and long term, are linked to different coins, according to the activity currency of the subsidiary, and bear Libor interest at variable rates in accordance with its policy. Therefore, if interest rates increase, the Company may not be able to refinance its credit agreements, or any other indebtedness, on attractive terms. Increases in interest rates will impact the Company's cash flow.

Market Overview

Risks Factors - Industry Risks

- **Extensive competition -** Companies in the global market of Flavours, fragrances and fine Ingredients face increased competition both from large multinational and mid-sized companies as well as smaller local companies in many of the markets in which they operates. Some of the competitors have greater financial and technological resources, large sales and marketing organizations and great name recognition, and may therefore be better able to adapt to changes and trends in the industry. The global market for Flavours is characterized by close, collaborative relationships between flavour manufacturers and their customers, particularly in the large multinational customer segment.

- **Changes in regulations -** Companies are subject to a variety of health, safety and environmental rules at national, state and local levels in the various countries in which it operates. Generally, there is a trend towards increased regulation in the industry in which the Group operates. This has been a result of increased public sensitivity toward the composition and use of flavour products and from the fact that as a result of their medicinal qualities and claimed health benefits, nutraceutical and functional food products are being increasingly viewed by regulators as having similar characteristics to pharmaceutical products, which may lead their subject to the regulatory framework governing the market for pharmaceutical products.

Risks Factors - Industry Risks

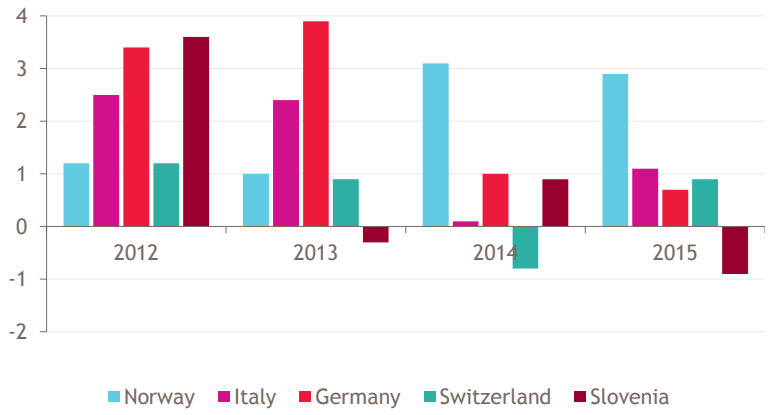
- **Environmental, health and safety regulations** - Companies in the flavour and fine ingredients industry also use, manufacture, sell and distribute a number of environmentally hazardous materials, and therefore are subject to extensive regulation regarding the storage, handling, manufacture, transportation, use and disposal of their products, ingredients and byproducts. Any increase in the stringency of applicable environmental regulations could have a material adverse effect on companies business, results of operations or financial condition.

Fluctuations in prices of raw materials - The last few years were characterized by relatively high fluctuations in the prices of raw materials used by companies in the flavour and fine ingredients industry, to manufacture its products. The global increase in demand for raw materials in general, and raw materials for the food industry, in particular, continues and strengthens in recent years. Source of the increase in demand is mainly in third world countries, which populations rapidly change their consumption habits. In addition, the raw materials market is affected by the food industry, which, in recent years, experiences a decrease in supply, which comes from damage to crops in different countries, arising from extreme and prolonged drought and floods. The phenomenon of decrease in supply is exacerbated by the increasing diversion of crops, such as wheat and soybeans, for corn and other crops which are sugar producers, which are now used to create ethanol and other materials which produce Bio Diesel.

Market Overview

Risks Factors - Industry Risks

Increased demand with supply reduction is usually translated into an increase in commodity prices. The following graph shows the rates of increase in food prices, as presented by the OECD, between the years 2012-2015:



Section 3
Methodology

Methodology

IAS 36 - General

The International Accounting Standard 36 Impairment of Assets (hereinafter "IAS 36") objective is to prescribe the procedures that an entity applies to ensure that its assets are carried at no more than their recoverable amount. An asset is carried at more than its recoverable amount if its carrying amount exceeds the amount to be recovered through use or sale of the asset. If this is the case, the asset is described as impaired and the Standard requires the entity to recognize an impairment loss. The Standard also specifies when an entity should reverse an impairment loss and prescribes disclosures.

This Standard shall be applied in accounting for the impairment of all assets (other than exceptions as they appear in the standard content) or cash generating unit(s) including goodwill acquired from business combination. Goodwill acquired in business combination represents the value of the intangible assets which cannot be separately identified or separately recognized. Goodwill does not generate cash flow independently from other cash-generating unit(s), and often contributes to the cash flows of several cash-generating units. The Standard requires goodwill acquired in a business combination to be tested for impairment as part of impairment testing of the cash-generating unit(s) to which it relates, once a year or when there is a sign of impairment loss.

Definitions

The following terms are used in this Standard with the meanings specified:

Carrying amount is the amount at which an asset is recognized after deducting any accumulated depreciation (amortization) and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are independent of the cash inflows from other assets or groups of assets.

Corporate assets are assets other than goodwill that contribute to the future cash flows of both the cash-generating unit under review and other cash-generating units.

Depreciation (Amortization) is the systematic allocation of the depreciable amount of an asset over its useful life. (In the case of an intangible asset, the term ‘amortization’ is generally used instead of ‘depreciation’. The two terms have the same meaning).

Fair value less costs to sell is the amount obtainable from the sale of an asset or cash-generating unit in an arm’s length transaction between knowledgeable, willing parties, less the costs of disposal.

An impairment loss is the amount by which the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

Methodology

Definitions

a) The period of time over which an asset is expected to be used by the entity; or

b) The number of production or similar units expected to be obtained from the asset by the entity.

Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Determining an Impairment Loss

The Standard defines number of steps for the identification, recognition and measurement of value loss of an asset or cash generating unit. Moving on to the next step is subjected to the fulfillment of the previous step.

Step A – Identifying an asset that may be impaired

An entity shall assess at each reporting date whether there is any indication that an asset may be impaired. In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, the following indications:

External sources of information:

- During the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use.
- Significant changes with an adverse effect on the entity have taken place

Definitions

during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated.

- Market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially.
- The carrying amount of the net assets of the entity is more than its market capitalization.

Internal sources of information:

- Evidence is available of obsolescence or physical damage of an asset.
- Significant changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite.
- Evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.

Methodology

Determining an Impairment Loss

If any indication of value loss exists, the entity shall estimate the recoverable amount of the asset. In case the value of the recoverable amount found is lower than the respective Carrying amount, the entity shall depreciate the value of the asset or the Cash-generating unit accordingly.

The standard requires an intangible asset with an indefinite useful life or not yet available for use and goodwill to be tested for impairment, once a year, regardless to the existence of indication of value loss.

Step B - Deriving the Recoverable amount

The Recoverable amount will be the higher of values between the Fair value less costs to sell and the Value in use.

Step C - Recognizing and Measuring an Impairment Loss

As mentioned in step B, the recoverable amount will be the higher of values between the Fair value less costs to sell and the Value in use. An entity shall depreciate the value of an Asset or a Cash-generating unit if, and only if, the Recoverable amount of the Asset or the Cash-generating unit is lower than its respective Carrying amount.

In order to determine the need for impairment, this study was prepared using Value in use approach.

Applying IAS 36 – Goodwill

IAS 36 – Long Lived Assets

The Long Lived Assets of the Company, according to the Company's assessments following the acquisition, include Savory Unit's Goodwill.

IAS 36 – Goodwill

To perform the impairment examination we have evaluated the value in use of net assets of the Unit, as of December 31, 2015 by using the discounted cash flow (**DCF**) method under the income approach.

Section 4
DCF Approach

DCF Approach

Revenues

The following table presents the Unit's estimated revenues according to our forecast and the actual revenue results for 2015 (thousands €)

€000	2015	2016	2017	2018	2019	2020	Terminal
Revenue	423,299	444,464	464,465	483,043	499,950	514,948	527,822
Growth rate		*5.0%*	*4.5%*	*4.0%*	*3.5%*	*3.0%*	*2.5%*

Source: BDO analysis and Management's projections

The Unit has an extensive customer base throughout EMEA, especially in Italy, Norway, Germany, Russia, Ukraine, Poland, Czech Republic, France, Austria and Switzerland.

During 2015 the Unit's revenue was 423 million Euro.

Revenue Forecast

In order to determine the growth rate of the Unit's activity in 2016, we have conservatively examined Management's projections. Management foresees a growth rate of 5% according to the nature of the business and the projected growth rate for the industry. Management informs us it performed several procedures in order to increase operational efficiency, and is currently looking to establish and maintain increased growth rates.

