FRUTAROM INDUSTRIES LTD.
DIRECTORS' REPORT OF THE COMPANY'S STATE OF AFFAIRS
FOR THE PERIOD ENDING SEPTEMBER 30, 2013

BOARD OF DIRECTORS' DISCUSSIONS OF 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, pharmaceuticals/nutraceuticals and personal care products. Frutarom operates production facilities in Europe, North America, Latin America, Israel, Asia and Africa, marketing and selling over 31,000 products to more than 15,500 customers in more than 140 countries, and employing 2,600 people throughout the world.

Frutarom operates in two major segments: the Flavors segment and the Specialty Fine Ingredients segment.

- **The Flavors Segment -** Frutarom develops, produces, markets and sells sweet and savory flavor solutions, including flavors and products which in addition to flavors also contain fruit or vegetable ingredients or other natural ingredients ("**food systems**") which are used mainly in the manufacture of foods, beverages and other consumed products. Frutarom develops thousands of different flavors for its customers, most of which are tailor-made and customized for specific customers, and consistently develops new products to meet changing consumer preferences and future customer needs.

  In recent years, Frutarom's Flavors segment has undergone accelerated growth, and in the first nine months of 2013 constituted 74% of Frutarom's total sales (compared to 33% in 2000). This accelerated growth is result of focusing on the fast growing area of natural flavors; developing innovative, unique solutions combining taste and health for the large multi-national market segment; focusing on mid-size and local customers in emerging and developed markets (particularly private labels); emphasizing the provision of customized services, including technological and marketing support and assistance in the development of products; offering high level tailor-made services and products, as are normally provided for large multi-national companies; and Frutarom's strategic acquisitions which have and are being successfully incorporated with Frutarom's global activities.

- **The Specialty Fine Ingredients Segment** - Frutarom develops, produces, markets and sells natural flavor extracts, natural functional food ingredients, natural pharmaceutical/nutraceutical extracts, natural bio-technology algae-based products, aroma chemicals, essential oils, unique citrus products, natural gums and stabilizers. The Specialty Fine Ingredients products are sold primarily to the food, beverage, flavor, fragrance, pharmaceutical/nutraceutical and personal care industries.

  In its Specialty Fine Ingredients activities, Frutarom focuses on a value-added product portfolio, which gives Frutarom a competitive edge over its rivals. Most of the Specialty Fine Ingredients products are natural products which enjoy higher-than-average demand compared to non-natural products. Frutarom acts to expand the natural product portfolio it offers its customers, with particular emphasis on the area of natural, functional and healthy foods.

Rapid growth strategy – profitable organic growth and strategic acquisitions

Frutarom continues to act with determination to implement its rapid profitable growth strategy with focused strengthening of its research and development, manufacturing, marketing and sales infrastructures together with continued examination of additional strategic acquisitions.

- Frutarom focuses on and will continue to invest great resources in accelerating growth and increasing its market share in emerging markets where growth rates are higher. In order to maximize the rapid growth potential and the many business opportunities in North America, Frutarom has been strengthening its R&D, production, marketing and sales infrastructures in important target countries and additional strategic acquisitions.

- **<u>Emerging Markets</u>** – Frutarom's accelerated expansion to target markets with higher growth rates is reflected in the 60% growth rate achieved in 2012, in the emerging markets of China and South East Asia, Central and South America, Central and Eastern Europe and Africa. The sales segment in these strategic markets increased from 27% in 2010 to 36% in 2012. This growth trend in emerging markets has continued over the first nine months of 2013, and is expected to continue throughout the remainder of this year and next year as well. Frutarom's three latest acquisitions this year (JannDeRee in May, PTI and Aroma over the last few weeks) will also contribute to accelerated growth and a significant increase in Frutarom's market sector in emerging markets.

  Frutarom's rapid growth in markets outside of Western Europe has caused Frutarom's sales segment in non- Western European markets, which represented 49% of total sales in 2010, to increase to 58% of total sales in 2012 and to continue growing in 2013. Important countries in Western Europe are reporting signs indicating an easing of the recession and a slow start of growth. If this trend continues, it will contribute to an improvement in the growth trend in sales in the coming year.

- **<u>Combination of Taste and Health</u> -** Frutarom develops innovative tailor-made taste and health solutions. The solutions provided by the Company are in line with the major trends in the global food market and with consumer demand, including combining taste with health, health supplements, anti-aging products and food, targeting specific population and age groups. The added value which Frutarom offers its customers at the unique crossroads of taste gives the Company an important competitive advantage among customers in both developed and emerging markets.

- **<u>Focus on providing quality service and product development for large multi-national customers and medium size local customers</u> –** Frutarom continues to expand the services it provides to its customers, and its product portfolio and solutions for both large multinational customers and mid-size local customers, with a special emphasis on the rapidly growing private label market. Frutarom will continue to focus on unique products for the large multinational food and beverage manufacturing sector, and is constantly expanding its natural food solutions portfolio. For the mid-size and local customers segment, Frutarom offers the same high level of service and products and solutions adapted to specific customer 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 multinational customers, assistance in the development of their products, while providing market support and flexibility regarding minimal quantities and dates of delivery.

- **<u>Acquisitions and mergers, and their contribution to the achievement of profitable growth</u>** - Frutarom has extensive experience with successful implementation of acquisitions and mergers, and acts to integrate the acquired companies and activities into its existing activity, utilizing commercial and operating synergies in order to optimize the many cross-selling opportunities, cost savings and continued improvement of margins.

  After five strategic acquisitions in 2011 and three at the beginning of 2012, all of which were successfully integrated with its global activities and which have contributed to both a growth in sales and improved margins, Frutarom has continued its acquisition strategy this year as well, focusing on expanding its market sector in emerging markets, and in May 2013 acquired the South African JannDeRee and in November acquired the Russian PTI and the Guatemalan Aroma, as detailed below.

- **<u>Acquisition of JannDeRee -</u>** on May 2, 2013 Frutarom acquired 100% of the share capital of the South African flavors company JannDeRee (Pty) Limited ("JannDeRee") for approximately US$ 5 million.

  JannDeRee's turnover in 2012 came to approximately US$ 5 million.

  JannDeRee, founded in 1993, develops, manufactures, and markets flavors with an emphasis on savory flavors and sweet flavor solutions. JannDeRee, which has grown rapidly over the past few years, has a research and development, production and marketing site in Johannesburg, South Africa, and a wide customer base in South Africa and in other important emerging countries in the sub-Sahara region such as Malawi, Zimbabwe and Mozambique. JannDeRee's activities are synergetic with Frutarom's activities in South Africa in the field of flavors, which have grown at rates higher than the rate of market growth over the past few years.

Over the third quarter, Frutarom completed the integration of activities, which included integration of Frutarom's sites in South Africa with JannDeRee's sites, integration of administration, procurement, production and supply infrastructures and unification of R&D, marketing and sales.

For further details regarding the acquisition of JannDeRee, see the Company's immediate report published on May 2, 2013.

- **<u>Acquisition of PTI</u>** – On November 20, 2013, Frutarom completed 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") for a cash payment of US$50.3 million.

  PTI, established in 1996, develops, manufactures and markets unique and innovative savory solutions including flavors, spice mixes and functional raw materials for the food industry (including specialty protein based raw materials it manufactures using advanced technology), with a special emphasis on processed meat and convenience foods. PTI has two production sites near Moscow, and a modern R&D, distribution and sales center in Moscow which includes development and application laboratories and some 25 distribution sites throughout Russia and in other countries in the region.

  PTI's Savory activity sales, which are its core activity, grew at a rate higher than market growth rate over the past few years, reaching US$60 million in 2012. PTI's Flavors activity has operating margin sales similar to Frutarom's Flavors activity, into which it will be integrated.

  In addition, PTI also has trade and marketing activity, in which it supplies raw materials which it does not produce to its customers, as part of the service and comprehensive solutions it offers its customers. The scope of this activity, which will be integrated into Frutarom's trade and marketing activity (not one of Frutarom's core activities) reached US$50 million in 2012, with margin rates similar to those of Frutarom in this same activity.