The Company intends to continue focusing on its sales and marketing efforts, in order to achieve the estimated growth rates. Projected growth rates are based on the natural growth of the activity, particularly in light of mergers and acquisitions completed during the past few years, which are expected to assist future growth trends with increased exposure to new markets and customers.

For the following forecast years, it was assumed that revenue will decrease from 5% in 2016, to a rate of 2.5% in the terminal year, representing the long-term growth rate of the Company.

DCF Approach

Cost of Sales

The following table presents the Unit's estimated cost of sales according to our estimations, and the actual cost of sales results, for 2015 (thousands €):

€000	2015	2016	2017	2018	2019	2020	Terminal
Cost of sales	242,065	251,748	260,811	269,157	276,693	283,334	289,000
% of revenue	*57.2%*	*56.6%*	*56.2%*	*55.7%*	*55.3%*	*55.0%*	*54.8%*

Source: Source: BDO analysis and Management's projections

Cost of sales include: costs of raw materials, salaries, depreciation and amortization and other expenses.

In 2015, the cost of sales amounted to 242 million Euros, representing about 57.2% of the total revenues.

The process performed to increase operational efficiency (described above) includes transfer of production to beneficial areas, organisational restructuring and achieving improved terms of trade with suppliers.

In light of the above, we have projected the total cost of sales in 2016 will decrease to 56.6% of revenue and will decrease to 54.8% in the terminal year. In order to determine the projected cost we have analyzed the fixed and variable elements of the cost of sales structure, including the change in cost as a result of change in expected revenue. It was assumed in the long term cost of sales will increase according to the permanent growth rate.

Gross profit

The following table presents the Unit's estimated gross profit according to our forecast, and the actual gross profit results for 2015 (thousands €):

€000	2015	2016	2017	2018	2019	2020	Terminal
Gross profit	181,234	192,716	203,654	213,887	223,257	231,614	238,822
Gross margin	*42.8%*	*43.4%*	*43.8%*	*44.3%*	*44.7%*	*45.0%*	*45.2%*

Source: BDO analysis and Management's projections

As a result of the assumptions described above, the gross margin in the forecast will increase to approximately 43.4% in 2016 up to about 45.2% in the terminal year.

DCF Approach

Sales and Marketing

The following table presents the Unit's estimated S&M expenses according to our forecast, and the actual S&M expenses results for 2015 (thousands €):

€000	2015	2016	2017	2018	2019	2020	Terminal
S&M	56,909	59,328	61,597	63,692	65,586	67,259	68,688
% of revenue	*13.4%*	*13.3%*	*13.3%*	*13.2%*	*13.1%*	*13.1%*	*13.0%*

Source: BDO analysis and Management's projections

The Unit's S&M expenses consisting mainly of employee wages, advertising, commission's fee, overhead expenses and other expenses.

In 2015, S&M expenses of the Unit totaled around 57 million Euros, representing about 13.4% of total revenues.

In 2016, according to Management's forecast, it was assumed that sales and marketing expenses will be about 59 million Euros and will be about 13.3% of the Unit's revenue. It was assumed in the long term S&M cost will increase according to the permanent growth rate. Accordingly, the average S&M expenses ratio will decrease gradually to 13.0% in the Terminal year.

In order to determine the projected cost we have analyzed the fixed and variable elements of the S&M cost structure, including the change in cost as a result of change in expected revenue.

General and Administrative

The following table presents the Unit's estimated G&A expenses according to our forecast, and the actual G&A expenses results for 2015 (thousands €):

€000	2015	2016	2017	2018	2019	2020	Terminal
G&A	29,687	30,429	31,114	31,736	32,292	32,776	33,186
% of revenue	*7.0%*	*6.8%*	*6.7%*	*6.6%*	*6.5%*	*6.4%*	*6.3%*

Source: BDO analysis and Management's projections

The Unit's G&A expenses consist mainly of relevant employee rent expenses, office expenses, vehicles expenses and other expenses.

In 2015, the G&A expenses were 29.7 million Euros, which reflect a rate of 7.0% of revenues.

In order to determine the projected cost we have analyzed the fixed and variable elements of the G&A cost structure, including the change in cost as a result of change in expected revenue. Based on the Company's budget for 2016 we assume that the G&A costs will amount to approx. 30.4 million Euros in 2016 and will represent approximately 6.8% of revenues.

In the rest of the forecast years it was assumed that the G&A expenses as a percentage of revenue will improve gradually to 6.3% of revenue. It was assumed in the long term G&A cost will increase according to the permanent growth rate.

DCF Approach

Research and Development

The following table presents the Unit's estimated R&D expenses according to our forecast, and the actual R&D expenses results for 2015 (thousands €):

€000	2015	2016	2017	2018	2019	2020	Terminal
R&D	20,536	21,255	21,924	22,538	23,090	23,575	23,988
% of revenue	*4.9%*	*4.8%*	*4.7%*	*4.7%*	*4.6%*	*4.6%*	*4.5%*

Source: BDO analysis and Management's projections

The Unit's R&D expenses consist mainly of relevant employee wages, laboratory expenses, material consumption and other expenses.

In 2015 the R&D expenses were 20.5 million Euros, which reflect a rate of 4.9% out of revenues.

In order to determine the reasonability of the forecasts, we have analyzed the fixed and variable elements of the R&D cost structure, including the change in cost as a result of change in expected revenue. In 2016, it was assumed R&D expense will be 21.2 million Euros, 4.8% of revenues. For the following years we assumed a gradual decrease to 4.5% of revenue.

Operating Profit

The following table presents the Unit's estimated operating profit according to our forecast, and the actual operating profit, for 2015 (thousands €):

€000	2015	2016	2017	2018	2019	2020	Terminal
Operating profit	74,101	81,704	89,018	95,920	102,288	108,004	112,960
Operating margin	*17.5%*	*18.4%*	*19.2%*	*19.9%*	*20.5%*	*21.0%*	*21.4%*

Source: BDO analysis and Management's projections

As a result of the analysis described above, the Units' operating profit for the forecast years will range from 18.4% in 2016, to 21.4% in the terminal year.

DCF Approach

Working Capital

The Unit's working capital forecast was calculated based on the Unit's historical data, as of 2015, and additional information from Management.

Working capital days were estimated to be:

- Trade receivables days - 50 days;
- Other receivables days – 7 days;
- Inventory days - 120 days;
- Trade payables days - 50 days;
- Other payables days - 18 days.

Income Tax

The general requirements of IAS36 require that impairment tests are carried out exclusive of tax effects. Consequently, the discount rate used to estimate the present value of the cash flows should be calculated as a pre-tax discount rate. In order to estimate the pre-tax discount rate, present value was first calculated based on weighted average cost of capital. Then the suitable pre-tax discount rate was calculated according to the present value (see following pages).

In order to calculate the pre-tax discount rate, we used a tax rate of 15.1%, which is the effective tax rate for the Unit (Management information, based on tax rates in countries in which the Unit operates).

DCF Approach

Discount rate (WACC)

When applying the Income Approach, the cash flows expected to be generated by a business are discounted to their present value equivalent using a rate of return that reflects the relative risk of the investment, as well as the time value of money. This return, known as the weighted average cost of capital ("**WACC**") is calculated by weighting the required returns on interest-bearing debt and common equity capital in proportion to their estimated percentages in an expected industry capital structure.

The general formula for calculating the WACC is:

WACC = Kd (D%) + Ke (E%)

Where:

WACC=	Weighted average rate of return on invested capital;
Kd=	After-tax rate of return on debt capital;
D%=	Debt capital as a percentage of the sum of the debt, preferred and common equity capital ("Total Invested Capital");
Ke=	Rate of return on common equity capital; and
E%=	Common equity capital as a percentage of the total invested capital.

Discount rate (WACC)

CAPM has been empirically tested and is widely accepted for the purpose of estimating a company's required return on capital. In applying the CAPM, the rate of return on capital is estimated as the current risk-free rate of return, plus a market risk premium expected over the risk-free rate of return, multiplied by the "**beta**" for the valued company. Beta is defined as a risk measure that reflects the sensitivity of a company's stock (**or capital**) price to the movements of the stock market as a whole.