  In the years ending on December 31, 2011 and December 31, 2012, PTI's sales turnover came to US$105.6 million and US$111.1 million, respectively, and over these years it grew by 8% and 5.2%, respectively. PTI's EBITDA stood at US$8.3 million in 2011 and at US$10.5 million in 2012.

It is Frutarom's intention to take advantage of PTI's marketing and sales infrastructure in Russia and in the Eastern European markets, in which it mainly operates, and its global distribution and sales infrastructure, in order to leverage and realize all the many cross-selling options this acquisition creates, by expansion of the customer base as well as expansion of Frutarom's product portfolio.

For further details see the Company's reports on the matter from November 18 and 20, 2013.

Acquisition of Aroma SA – on November 25, 2013, Frutarom acquired the International Aroma Group, a Panamanian company, holder of the Guatemalan Aroma group ("Aroma"), in return for a net payment of US$12.5 million.

In the years ending December 31, 2011 and December 31, 2012 Aroma's sales turnover stood at US$5.5 million and US$6.3 million, respectively. Aroma sales over these years grew by 28.3% and 14.5%, respectively. Aroma's EBITDA in 2011 stood at US$2.0 million and in 2012, US$2.3 million. The share purchase agreement contains a mechanism for payment of future consideration, under which an additional payment will be made at the rate of the EBITDA achieved above US$2.25 million over the years 2013 to 2015.

Aroma, established in 1990, develops, manufactures and markets flavor solutions, including and mainly sweet flavors for beverages, dairy products, sweets, snack food and convenience foods. Aroma has 57 employees, 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 of the Guatemalan Aroma company is a natural addition following the acquisition of the Brazilian flavor company Mylner, which Frutarom acquired at the beginning of 2012, and to the independent operations which Frutarom has established in Costa Rica, which include a development lab and a marketing and sales infrastructure, which will be integrated with Aroma's operations. It is the Company's estimate that the acquisition will allow Frutarom to strengthen and deepen its presence and market sector in these important markets in Central and South America, while expanding its product portfolio, increasing its research, development, marketing and sales infrastructure while strengthening local production options and improving its customer service in the region in these developing markets.

For further details see the Company's reports on the matter from November 25, 2013.

Increase in Margin and Profit

- **Contribution and integration of acquisitions -** Integration of the eight acquisitions made in 2011-2012 is progressing successfully and according to plan. The acquisitions have already contributed to growth in sales and significantly improved profit and margins. Frutarom continues to realize the many cross-selling opportunities and enhanced technological capacities resulting from these acquisitions, and to actualize the savings resulting from the integration of R&D, sales, marketing, supply chain, operations and purchase infrastructures.

- **Creating and strengthening global purchase -** Frutarom continues to strengthen its global purchase infrastructure, utilizing the significant added purchasing power acquired through its acquisitions, and further expanding its pool of suppliers with an emphasis on increased purchase of the raw materials it uses for the production of its products from their countries of origin (especially natural raw materials). Integration of the R&D infrastructures also contributes to the strengthening of global purchase capacity, utilizing options of harmonization of the raw materials used by Frutarom in the development and manufacture of its products.

- **Streamlining Plans -** Following Frutarom's acquisitions in 2011 and 2012, Frutarom has continued according to plan to integrate production sites and activities and transfer other activities to countries where operating costs are lower, anticipating significant annual savings of US$10 million, which have begun coming to fruition over the second half of 2013 and will be even more evident mainly in 2014. As part of these plans, among other things, one of Frutarom's sites in Northern Germany was closed and its activities integrated into other more efficient sites, realizing planned savings and production streamlining; Flavors activity was transferred from the New Jersey site to Frutarom's modern facility, acquired as part of the FSI acquisition in Cincinnati, where Frutarom now manages its growing Flavors activity in North America was also completed; furthermore, a number of projects for lowering logistic costs are in stages of completion and are expected to bring about a more efficient supply chain and achieve operational savings already in 2014.

Frutarom anticipates that the realization of its rapid profitable growth strategy, continued stabilization of the prices of raw material Frutarom uses in the production of its products, and strengthening the global purchase infrastructure, together with the contribution of continued streamlining process and improvement of costs structure, while at the same time taking optimal advantage of production sites throughout the world and successfully integrating recent acquisitions, will bring about continued improved profits.

Frutarom's capital structure (total assets of US$804.3 million and equity of US$496.3 million as of September 30, 2013, constituting 61.7% of the total assets) and net debt level (total loans after deduction of cash), standing at US$103.1 million as of September 30, 2013, supported by its cash flow and bank backing, will allow Frutarom to continue and realize its rapid growth strategy, as it has over the past few years, through further strategic acquisitions, while strengthening its competitiveness and its 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"

B. FINANCIAL STATUS

The Group's total assets as of September 30, 2013 stand at US$804.3 million compared with US$768.1 million as of September 30, 2012 and US$772.5 million on December 31, 2012.

The Group's current assets as totaled US$331.6 million, compared with US$299.9 million, as of September 30, 2012 and US$301.0 million as of December 31, 2012.

Fixed assets after deduction of cumulative depreciation and other assets net as of September 30, 2013 totaled US$469.2 million, compared with US$464.9 million as of September 30, 2012 and US$468.0 million as of December 31, 2012.

C. RESULTS OF OPERATIONS – Q3 2013

Q3 2013 was a record quarter for Frutarom, in which it achieved third quarter record highs in sales which reached US$161.0 million, in gross profit, operating profit and margin, in EBITDA which reached US$29.4 million a rate of 18.3%, in net profit which reached US$17.0 million, and in earnings per share, all despite challenging market conditions in the economy in general and in Central and Western Europe in particular.

The trend of improvement in gross and operating profit and margins continues. Gross margin increased, reaching 38.8% compared with 37.0% and operating margin of 14.0%, compared with 12.4% during the same quarter last year. Net profit and earnings per share doubled compared with Q3 2011, reaching US$17.0 million and US$0.29, compared with US$8.7 million and US$0.15 in the same quarter in 2011.

Integration and streamlining processes, which as mentioned include integration of production sites and transfer of activities to countries where operating costs are lower, are moving ahead according to plan and successfully.

Sales

Frutarom sales in Q3 2013 grew by 2.5% reaching a Q3 record high of US$161.0 million, compared with US$157.1 million in Q3 2012, Currency effect this quarter contributed 1.6% to growth, as a result of the strengthening of the average exchange rate of the European currencies (other than the British pound) and the Israeli shekel versus the dollar.

Frutarom sales in the Flavor Activity for the quarter increased by 4.6% compared to the same quarter last year, to a Q3 record high of US$119.4 million, constituting 74% of total Frutarom sales. Currency effect contributed 1.4% to growth.

Frutarom sales in Specialty Fine Ingredients totaled US$36.7 million, compared with US$37.2 million in the same quarter last year. Currency effect contributed 1.9%.
Sales in Specialty Fine Ingredients were impacted by a significant drop in price in natural resins, causing a drop of US$2.3 million in sales. Sales net of this drop were higher by 4.7% of sales for the same quarter last year.

Sales breakdown by segments in Q3 in 2003 - 2013 (US$ M and %)

		Q3 2003	Q3 2004	Q3 2005	Q3 2006	Q3 2007	Q3 2008	Q3 2009	Q3 2010	Q3 2011	Q3 2012	Q3 2013
Flavors Activity	**Sales**	21.1	28.1	36.2	47.2	57.6	86.1	77.3	75.4	96.9	114.2	119.4
	(%)	49.8%	54.7%	61.0%	66.3%	65.7%	71.7%	69.3%	67.9%	71.7%	72.7%	74.2%
Specialty Fine Ingredients Activity	**Sales**	20.3	22.1	22.7	23.9	28.1	31.1	33.5	34.6	37.8	37.2	36.7
	(%)	48.0%	43.0%	38.2%	33.6%	32.0%	25.9%	30.1%	31.1%	27.9%	23.7%	22.8%
Trade and Marketing	**Sales**	1.6	1.8	1.6	1.8	3.3	3.8	1.5	1.5	1.3	6.3	7.3
	(%)	3.7%	3.5%	2.8%	2.5%	3.7%	3.2%	1.3%	1.4%	1.0%	4.0%	4.6%
Inter-activity sales	**Sales**	-0.6	-0.6	-1.1	-1.7	-1.3	-1.0	-0.7	-0.5	-0.7	-0.6	-2.4
	(%)	-1.5%	-1.2%	-2.0%	-2.4%	-1.4%	-0.9%	-0.7%	-0.5%	-0.5%	-0.4%	-1.5%
Total Sales		42.4	51.4	59.4	71.3	87.7	120.0	111.6	111.0	135.3	157.1	161.0