The CAPM rate of return on capital is calculated using the formula:

Ke **=** Rf + β(Rm * Rf)+ SCP **Where**;

Ke=	Rate of return on capital (in this case, Total Invested Capital);
Rf=	Risk free rate of return; (in this case, the interest taken is index-linked bond yield for the period of 15 years, weighted by revenue geographic distribution);
B=	Beta or systematic risk for this type of capital investment (in this case, the beta taken was for a period of five years, at a weekly section);
Rm–Rf=	Market risk premium; the expected return on a broad portfolio of stocks in the market (Rm) less the risk free rate (Rf);
SCP	Small cap premium – Duff & Phelps valuation edition 2015 yearbook;

DCF Approach

WACC

We based on the Capital Asset Pricing Model (**CAPM**) in calculating the WACC. The following table is the parameters that served for the calculation of the Unit's WACC, for December 31, 2015:

Parameter	Symbol	Value	Source
Unit's Debt	D/(D+E)	9%	Based on comparable companies analysis
Unit's Equity	E/(D+E)	91%	Based on comparable companies analysis
EV	**V**	**100%**	**–**
Cost Of Debt	Kd	2.09%	The Company's Cost of Debt
Tax Rate	T	15.1%	The effective tax rate for long-term
Beta	β	*0.78*	Levered Beta - According to comparable companies
Risk Free Rate	Rf	1.78%	Weighted average 15 year yield government bond (Source: Bloomberg system)
Market Premium	Rm-Rf	8.19%	Weighted average Market Premium - Damodaran
SCP	SCP	4.22%	Duff and Phelps
Cost Of Capital	Ke	12.38%	Rf +β*(Rm-Rf)+SCP+SRP
Weighted average cost of capital	**WACC**	**11.40%**	D*(1-T)*Kd+E*Ke

Source: BDO analysis.

Rate of the ß section taken weekly over five years.

We calculated the value in use of the Unit using a 11.4% discount rate. According to IAS 36, while measuring the recoverable amount, no income tax receipts or payments should be included. Therefore, we should measure a Pre-tax discount rate. According to our estimation the pre-tax discount rate totals to approximately 13.1%.

Terminal growth rate

The terminal growth rate of 2.5% was determined based upon the real economy expected growth rate in the long term.

DCF Approach

The Unit's Cash Flow

The following table shows the Unit's cash flow forecast, for December 31, 2015 and for the forecast years 2016-2020 (thousands €):

€000	2015	2016	2017	2018	2019	2020	Terminal
Revenue	423,299	444,464	464,465	483,043	499,950	514,948	527,822
Growth rate	*252.7%*	*5.0%*	*4.5%*	*4.0%*	*3.5%*	*3.0%*	*2.5%*
Total cost of sales	242,065	251,748	260,811	269,157	276,693	283,334	289,000
% of revenue	*57%*	*57%*	*56%*	*56%*	*55%*	*55%*	*55%*
Gross profit	**181,234**	**192,716**	**203,654**	**213,887**	**223,257**	**231,614**	**238,822**
Gross margin	*43%*	*43%*	*44%*	*44%*	*45%*	*45%*	*45%*
S&M	56,909	59,328	61,597	63,692	65,586	67,259	68,688
% of revenue	*13%*	*13%*	*13%*	*13%*	*13%*	*13%*	*13%*
R&D	20,536	21,255	21,924	22,538	23,090	23,575	23,988
% of revenue	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*
G&A	29,687	30,430	31,114	31,737	32,292	32,776	33,186
% of revenue	*7%*	*7%*	*7%*	*7%*	*6%*	*6%*	*6%*
Operating profit before tax	**74,101**	**81,704**	**89,018**	**95,920**	**102,288**	**108,004**	**112,960**
% of revenue	*18%*	*18%*	*19%*	*20%*	*20%*	*21%*	*21%*
Adjustments							
Change in working capital	–	(545)	(4,231)	(3,921)	(3,562)	(3,154)	(2,704)
Net cash flow from operating activities		**81,159**	**84,788**	**91,999**	**98,727**	**104,850**	**110,256**
DCF		**76,331**	**70,537**	**67,700**	**64,264**	**60,370**	**601,636**

Source: BDO analysis and financial statements

DCF Approach

Value of Activity

The valuation of the Company's business unit, according to the discounted cash flow model, is presented here:

€000	
Present value 2016-2020	339,202
Residual terminal value	601,636
Total value of the activity	**940,838**

Sensitivity analysis

We examined the possible influence of changing the pre-tax discount rate used in this report and the terminal growth rate on the value of the DCF-based Unit value.

The following table shows the predicted results following a change in the discount rate and terminal growth rates:

		Discount rate (before tax)				
		14.1%	13.6%	13.1%	12.6%	12.1%
Long Term Growth rate	1.5%	818,290	852,051	888,756	928,807	972,679
	2.0%	838,458	874,403	913,619	956,574	1,003,827
	2.5%	860,372	898,777	**940,838**	987,104	1,038,236
	3.0%	884,269	925,461	970,765	1,020,831	1,076,446
	3.5%	910,431	954,799	1,003,826	1,058,283	1,119,125

Source: BDO analysis

Section 5

Recoverable Amount versus Carrying Amount Comparison

Recoverable Amount versus Carrying Amount Comparison

Carrying Amount

The following table presents the carrying amount calculation according to Management's information and unaudited consolidated financial statements for 31 December 2015, based on audited financial statements of the companies comprising the Unit (thousands €):

€000	31.12.2015
Inventory	92,118
Other receivable	3,470
Customers	83,343
Accounts receivable	13,751
Net fixed assets	105,299
Deffered taxes	544
Other long term Debentures	15
Software	2,217
Total operational assets	**300,757**
Suppliers	33,458
Accrued expenses	56,701
Other long term Liabilities	437
Deferred tax	13,610
Total operational liabilities	**104,206**
Net assets	**196,551**
Customer relationships and knowledge, net	51,383
Goodwill	153,925
Sub total	**205,308**
Total carrying amount	**401,859**

Source: Management information

If and only if, it is found that the recoverable amount of the asset is less than the book value, then the entity will be required to estimate impairment of the asset being measured and reduce it accordingly.

For finding the carrying amount of the activity, we examined the balance sheet of operations as of December 31, 2015.

Recoverable Amount versus Carrying Amount

To observe potential impairment, the assets recoverable amount was compared to the carrying amount.

The following table summarizes the results of the impairment examination for the Unit, under IAS 36:

€000	31.12.2015
Recoverable amount	940,838
Carrying amount	401,859
Impairment amount	**–**

Source: BDO analysis.

The analysis of the table above shows that the recoverable amount of the Unit is greater than its carrying amount, as of the Valuation Date. Therefore, Frutarom's Flavour EMEA goodwill is not deemed to be impaired.

Frutarom Industries Ltd.

Impairment Study - Flavours Segment America
As Of December, 2015

March 2016

BDO Ziv Haft
Amot Bituach House Building B, 48
Menachem Begin Road, Tel Aviv
66180
Israel

Dear Sirs,

We were requested by Frutarom Industries Ltd. (hereinafter: **"Frutarom"** or the **"Company"**) to perform an Impairment Examination Study (hereinafter: the **"Study"**) of the America Flavours Sector (hereinafter: the "**Sector**" or the "**Unit"**) under the requirements of statement of international accounting standards 36 (**IAS 36**). To the best of our knowledge there is no prevention, legal or other, to perform the Study enclosed herein.

The Study was prepared for Frutarom and its management for the purpose of preparing its financial statements as of December 31, 2015, and may be provided to its external auditors. Unless required by applicable law (for instance, reference to a performance of an impairment test and its implications in the financial statements), it is not to be used or quoted in a prospectus and/or any other document without receiving our prior written consent.

In the course of our annual goodwill impairment test, we relied upon financial and other information, including prospective financial information obtained from the Company's management and from various public, financial and industry sources. Our conclusion is dependent on such information being complete and accurate in all material respects

The principal sources of information used in performing our Annual Goodwill Impairment Test include:

- Management reports about the units activities for 2013-2015:
- A multi-year forecast for the years 2016-2020 of the Unit;
- Financial and operational business, received from Frutarom's management;;
- Frutarom's "Barnea" reports of 2014;
- Other information about the Company's activities in America ;
- Discussions with the management of the Company;
- Public data.

Based on our study, we have concluded that the Unit's Goodwill is not deemed to be impaired, as of December 31, 2015.

The following table displays the Unit's revocable amount compared to the carrying amount (thousands $):

$000	31.12.2015
Recoverable amount	317,771
Carrying amount	202,414
Impairment amount	**–**

Source: BDO analysis.

In forming our opinion we have relied on sources, which appeared to us as reliable, and nothing came to our attention, which is likely to indicate the lack of reasonability of the data we used. We did not examine the data in an independent manner and, therefore, our work does not constitute verification of the correctness, completeness or accuracy of the data.

Details regarding the valuation specialist

BDO Consulting and Management Ltd. were founded by the partners of BDO Certified Public Accountants.

BDO Consulting and Management is part of the international BDO network, provides a full range of business services required for national and international businesses in any sector. Our company has vast experience in the following fields: business valuations, financial and tax due diligence, goodwill and intangible assets valuations, financial analyses, business plans, project finance PFI/PPP advisory, M&A, investment banking and more.

Respectfully submitted,

BDO Ziv Haft

Consulting & Management Ltd.

Contents

Section 1
Unit Overview

Unit Overview

General

In the framework of its Flavours activity, Frutarom develops, produces, markets and sells sweet and savory flavour solutions, including flavouring additives, functional products, natural colors for food, and products also containing, in addition to flavour additives, elements of fruits or vegetables or other natural substances (food systems) used mainly in the manufacture of food and beverages and other consumer products. Frutarom develops thousands of different flavour solutions for its customers, most of them tailor-made to the needs of the specific customer. Frutarom also engages in developing new products and adapting them to changing consumer preferences and to future customer requirements.

Frutarom's Flavours activity expanded rapidly and profitably by combining organic growth and acquisitions. This accelerated growth is the result of focusing on the fast growing field of natural Flavours, developing innovative unique solutions combining taste and health for the large multinational market sector, focusing on mid-size and local customers in developed and emerging markets with special focus on private label customers and emphasizing customized service for their particular needs which includes technological and marketing support, assistance in product development support and offering a high level of service and tailor-made solutions as are normally provided to large multi-national customers, and the result of strategic acquisitions which were and are still being successfully integrated with Frutarom's global activities.

From 2006 to 2015, Frutarom made several acquisitions within the Flavours sector and with operating activities in the US, Brazil, Peru, and Canada.

These acquisitions have significantly increased the market share of the Company and the solutions that the activity offers to producers of meat and fish, snacks. A way that will contribute to the continued growth of activity in developing countries and developed countries in which it operates. Furthermore, These acquisitions have established Frutarom's position as one of the ten largest companies and leading flavour and enhance its presence and position as a worldwide leader in solutions tastes.

Customers

The Flavour's activity's' products sold to an extensive customer base comprised of thousands of large multinational, mid-sized, local and small customers. The customers are primarily food and they are located different countries worldwide.

The majority of sales are made to permanent customers. The Flavour's activity is characterized by long-term relationships and customer loyalty. As is customary in the flavour market, there are no long-term supply contracts.

Products are sold to a wide customer base composed of thousands of customers in America. These customers are spread out in various geographical areas and consist of a wide variety of mid-sized customers, local and small. The main customers are food manufacturers operating in various countries in North and South America. Most of the customers operations, are regular customers, since the business unit is characterized by long-term relationships and customer loyalty.

Unit Overview

Balance Sheet

The following table presents the unaudited (see source below) balance sheet of the Unit as of December 31, 2015 (Thousands $):

$000	31.12.2015
Current Assets	
Cash & cash equivalents	8,697
Accounts receivable	16,695
Other receivable	8,784
Inventory	30,583
Total current assets	**64,759**
Long-term assets	
Net fixed assets	27,878
Other long term Debentures	106
Other assets, net	145,966
Total long-term assets	**173,950**
Total assets	**238,709**

Source: Management information (unaudited consolidated financial statements for 31 December 2015, based on audited financial statements of the companies comprising the Unit)

$000	31.12.2015
Current liabilities	
Short-term credit	27,602
Suppliers	9,311
Related Parties	1,290
Accrued expenses	3,722
Total current liabilities	**41,925**
Long term liabilities	
Long-term credit	18,698
Pension liability	672
Other long term Liabilities	3,972
Long-term loans to related parties	100,535
Deferred tax	13,275
Total long term liabilities	**137,152**
Total liabilities	**179,077**
Total shareholder's equity	59,632
Total liabilities and equity	**238,709**

Source: Management information (unaudited consolidated financial statements for 31 December 2015, based on audited financial statements of the companies comprising the Unit)

Unit Overview

Profit & Loss

The following table present the profit and loss statements, of the Unit, in a full year performance, as of December 31, 2015 (Thousands $):

$000	2015
Revenue	142,962
Growth rate	*103%*
Cost of sales	85,035
% of revenue	*59%*
Gross profit	**57,927**
Gross margin	*41%*
S&M	12,124
% of revenue	*8%*
R&D	7,922
% of revenue	*6%*
G&A	10,145
% of revenue	*7%*
Operating profit	**27,736**
Operating margin	*19%*

Source: Management information (unaudited consolidated financial statements for 31 December 2015, based on audited financial statements of the companies comprising the Unit)

Section 2
Market Overview

Market Overview

Flavour and fragrance industry worldwide

The global market for Flavours, fragrances and raw materials in 2014, was estimated at approximately $24.9 billion. Frutarom is not active in the fragrances market, but is active in the market of natural functional food ingredients (excluding the above estimate), and therefore, it believes to sell in the markets where it operates, approximately $18.2 billion. According to Leffingwell & Associates, Frutarom is ranked as one of the ten largest companies in the field of taste and smell.

In 2015, the research company IAL Consultants, estimated that sales in industrialized countries (USA and Western Europe) in the Flavours markets, in which the Company operates, will grow at an annual rate of 2.4%, during the years leading to 2018. Frutarom estimates that sales of raw materials, in those markets, will grow at an annual rate, similar to the years 2015 to 2017. According to these estimates, the growth rate in emerging markets where the Company operates, such as Asia, Central and South America, Eastern Europe and Africa, is expected to be significantly higher due to changes in consumer preferences in these markets.

The manufacturers of the flavour, fragrance and fine ingredient markets can be divided into three main groups: large multinational companies; mid-sized companies; and local and small companies.

Large multinational manufacturers generally operate globally and have revenues in excess of $2.5 billion. In the global flavour and fragrance markets there are five such manufacturers which, according to Leffingwell & Associates, represent approximately

Flavour and fragrance industry worldwide

55% sales in the flavour, fragrance and fine ingredients markets (excluding sales of natural functional food ingredients and pharmaceutical/nutraceutical extracts). These multinational manufacturers focus primarily on customers who are large multinational food and beverage producers.

Local and small companies generally have revenues of less than $400 million (most of them are much smaller and sell only several million dollars). The Company estimates that in the global flavour and fragrance markets, there are approximately 700 such companies that, according to the estimation of Leffingwell & Associates, represent approximately 19% of the value of the flavour, fragrance and fine ingredients market (again excluding sales of natural functional food ingredients and pharmaceutical/nutraceutical extracts). These companies generally focus on smaller local customers and have limited capabilities in the areas of service, research and development and innovation.

Mid-sized companies, such as Frutarom, have revenues between $400 million and $2.5 billion. In the global flavour and fragrance markets there are only eight such mid-sized companies. According to the estimation of Leffingwell & Associates these eight companies represent approximately 25% of the value of the flavour, fragrance and fine ingredients market (excluding sales of natural functional food ingredients and pharmaceutical/nutraceutical extracts). Some of these mid-sized players focus heavily on specific geographic markets (such as the USA, France and Japan).

Market Overview

Flavours market

Flavours are the key building blocks that impart taste in processed food and beverage products and, as such, play a significant role in determining the consumer acceptance of the end products in which they are used.

The research company IAL Consultant, estimates that global 2013 sales of Flavours for the industry amounted to approximately US $11.6 billion. Flavour products are sold primarily to producers of prepared food, beverage, dairy, bakery, meat and fish, confectionery and pharmaceutical products.

The following are examples of end user products using Flavours:

- **Beverages** - carbonated, noncarbonated, sport and functional, alcoholic and juices.
- **Dairy** - yogurt, drinking yogurt, ice cream, cheese and chilled desserts.
- **Bakery** - cakes and cookies, crackers and cereals.
- **Confectionery** - candy, chocolate, jam and chewing gum.
- **Savory and convenience food** - ready meals, instant soup, ready sauces and instant noodles.
- **Snacks** - potato chips and other savory snacks.
- **Meat** - sausages and frankfurters.
- **Processed Fish**.
- **Oral hygiene and pharmaceuticals** - toothpaste, mouthwash, vitamins and medicines.
- **Others** - animal feed and pet food and tobacco**.**

The global market for Flavours has expanded rapidly over the last 60 years, primarily as a result of an increase in demand for, as well as an increase in the variety of, consumer end products containing Flavours. The demand for consumer goods containing flavour products has increased as a result of rapid population growth and consumer preferences resulting from various factors such as increases in personal income, leisure time, health concerns and urbanization. These factors have led to an overall increase in food and beverage products containing Flavours and to rapid growth in demand for convenience food and foods with healthier and more natural content.