The following is a summary of the profit and loss report for Q3 2011 - 2013 (US$ M):

In Q3 2013 Frutarom achieved Q3 record highs in sales, gross profit, operating profit and EBITDA. Record highs were also achieved in net profit and earning per share, which doubled compared with Q3 2011.

	Q3 2011	Q3 2012	Q3 2013	Change (%) 2011 - 2013	Change (%) 2012 - 2013
Sales	135.3	157.1	161.0	19.1%	2.5%
Gross profit	47.7	58.1	62.6	31.2%	7.8%
R&D, Sales, G&A and Other expenses	34.8	38.5	40.0	14.9%	3.7%
Operating profit	12.9	19.5	22.6	75.3%	15.7%
EBITDA	18.6	26.3	29.4	58.6%	12.0%
Financing Expenses	2.6	0.6	1.3	-50.7%	118.6%
Profit before tax	10.3	18.9	21.3	107.6%	12.5%
Net profit	8.7	14.4	17.0	96.4%	18.3%

Gross Profit

Gross profit in Q3 2013 increased by 7.8%, reaching a third quarter high of US$62.6 million compared with US$58.1 million in the same quarter in 2012. Gross margin increased, reaching 38.8%, compared with gross margin of 37.0% in Q3 2012. Gross margin net of Trade & Marketing activity (which is not one of Frutarom's core activities) reached 40.3% compared with 38.1% in Q3 2012.

The actions Frutarom takes to develop new products with higher than average margins and for the improvement of its product mix contributed to the improvement in Frutarom's gross profit. The successful penetration of natural, unique and innovative products in the Specialty Fine Ingredients sector, targeted for the food industry and the pharma/nutra and cosmetics industry in particular contributed to the improvement of the product mix and profitability.

In addition, Frutarom continues to strengthen its global purchase infrastructure, utilizing its added purchase power from its acquisitions and continuously expanding its pool of suppliers with an emphasis on purchase of raw materials used in the manufacture of its products from their countries of origin (especially natural raw materials). The Company acts to continue realizing the opportunities created following its acquisitions in order to achieve optimization and operational efficiency, integrating its production sites, transferring activities to more efficient and competitive plants for more efficient logistics infrastructures and chain of supply, while also reducing costs and improving its logistics infrastructure.

Sales and Marketing, R&D, G&A and Other Expenses

In Q3 2013, sales and marketing, R&D, G&A and other expenses totaled US$40.0 million (24.8% of sales), compared with US$38.5 million (24.5% of sales) in the same quarter last year. Currency effects in this quarter caused an increase of 1.6% (US$620 thousand) in expenses, resulting from the strengthening of the average exchange rate of the European currencies (other than the British pound) and the Israeli shekel versus the dollar.

Operating Profit and EBITDA

Operating profit in Q3 increased by 15.7%, reaching a third quarter high of US$22.6 million (14% of sales), compared with US$19.5 million (12.4% of sales) for the same period last year.

The EBITDA achieved by Frutarom in the third quarter of 2013 increased by 12.0%, achieving a third quarter high of US$29.4 million (18.3% of sales) compared with US$26.3 million during the same quarter last year (16.7% of sales).

The EBITDA net of trade and marketing activities (not one of Frutarom's core activities) in Q3 of 2013 increased by 12.4%, reaching US$29.3 million (19.1% of sales) compared with US$26.1 million during the same period last year (17.3% of sales).

Frutarom has acted and continues to act to achieve optimal efficiency, to improve its cost structure for the establishment of a global purchase infrastructure and strengthen its future competitiveness, while maximally utilizing its sites throughout the world. The successful integration of its acquisitions in 2011 and 2012 and the streamlining actions, which are moving ahead successfully as stated, will contribute to savings in expenses and further improvement in profit, to which the three acquisitions the Company recently made will further contribute.

Financing Expenses / Income

In Q3 2013, financing expenses totaled US$1.3 million (0.8% of sales), compared with US$0.6 million in the same quarter last year (0.4% of sales).

Interest expenses in Q3 2013 totaled US$1.2 million, compared with US$1.7 million during the same period last year.

Reduction in interest expenses derives from a reduction in the Company's current loan status, with the contribution of the achieved cash flow, and from a reduction in interest rates.

In this quarter, financing expenses from exchange differentials came to US$0.1 million (0.1% of sales), compared with US$1.1 million (0.7% of sales) in the same quarter last year. Financing expenses for exchange differentials during Q3 of 2012 derived from the weakening of the dollar, mainly versus European currencies and the Israeli shekel as of September 30, 2012, compared to the exchange rate of the dollar versus those same currencies as of June 30, 2012.

Profit before Tax

In Q3 2013, profit before tax increased by 12.5% and totaled US$21.3 million (13.2% of sales), compared with US$18.9 million (12.0% of sales) in the same quarter last year.

Taxes on Income

In Q3 2013, taxes on income totaled US$4.3 million (20.0% of profit before tax) compared with US$4.5 million (23.9% of profit before tax) in the same quarter last year.

Net Profit

In Q3 2013, net profit rose by 18.3% reaching a third quarter record high of US$17.0 million, compared with US$14.4 million in Q3 2012. Net margin reached 10.6% in Q3 2013 compared with 9.2% in the same quarter last year.

Earnings per Share

In Q3 2013, earnings per share increased by 16.2% reaching a third quarter record of US$0.29, compared with US$0.25 last year.

Summary of the quarterly profit and loss reports for 2011 - 2013 (US$ M):

	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013
Income	121.0	130.6	135.3	131.6	151.2	164.8	157.1	144.9	152.2	168.6	161.0
Gross profit	45.7	48.5	47.7	46.8	54.9	61.8	58.1	51.5	57.2	66.9	62.6
Selling, Marketing, R&D, G&A and Other Expenses	29.0	31.5	34.8	34.6	37.1	40.0	38.5	37.8	38.3	41.9	40.0
Operating profit	16.6	17.0	12.9	12.2	17.8	21.8	19.5	13.7	18.9	24.9	22.6
EBITDA	21.5	22.2	18.6	18.1	25.0	28.5	26.3	20.7	25.8	32.5	29.4
Finance expenses	-0.9	0.8	2.6	3.2	0.9	4.3	20.6	1.4	1.4	2.3	1.3
Profit before tax	17.5	16.2	10.3	8.9	16.9	17.5	18.9	12.3	17.5	22.6	21.3
Net profit	13.1	12.3	8.7	7.9	13.5	13.5	14.4	10.5	14.0	17.6	17.0

Many of Frutarom's products are used by customers who produce beverages and dairy products such as soft drinks, ice cream and yoghurt, for which demand is higher in the summer months. As a result, the Company's activity, and that of the industry in which it operates, are given to seasonal fluctuations, and usually, second and third quarter sales are higher than first quarter sales, and particularly higher than sales during the fourth quarter, which are also affected by end of year holidays and vacations in most target countries.

D. RESULTS OF OPERATIONS IN THE FIRST NINE MONTHS OF 2013

Sales

In the first nine months of 2013, Frutarom's sales increased by 1.8% reaching a first nine month record high of US$481.9 million compared to US$473.1 million in the same period in 2012. Currency effect was negligible.

Frutarom's sales in the Flavors segment increased by approximately 2.8% compared to the first nine months of last year, reaching a first nine month high of US$355.1 million, constituting 73.7% of Frutarom's total sales.