Market Overview

Flavours market

The following table sets forth the sales of Flavours by region in 2013 and the projected annual growth rate in these geographic regions:

Country	World consumption in 2013 ($ million)	Average growth is expected in 2013-2018
Western Europe	2,187	2.4%
Eastern Europe	946	3.0%
North America	2,583	2.9%
South America	1,277	3.6%
Asia	3,885	4.8%
Middle East and Africa	727	4.7%
Total	**11,605**	**3.7%**

Flavours market

In 2013, Flavours in Asia accounted for approximately 33.5% of global Flavour sales, with North America in second with 22.3% of the market share.

The demand for Flavour products in developed countries is expected to grow moderately, with more rapid growth expected in emerging markets such as Asia, Central and South America, Eastern Europe and Africa. Sales in these emerging markets are expected to grow as a result of projected growth in GNP in these regions and from changes in consumer preferences.

Frutarom is enhancing its growth in these markets through a number of efforts including a focused strengthening of the research and development, production, marketing and sales infrastructure in the important target countries and exploring options for strategic acquisitions.

Market Overview

Flavours market - Characteristics

The following are the characteristics of the Flavour Market:

- **Reliable with high levels of service** - Food and beverage producers, the principal customers of flavour manufacturers, expect reliable, high-quality service to meet their needs in terms of support and lead time, while maintaining high quality, regulatory and safety standards. These requirements encourage the formation of long-term relationships between flavour producers and their customers. As a result, large multinational customers, and increasingly also mid-sized customers, have pruned the flavour suppliers that they will work with, placing those that remain on "core lists" creating a barrier to entry for small flavour manufacturers.

- **Research and development** - The development of flavour products in general and of new flavour extracts in particular is a complex, creative and technological process that calls for depth of knowledge and skill on the part of a flavour manufacturer's research and development personnel. Effective research and development is critical in ensuring a continuous stream of innovative products and in maintaining the profitability and growth of a flavour manufacturer. The initiative for the development of new flavour products can be spurred by the flavour manufacturer or by the customer who is in need of a specific flavour for use in a newly developed end product. As such, in order to anticipate market demands, a flavour manufacturer's research and development personnel are required to be familiar with the taste requirements of various end product types and target markets. In addition, as most Flavours are tailor made for a specific customer, a close collaborative relationship with the customer is essential. These flavour formulas are treated as commercial secrets and remain the proprietary asset of the flavour manufacturer.

Flavours market - Characteristics

As most flavour products are tailor-made for a customer, customers are less likely to replace suppliers for such flavour products during the course of the end products' life cycle.

- **Low price sensitivity** - Since flavour products play a major role in determining the flavour of the end product to which they contribute, they are a vital element of its success. Flavour products cannot be precisely matched and their cost, compared to the total cost of the end products, is negligible. When selecting a flavour supplier, a customer will generally place a greater emphasis on the reputation, innovation, service, quality and consistency of the supplier than on the price of its Flavours. The demand for Flavours is therefore generally less sensitive to changes in price.

- **Production processes** - Flavour products in general and Flavours in particular typically contain a variety of ingredients (typically over 30 per flavour), which are blended using unique formulas created by a manufacturer's flavour expert. The production processes involved in the manufacture of flavour products are less complex and capital intensive compared to those of fine ingredients. However, the production process for flavour products requires skill and knowhow to achieve the required consistency and quality.

- **High and relatively stable profitability** - As the Flavours market tends to be characterized by long-term relationships and high customer loyalty, combined with relatively low price sensitivity and simple production processes, it generally benefits from high and stable margins. This is true also in comparison to the fine ingredient industry.

Market Overview

Food and Beverage Market - Characteristics

Flavours are sold primarily to food and beverage producers; therefore the flavour market is generally driven by trends characterizing the demands of food and beverage consumers.

According to Data Monitor, global sales in the food and beverage market amounted to $4,784 billion in 2013. Frutarom estimates that over 60% of such total global sales are generated by mid-sized, local and small food and beverage producers. Although there has been a general trend towards consolidation in the food and beverage industry, Frutarom estimates that mid-sized (annual revenues of between $100 million and $1 billion) and local and small (annual revenues of below 100 $ million) food and beverage producers will continue to play a significant role in the market, and that new mid-sized, local and small producers will continue to emerge.

The large multinational flavour manufacturers often focus on large multinational food and beverage producers, offering their customers a high level of service and tailor-made product development. Frutarom believes that these Flavours producers focus to a lesser extent on mid- sized and local customers, offering limited service and offering less customizable product offering to these customers.

Food and Beverage Market - Characteristics

However, the Company believes that mid-sized and local food and beverage producers require the same level of service and tailor-made products as their larger counterparts, and also require short lead times and manufacturing flexibility. Small, localized flavour producers generally do not have the product variety and service capabilities to support the needs of these customers. A specific example of this type of customer is the private label customer. This situation creates a business opportunity for mid-sized flavour producers to service this segment.

Food and Beverage Market - Tendencies

The following are the main trends in the consumer market for food and beverages which in turn drive the flavour market:

- **Local and global tastes** - Taste preferences vary by geographic location and among different cultures. Flavour manufacturers must have thorough knowledge of local tastes in each of the countries in which they are active. It is also important for a global flavour manufacturer to have a physical presence in its key target markets in order to facilitate direct contact with customers, to better understand local tastes and to be able to respond quickly and efficiently to changes in consumer preferences. Additionally, the trend toward globalization now characterizes the flavour industry as multinational food and beverage customers are now launching global brands in many different markets simultaneously, often by changing the taste profile to meet the preferences of the respective populations worldwide.

Market Overview

Food and Beverage Market - Tendencies

- **Preference of natural products** - There has been a general increase in consumer demand for food and beverage products containing natural ingredients and having dietary values (reducing fat, salt, cholesterol, etc.). Natural products are generally perceived by consumers as being of higher quality, healthier and more environmentally friendly. Similarly, there is growing demand for organic products and 'clean label' products. As a result, natural food and beverage products are viewed as specialty, premium products that can command higher prices. This trend has created new opportunities for Flavours manufacturers to develop new and innovative natural flavour products.

  Private label - private label goods manufacturers, which tend to be mid-sized, local or small food manufacturers, are a growing customer segment in the flavour industry. Over the last decade consumers of food products have become increasingly price conscious, increasing sales of private label products in comparison to the branded food and beverage industry. This trend was accelerated in 2009 as a result of the economic crisis. As a result, supermarket chains and other retailers have been increasing their private label product offerings.

Food and Beverage Market - Tendencies

- **Continuously growing consumption of convenience food** - There is an increase in demand for processed foods with greater convenience (consumed both inside and outside of the home). This increase in demand for convenience foods has been spurred by new packaging and cooking technologies as well as changing social habits and consumer preferences. Examples of convenience foods include "ready to eat" meals, fresh pasta; ready-to-cook, fresh seasoned or marinated meat or poultry; salads; and sauces in liquid form. This has created new opportunities for flavour manufacturers in the savory Flavours and functional fine ingredients fields which are responsible for the creation of food texture and its extended shelf life, to develop and market Flavours and unique fine ingredients products for this segment.

- **Emerging markets** - In recent years, certain developing markets, such as Asia, Central and South America, Eastern Europe and Africa have experienced above-market-average growth in demand for Flavours products. Further, these markets have been characterized by a trend towards increased consumption of processed foods, which in turn has driven the emergence of mid-sized, local and small food companies, creating new market opportunities for flavour manufacturers.

Market Overview

Food and beverage market - Critical Success Factors

The critical success factors in the flavour segment are:

- **Long-term relationships** - Long-term relationships with customers and collaboration in the development of new products.
- **Global and local presence in target markets** - Knowledge of the various flavour preferences in the different markets and the ability to provide global and local support to customers.
- **Superior and reliable service** - The ability to provide a high level of service and the reliability of a Flavours manufacturer in giving service are critical for mid-sized, local customers and multinational customers.
- **Presence in emerging markets** - Emerging markets grow at considerably higher rates in comparison to developed markets. Presence in these key areas, along with knowledge and understanding of their unique needs and the ability to provide support to local manufacturers is a critical success factor.
- **Innovation in research and development** - The ability to develop innovative products both at the initiative of the flavour manufacturer and in collaboration with customers is of extreme importance.
- **Compliance with strict quality, regulatory and safety standards** - Since the Flavours are intended principally for the food and beverage and pharmaceutical markets, they must comply with strict quality, regulatory and safety standards.

Flavours Market - Competition

In the flavour market, Frutarom's main competitors consist of large global manufacturers, mid-sized companies and smaller, local manufacturers. Competition is based to a large extent on innovation, product quality, the ability to provide the customer with added value, and establish and maintain long term customer relationships, value added service, reliability and development of products which are tailor made for the customers' needs and the future market directions. As the cost of Flavours accounts for only a small percentage of the total cost of an end product, this market tends to display low price sensitivity. Flavour manufacturers must differentiate themselves by maintaining close collaborative relationships with customers, thorough knowledge and understanding of target markets, innovative abilities, effective research and development and an established reputation for consistent, reliable and effective service, product supply and quality, and the ability to supply product on short notice and with short lead time.