Frutarom's sales in Specialty Fine Ingredients segment increased by 0.5% compared with the first nine months of last year, reaching US$111.8 million.

As mentioned, Fine Ingredients sales were affected by a significant drop in price in natural resins, causing a drop of US$3.2 million in sales. Sales net of this drop were higher by 3.3% of sales for the same quarter last year.

Sales breakdown by segments in the first nine months in 2003 - 2013 (US$ M and %)

		2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Flavors Activity	**Sales**	49.7	70.8	119.6	141.5	169.2	268.6	220.4	228.2	269.8	345.6	355.1
	(%)	48.3%	50.6%	62.5%	65.9%	65.1%	71.7%	69.6%	67.4%	69.7%	73.0%	73.7%
Specialty Fine Ingredients Activity	**Sales**	49.8	65.6	69.8	72.0	86.1	98.9	92.9	108.3	114.1	111.2	111.8
	(%)	48.4%	46.9%	36.5%	33.5%	33.1%	26.4%	29.3%	32.0%	29.5%	23.5%	23.2%
Trade and Marketing	**Sales**	5.1	5.3	5.0	4.7	7.9	10.4	5.7	3.9	5.2	18.0	19.8
	(%)	5.0%	3.8%	2.6%	2.2%	3.1%	2.8%	1.8%	1.1%	1.4%	3.8%	4.1%
Inter-activity sales	**Sales**	-1.7	-1.9	-3.2	-3.5	-3.4	-3.3	-2.3	-1.7	-2.2	-1.7	-4.8
	(%)	-1.7%	-1.4%	-1.6%	-1.6%	-1.3%	-0.9%	-0.7%	-0.5%	-0.6%	-0.4%	-1.0%
Total Sales		102.9	139.8	191.2	214.6	260.0	374.6	316.7	338.7	386.9	473.1	481.9

The following is a summary of the profit and loss report for the first nine months of 2011 - 2013 (US$ M):

In the first nine months of 2013 Frutarom achieved nine months record highs in gross profit, operating profit, EBITDA, net profit and earning per share.

	2011	2012	2013	Change (%) 2011 - 2013	Change (%) 2012 - 2013
Sales	386.9	473.1	481.9	24.6%	1.8%
Gross profit	141.8	174.8	186.6	31.6%	6.8%
R&D, Sales, G&A and Other expenses	95.3	115.6	120.2	26.1%	3.9%
Operating profit	46.5	59.1	66.4	42.8%	12.3%
Operating profit net of one-time expenses	48.1	59.3	68.6	42.7%	15.7%
EBITDA	62.3	79.8	87.7	40.8%	9.9%
EBITDA net of one-time expenses	63.8	79.9	89.3	40.0%	11.7%
Financing Expenses	2.6	5.8	5.0	95.2%	-14.1%
Profit before tax	44.0	53.3	61.4	39.7%	15.2%
Net profit	34.1	41.4	48.7	42.7%	17.4%
Net profit net of one-time expenses	34.2	41.1	50.3	47.0%	22.3%

Gross Profit

Gross profit in the first nine months of 2013 increased by 6.8%, reaching a first nine month high of US$186.6 million compared with US$174.8 million in the same period in 2012. Gross margin increased, reaching 38.7%, compared with gross margin of 36.9% in the first nine months of 2012.
Gross margin, net of Trade & Marketing activity (not one of Frutarom's core activities) reached 40.0%, compared with 37.9% in the first nine months of 2012.

Sales and Marketing, R&D, G&A and Other Expenses

In the first nine months of 2013, sales and marketing, R&D, G&A and other expenses net of one-time expenses (for reorganization) totaled US$118.0 million (24.5% of sales), compared with US$115.5 million (24.4% of sales) in the same period last year.

Sales and marketing, R&D, G&A and other expenses in the first nine months of 2013 (including the one-time expenses) came to US$120.2 million (24.9% of sales) compared with US$115.6 million (24.4% of sales) in the same quarter last year.