Large multinational flavour manufacturers are established, experienced companies with a global presence and established technical and commercial capabilities, focusing primarily on large multinationals customers. The large multinational Flavours producers with whom Frutarom competes include Givaudan, Firmenich, IFF Inc., Symrise and Takasago.

The midsized Flavours manufacturers with whom Frutarom competes, focus on both large multinational food and beverage producers as well as and mostly on mid-sized and smaller food and beverage producers who tend to operate in smaller geographical regions. Mid-sized flavour manufacturers with whom Frutarom competes include Sensient, Mane, Robertet, Kerry Ingredients, Wild and Dohler.

Market Overview

Competition

The Company estimates that there are approximately 700 small and local flavour manufacturers with more limited research and development capabilities who focus on narrow market segments and local customers. In recent years there has been a trend towards consolidation in the flavour manufacturing industry, resulting in increasing market concentration.

Risks Factors

The risks of the global market of Flavours, fragrances and fine Ingredients refers to macroeconomic risks and to risks related to the Industry.

Risks Factors - Macroeconomic Risks

The following are the main macroeconomic risk factors:

- **The effect of the global economy on the Company's activities** - Due to the nature of its global activity, Frutarom is exposed to fluctuations in the global economy. Economic crisis and recession in important target countries may cause dips in demand for the Company's products (mainly for premium products) and significantly slow down the development and launch of new products by the customers.

Risks Factors - Macroeconomic Risks

- **Stability in emerging markets** - Companies who operates in a number of countries outside of Western Europe and the United States, such as Russia, Turkey, Kazakhstan, Ukraine and China, is generally exposed to the political, economic and legal systems and conditions in these countries which are generally less predictable than in developed countries

- **Currency fluctuations** - The Company has sales, expenses, assets and liabilities denominated in currencies other than the U.S. due to that fact, fluctuations in the exchange rates of these foreign currencies could have an impact on a Company's results of operations.

- **Changes in interest rates** - The Company's sources of banking finance, as needed, for short and long term, are linked to different coins, according to the activity currency of the subsidiary, and bear Libor interest at variable rates in accordance with its policy. Therefore, if interest rates increase, the Company may not be able to refinance its credit agreements, or any other indebtedness, on attractive terms. Increases in interest rates will impact the Company's cash flow.

Market Overview

Risks Factors - Industry Risks

- **Extensive competition -** Companies in the global market of Flavours, fragrances and fine Ingredients face increased competition both from large multinational and mid-sized companies as well as smaller local companies in many of the markets in which they operates. Some of the competitors have greater financial and technological resources, large sales and marketing organizations and great name recognition, and may therefore be better able to adapt to changes and trends in the industry. The global market for Flavours is characterized by close, collaborative relationships between flavour manufacturers and their customers, particularly in the large multinational customer segment.

- **Changes in regulations -** Companies are subject to a variety of health, safety and environmental rules at national, state and local levels in the various countries in which it operates. Generally, there is a trend towards increased regulation in the industry in which the Fruatrom operates. This has been a result of increased public sensitivity toward the composition and use of flavour products and from the fact that as a result of their medicinal qualities and claimed health benefits, nutraceutical and functional food products are being increasingly viewed by regulators as having similar characteristics to pharmaceutical products, which may lead their subject to the regulatory framework governing the market for pharmaceutical products.

Risks Factors - Industry Risks

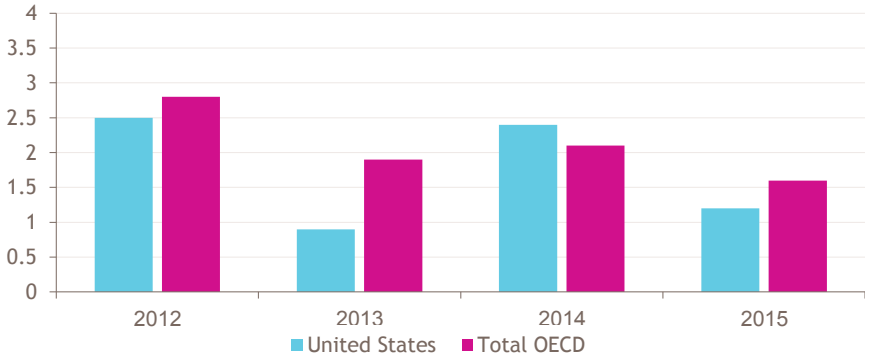
- **Environmental, health and safety regulations** - Companies in the flavour and fine ingredients industry also use, manufacture, sell and distribute a number of environmentally hazardous materials, and therefore are subject to extensive regulation regarding the storage, handling, manufacture, transportation, use and disposal of their products, ingredients and byproducts. Any increase in the stringency of applicable environmental regulations could have a material adverse effect on companies business, results of operations or financial condition.

Fluctuations in prices of raw materials - The last few years were characterized by relatively high fluctuations in the prices of raw materials used by companies in the flavour and fine ingredients industry, to manufacture its products. The global increase in demand for raw materials in general, and raw materials for the food industry, in particular, continues and strengthens in recent years. Source of the increase in demand is mainly in third world countries, which populations rapidly change their consumption habits. In addition, the raw materials market is affected by the food industry, which, in recent years, experiences a decrease in supply, which comes from damage to crops in different countries, arising from extreme and prolonged drought and floods. The phenomenon of decrease in supply is exacerbated by the increasing diversion of crops, such as wheat and soybeans, for corn and other crops which are sugar producers, which are now used to create ethanol and other materials which produce Bio Diesel.

Market Overview

Risks Factors - Industry Risks

Increased demand with supply reduction is usually translated into an increase in commodity prices. The following graph shows the rates of increase in food prices, as presented by the OECD, between the years 2012-2015:



Section 3
Methodology

Methodology

IAS 36 - General

The International Accounting Standard 36 Impairment of Assets (hereinafter "IAS 36") objective is to prescribe the procedures that an entity applies to ensure that its assets are carried at no more than their recoverable amount. An asset is carried at more than its recoverable amount if its carrying amount exceeds the amount to be recovered through use or sale of the asset. If this is the case, the asset is described as impaired and the Standard requires the entity to recognize an impairment loss. The Standard also specifies when an entity should reverse an impairment loss and prescribes disclosures.

This Standard shall be applied in accounting for the impairment of all assets (other than exceptions as they appear in the standard content) or cash generating unit(s) including goodwill acquired from business combination. Goodwill acquired in business combination represents the value of the intangible assets which cannot be separately identified or separately recognized. Goodwill does not generate cash flow independently from other cash-generating unit(s), and often contributes to the cash flows of several cash-generating units. The Standard requires goodwill acquired in a business combination to be tested for impairment as part of impairment testing of the cash-generating unit(s) to which it relates, once a year or when there is a sign of impairment loss.

Definitions

The following terms are used in this Standard with the meanings specified:

Carrying amount is the amount at which an asset is recognized after deducting any accumulated depreciation (amortization) and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are independent of the cash inflows from other assets or groups of assets.

Corporate assets are assets other than goodwill that contribute to the future cash flows of both the cash-generating unit under review and other cash-generating units.

Depreciation (Amortization) is the systematic allocation of the depreciable amount of an asset over its useful life. (In the case of an intangible asset, the term ‘amortization’ is generally used instead of ‘depreciation’. The two terms have the same meaning).

Fair value less costs to sell is the amount obtainable from the sale of an asset or cash-generating unit in an arm’s length transaction between knowledgeable, willing parties, less the costs of disposal.

An impairment loss is the amount by which the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

Methodology

Definitions

a) The period of time over which an asset is expected to be used by the entity; or

b) The number of production or similar units expected to be obtained from the asset by the entity.

Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Determining an Impairment Loss

The Standard defines number of steps for the identification, recognition and measurement of value loss of an asset or cash generating unit. Moving on to the next step is subjected to the fulfillment of the previous step.

Step A – Identifying an asset that may be impaired

An entity shall assess at each reporting date whether there is any indication that an asset may be impaired. In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, the following indications:

External sources of information:

- During the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use.
- Significant changes with an adverse effect on the entity have taken place

Definitions

during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated.

- Market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially.
- The carrying amount of the net assets of the entity is more than its market capitalization.

Internal sources of information:

- Evidence is available of obsolescence or physical damage of an asset.
- Significant changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite.
- Evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.

Methodology

Determining an Impairment Loss

If any indication of value loss exists, the entity shall estimate the recoverable amount of the asset. In case the value of the recoverable amount found is lower than the respective Carrying amount, the entity shall depreciate the value of the asset or the Cash-generating unit accordingly.

The standard requires an intangible asset with an indefinite useful life or not yet available for use and goodwill to be tested for impairment, once a year, regardless to the existence of indication of value loss.

Step B - Deriving the Recoverable amount

The Recoverable amount will be the higher of values between the Fair value less costs to sell and the Value in use.

Step C - Recognizing and Measuring an Impairment Loss

As mentioned in step B, the recoverable amount will be the higher of values between the Fair value less costs to sell and the Value in use. An entity shall depreciate the value of an Asset or a Cash-generating unit if, and only if, the Recoverable amount of the Asset or the Cash-generating unit is lower than its respective Carrying amount.

In order to determine the need for impairment, this study was prepared using Value in use approach.

Applying IAS 36 – Goodwill

IAS 36 – Long Lived Assets

The Long Lived Assets of the Company, according to the Company's assessments following the acquisition, include Savory Unit's Goodwill.

IAS 36 – Goodwill

To perform the impairment examination we have evaluated the value in use of net assets of the Unit, as of December 31, 2015 by using the discounted cash flow (**DCF**) method under the income approach.

Section 4
DCF Approach

DCF Approach

Revenues

The following table presents the Unit's estimated revenues according to the forecast and the actual revenue results for the years 2014 & 2015 (thousands $):

$000	2015	2016	2017	2018	2019	2020	Terminal
Revenue	142,962	150,111	157,616	164,709	172,121	178,145	182,599
Growth rate		*5.0%*	*5.0%*	*4.5%*	*4.5%*	*3.5%*	*2.5%*

Source: BDO analysis and Management's projections

The business unit has an extensive customer base throughout the Americas. The Unit's revenues derive are mainly from sales to customers in USA and Canada and additionally to customers in Peru, Chile, Brazil and others. During 2015 the Unit's revenue was approximately $143 million.

In order to determine the growth rate of the Unit's activity in 2016, we have conservatively examined Management's projections. Management foresees a growth rate of 5% according to the nature of the business and the projected growth rate for the industry.

Revenue Forecast

The Company intends to continue focusing on its sales and marketing efforts, in order to achieve the estimated growth rates. Projected growth rates are based on the natural growth of the activity, particularly in light of mergers and acquisitions completed during the past few years, which are expected to assist future growth trends with increased exposure to new markets and customers.

For the following forecast years, it was assumed that the annual revenue growth rate will decrease from 5% in 2016, to a rate of 2.5% in the terminal year, representing the long-term growth rate of the Unit.

DCF Approach

Cost of Sales

The following table presents the Unit's estimated cost of sales according to our estimations, and the actual cost of sales results, results for the years 2014 & 2015 (thousands $):

$000	2015	2016	2017	2018	2019	2020	Terminal
Cost of sales	85,035	88,437	91,974	95,285	98,716	101,480	103,509
% of revenue	*59.5%*	*58.9%*	*58.4%*	*57.9%*	*57.4%*	*57.0%*	*56.7%*

Source: Source: BDO analysis and Management's projections

Cost of sales include: costs of raw materials, salaries, depreciation and amortization and other expenses. In 2015, the cost of sales amounted to approximately $85 million, representing about 59.5% of the total revenues.

The process performed to increase operational efficiency (described above) includes transfer of production to beneficial areas, organisational restructuring and achieving improved terms of trade with suppliers.

In light of the above, we have projected the total cost of sales as a percent of total revenues in 2016 will decrease to 58.9% of revenue and will reach a level of 58.4% in 2018 and down to 56.7% in the terminal year. In order to determine the projected cost we have analyzed the fixed and variable elements of the cost of sales structure, including the change in cost as a result of change in expected revenue. It was assumed in the long term cost of sales will increase according to the permanent growth rate.

Gross profit

The following table presents the Unit's estimated gross profit according to our forecast, and the actual gross profit results for the years 2014 & 2015 (thousands $):

$000	2015	2016	2017	2018	2019	2020	Terminal
Gross profit	57,927	61,674	65,642	69,424	73,405	76,665	79,089
Gross margin	*40.5%*	*41.1%*	*41.6%*	*42.1%*	*42.6%*	*43.0%*	*43.3%*

Source: BDO analysis and Management's projections

As a result of the assumptions described above, the gross margin in the forecast will increase to approximately 41.1% in 2016 up to about 43.3% in the terminal year.

DCF Approach

Sales and Marketing

The following table presents the Unit's estimated S&M expenses according to our forecast, and the actual S&M expenses results results for the years 2014 & 2015 (thousands $):

$000	2015	2016	2017	2018	2019	2020	Terminal
S&M	12,124	12,549	12,988	13,397	13,819	14,158	14,405
% of revenue	*8.5%*	*8.4%*	*8.2%*	*8.1%*	*8.0%*	*7.9%*	*7.9%*

Source: BDO analysis and Management's projections

The Unit's S&M expenses consisting mainly of employee wages, advertising, commission's fee, overhead expenses and other expenses.

In 2015, S&M expenses of the Unit totaled approximately $12 million, representing about 8.5% of total revenues.

In 2016, according to the management's forecast, it was assumed that sales and marketing expenses will be about $12.5 million and will be about 8.4% of the Unit's revenue. It was assumed in the long term S&M cost will increase according to the permanent growth rate. Accordingly, the average S&M expenses of revenues will decrease gradually to 7.9% in the long term.

In order to determine the projected cost we have analyzed the fixed and variable elements of the S&M cost structure, including the change in cost as a result of change in expected revenue.

General and Administrative

The following table presents the Unit's estimated G&A expenses according to our forecast, and the actual G& expenses results results for the years 2014 & 2015 (thousands $):

$000	2015	2016	2017	2018	2019	2020	Terminal
G&A	10,145	10,399	10,659	10,899	11,144	11,339	11,481
% of revenue	*7.1%*	*6.9%*	*6.8%*	*6.6%*	*6.5%*	*6.4%*	*6.3%*

Source: BDO analysis and Management's projections

The Unit's G&A expenses consist mainly of relevant employee rent expenses, office expenses, vehicles expenses and other expenses.

In 2015, the G&A expenses were approximately $10.1 million, which reflect a rate of 7.1% of revenues.

In 2016, Management expects a decrease in the G&A costs as a percent of revenues, as a result of the fixed component above. Accordingly, it was assumed the decrease trend will continue and G&A expenses will be approximately $10.4 million, representing 6.9% of revenue.

In the forecast years it was assumed G&A expenses as a percentage of revenue will improve gradually to 6.3% of revenue. It was assumed in the long term G&A cost will increase according to the permanent growth rate.

DCF Approach

Research and Development

The following table presents the Unit's estimated R&D expenses according to our forecast, and the actual R&D expenses results for results for the years 2014 & 2015 (thousands $):

$000	2015	2016	2017	2018	2019	2020	Terminal
R&D	7,922	8,258	8,609	8,939	9,281	9,557	9,760
% of revenue	*5.5%*	*5.5%*	*5.5%*	*5.4%*	*5.4%*	*5.4%*	*5.3%*

Source: BDO analysis and Management's projections

The Unit's R&D expenses consist mainly of relevant employee wages, laboratory expenses, material consumption and other expenses.

In 2015 the R&D expenses were approximately $7.9 million, which reflect a rate of 5.5% out of revenues.

In order to check the reasonability of the projections, we have analyzed the fixed and variable elements of the R&D cost structure, including the change in cost as a result of change in expected revenue. In 2016, it was assumed R&D expense will be approximately $8.3 million, 5.5% of revenues. For the following years we assumed a gradual decrease to 5.3% of revenue.

Operating Profit

The following table presents the Unit's estimated operating profit according to our forecast, and the actual operating profit, results for the years 2014 & 2015 (thousands $):

$000	2015	2016	2017	2018	2019	2020	Terminal
Operating profit	27,736	30,468	33,386	36,189	39,162	41,612	43,444
Operating margin	*19.4%*	*20.3%*	*21.2%*	*22.0%*	*22.8%*	*23.4%*	*23.8%*

Source: BDO analysis and Management's projections

As a result of the analysis described above, the Units' operating profit for the forecast years will range from 20.3% in 2016, to 23.8% in the long term.

Fixed Assets and Depreciation

According to the information we received from the Company we assume that the future investments in fixed assets will be equal to the depreciation.

DCF Approach

Working Capital

The Unit's working capital forecast was calculated based on the Unit's historical data, as of 2015, and additional information from management.

Working capital days were estimated to be:

- Trade receivables days - 55 days;
- Inventory days - 130 days;
- Trade payables days - 67 days;
- Other receivables days - 16 days.

Income Tax

The general requirements of IAS36 require that impairment tests are carried out exclusive of tax effects. Consequently, the discount rate used to estimate the present value of the cash flows should be calculated as a pre-tax discount rate. In order to estimate the pre-tax discount rate, present value was first calculated based on weighted average cost of capital. Then the suitable pre-tax discount rate was calculated according to the present value (see following pages).

In order to calculate the post-tax discount rate, we used a tax rate of 34%, which is the effective tax rate for the Unit (management information, based on tax rates in countries in which the Unit operates).

DCF Approach

Discount rate (WACC)

When applying the Income Approach, the cash flows expected to be generated by a business are discounted to their present value equivalent using a rate of return that reflects the relative risk of the investment, as well as the time value of money. This return, known as the weighted average cost of capital ("**WACC**") is calculated by weighting the required returns on interest-bearing debt and common equity capital in proportion to their estimated percentages in an expected industry capital structure.

The general formula for calculating the WACC is:

WACC = Kd (D%) + Ke (E%)

Where:

WACC=	Weighted average rate of return on invested capital;
Kd=	After-tax rate of return on debt capital;
D%=	Debt capital as a percentage of the sum of the debt, preferred and common equity capital ("Total Invested Capital");
Ke=	Rate of return on common equity capital; and
E%=	Common equity capital as a percentage of the total invested capital.

Discount rate (WACC)

CAPM has been empirically tested and is widely accepted for the purpose of estimating a company's required return on capital. In applying the CAPM, the rate of return on capital is estimated as the current risk-free rate of return, plus a market risk premium expected over the risk-free rate of return, multiplied by the "**beta**" for the valued company. Beta is defined as a risk measure that reflects the sensitivity of a company's stock (**or capital**) price to the movements of the stock market as a whole.

The CAPM rate of return on capital is calculated using the formula:

Ke **=** Rf + β(Rm * Rf)+ SCP **Where**;

Ke=	Rate of return on capital (in this case, Total Invested Capital);
Rf=	Risk free rate of return; (in this case, the interest taken is index-linked bond yield for the period of 15 years, US Government indexed linked bonds.
B=	Beta or systematic risk for this type of capital investment (in this case, the beta taken was for a period of five years, at a weekly section);
Rm–Rf=	Market risk premium; the expected return on a broad portfolio of stocks in the market (Rm) less the risk free rate (Rf);
SCP	Small cap premium – Duff & Phelps valuation edition 2015 yearbook;

DCF Approach

WACC

We based on the Capital Asset Pricing Model (**CAPM**) in calculating the WACC. The following table is the parameters that served for the calculation of the Unit's WACC, for December 31, 2015:

Parameter	Symbol	Value	Source
Unit's Debt	D/(D+E)	9%	Based on comparable companies analysis
Unit's Equity	E/(D+E)	91%	Based on comparable companies analysis
EV	**V**	**100%**	**–**
Cost Of Debt	Kd	1.59%	The Company's Cost of Debt
Tax Rate	T	34.4%	The effective tax rate for long-term, US
Beta	β	0.77	Levered Beta - According to comparable companies
Risk Free Rate	Rf	0.86%	The yield on US government bonds index-linked to (Source: Bloomberg system)years 15
Market Premium	Rm-Rf	7.67%	market risk premium of US - Damodaran
SCP	SCP	4.22%	Duff and Phelps
Cost Of Capital	Ke	10.96%	Rf +β*(Rm-Rf)+SCP+SRP
Weighted average cost of capital	**WACC**	**10.08%**	D*(1-T)*Kd+E*Ke

Source: BDO analysis.

Rate of the ß section taken weekly over five years.

The discount rate, as described above, is after taxes, has adapted to reflect a pre-tax discount rate. Therefore, the post-tax discount rate amounts to approximately to 10.08%. Then, we calculated a pre-tax discount rate which is approximately 14.3%.

According to IAS 36, while measuring the recoverable amount, no income tax receipts or payments should be included.

Terminal growth rate

The terminal growth rate of 2.5% was determined based upon the real economy expected growth rate in the long term.

DCF Approach

The Unit's Cash Flow

The following table shows the Unit's cash flow forecast, for December 31, 2014 and 2015 and for the forecast years 2016-2020 (thousands $):

$000	2015	2016	2017	2018	2019	2020	Terminal
Revenue	142,962	150,111	157,616	164,709	172,121	178,145	182,599
Growth rate	*103.4%*	*5.0%*	*5.0%*	*4.5%*	*4.5%*	*3.5%*	*2.5%*
Total cost of sales	85,035	88,437	91,974	95,285	98,716	101,480	103,509
% of revenue	*59%*	*59%*	*58%*	*58%*	*57%*	*57%*	*57%*
Gross profit	**57,927**	**61,674**	**65,642**	**69,424**	**73,405**	**76,665**	**79,089**
Gross margin	*41%*	*41%*	*42%*	*42%*	*43%*	*43%*	*43%*
S&M	12,124	12,549	12,988	13,397	13,819	14,158	14,405
% of revenue	*8%*	*8%*	*8%*	*8%*	*8%*	*8%*	*8%*
R&D	7,922	8,258	8,609	8,939	9,281	9,557	9,760
% of revenue	*6%*	*6%*	*5%*	*5%*	*5%*	*5%*	*5%*
G&A	10,145	10,399	10,659	10,899	11,144	11,339	11,481
% of revenue	*7%*	*7%*	*7%*	*7%*	*6%*	*6%*	*6%*
Operating Profit (before tax)	**27,736**	**30,468**	**33,386**	**36,189**	**39,162**	**41,612**	**43,444**
% of revenue	*19%*	*20%*	*21%*	*22%*	*23%*	*23%*	*24%*
Adjustments							
Change in working capital		(2,705)	(2,077)	(1,957)	(2,040)	(1,654)	(1,221)
Net cash flow from operating activities		**27,763**	**31,309**	**34,232**	**37,122**	**39,958**	**42,223**
DCF		**25,970**	**25,626**	**24,517**	**23,263**	**21,911**	**196,483**

Source: BDO analysis and financial statements

DCF Approach

Value of Activity

The valuation of the Company's business unit, according to the discounted cash flow model, is presented here:

$000	
Present value 2016-2020	121,288
Residual terminal value	196,483
Total value of the activity	**317,771**

Sensitivity analysis

We examined the possible influence of changing the pre-tax discount rate used in this report and the terminal growth rate on the value of the DCF-based Unit value.

The following table shows the predicted results following a change in the discount rate and terminal growth rates:

		Discount rate (before tax)				
		15.3%	14.8%	14.3%	13.8%	13.3%
Long Term Growth Rate	1.5%	280,289	290,925	302,402	314,822	328,307
	2.0%	286,369	297,609	309,774	322,979	337,365
	2.5%	292,924	304,838	**317,771**	331,859	347,262
	3.0%	300,012	312,680	326,477	341,562	358,122
	3.5%	307,702	321,217	335,991	352,209	370,092

Source: BDO analysis

Section 5

Recoverable Amount versus Carrying Amount Comparison

Recoverable Amount versus Carrying Amount Comparison

Carrying Amount

The following table presents the carrying amount calculation according to management's information and unaudited consolidated financial statements for 31 December 2015, based on audited financial statements of the companies comprising the Unit (thousands $):

$000	31.12.2015
Accounts receivable	16,695
Other receivable	8,784
Inventory	30,583
Net Fixed Assets	27,878
Other long term Debentures	106
Software	871
Total operational assets	**84,917**
Accounts payable	9,311
Related Parties	1,290
Accrued expenses	3,722
Deferred tax	13,275
Total operational liabilities	**27,598**
Net assets	**57,319**
Customer relationships and knowledge, net	45,090
Goodwill	100,005
Sub total	**145,095**
Total carrying amount	**202,414**

Source: Management information

If and only if, it is found that the recoverable amount of the asset is less than the book value, then the entity will be required to estimate impairment of the asset being measured and reduce it accordingly.

For finding the carrying amount of the activity, we examined the balance sheet of operations as of December 31, 2015.

Recoverable Amount versus Carrying Amount

To observe potential impairment, the assets recoverable amount was compared to the carrying amount.

The following table summarizes the results of the impairment examination for the Unit, under IAS 36:

$000	31.12.2015
Recoverable amount	317,771
Carrying amount	202,414
Impairment amount	**–**

Source: BDO analysis.

The analysis of the table above shows that the recoverable amount of the Unit is greater than its carrying amount, as of the Valuation Date. Therefore, Frutarom's business unit's goodwill is not deemed to be impaired.