Sales and marketing, R&D, G&A and other expenses in the first nine months of 2013 included one-time expenses of US$2.2 million, mostly in light of the closing of one of Frutarom's sites in North Germany and transfer of activities to other more efficient sites, as part of the Company's said streamlining plan.

Over the same period last year, sales and marketing, R&D, G&A and other expenses included one-time expenses for acquisitions in the amount of US$0.2 million

Frutarom has acted and continues to act to achieve optimal efficiency, to improve its cost structure, build a global purchase infrastructure and strengthen its future competitiveness, while maximally utilizing its sites throughout the world and successfully integrating its latest acquisitions.

Operating Profit and EBITDA

Operating profit net of one-time expenses (for reorganization) in the first nine months of 2013 increased by 15.7%, reaching US$68.6 million (14.2% of sales), compared with US$59.3 million (12.5% of sales) last year.

Operating profit in the first nine months of 2013 (including the one-time expenses) increased by 12.3% reaching US$66.4 million (13.8% of sales) compared with US$59.1 million (12.5% of sales) during the same period last year.

The EBITDA net one-time expenses and its trade and marketing activities (not one of Frutarom's core activities) which Frutarom achieved in the first nine months of 2013 increased by 12.3%, reaching US$88.8 million (19.2% of sales), compared with US$79.1 million for the same period last year (17.4% of sales).

Frutarom's EBITDA in the first nine months of 2013 (including said one-time expenses) increased by 9.9%, reaching of US$87.7 million (18.2% of sales) compared with US$79.8 million during the same period last year (16.9% of sales).

Financing Expenses / Income

In the first nine months of 2013, financing expenses totaled US$5.0 million compared with financing expenses of US$5.8 million in the first nine months of 2012.

Interest expenses in the first nine months of 2013 totaled US$3.6 million, compared with US$5.6 million during the same period last year. Reduction in interest expenses derives from a reduction in the Company's current loan status, with the contribution of the achieved cash flow, and from a reduction in interest rates.

In the first nine months of 2013, financing expenses from exchange differentials came to US$1.4 million compared with US$0.3 million expenses in the same period last year.

Profit before Tax

In the first nine months of 2013, profit before tax increased by 15.2% and reached US$61.4 million (12.7% of sales), compared with US$53.3 million in the same period last year (11.3% of sales).

Taxes on Income

In the first nine months of 2013, taxes on income totaled US$12.7 million (20.7% of profit before tax) compared with US$11.9 million in the same period last year (22.3% of profit before tax).

Net Profit

In the first nine months of 2013, net profit rose by 22.3% net of onetime expenses (for reorganization) reaching a record high US$50.3 million, compared with US$41.1million in the first nine months of 2012. Net margin reached 10.4% in the first nine months of 2013, compared with 8.7% in the same period last year.

Net profit for the first nine months of 2013 (including the one-time expenses) increased by 17.4% reaching a record high of US$48.7 million compared with US$41.4 million for the first nine months of 2012. Net margin came to 10.1%, compared with 8.8% in the same period last year.

Earnings per Share

Earnings per share in the first nine months of 2013 net of one-time expenses (for reorganization) increased by 20.8% reaching a record high of US$ 0.86, compared with US$0.71 per share during the same period last year.

Earnings per share in the first nine months of 2013 (including said one-time expenses) increased by 16.0%, reaching a record high of US$0.83, compared with US$0.72 in the same period last year.

E. LIQUIDITY

Frutarom continues to create strong cash flow from its routine operations, allowing it to reduce its debt level and to continue with its strategic acquisitions. Cash flow from operating activities in Q3 2013 reached US$37.3 million, compared with US$22.7 million in Q3 2012. The increase in cash flow derives from an increase in taxes before profit, an improvement in working capital and from income tax returns from tax which had been paid net.

Cash flow from working capital for the first nine months of came to US$58.1 million compared with US$62.6 million during the same period last year.
The increase in cash flow was set off by an increase in working capital needs, mainly inventory, customers and debtor and other creditor net balances.

Frutarom continuously acts to maintain the appropriate optimal working capital level according to expected growth, while taking into account seasonality, availability of the various raw materials and their current and expected future prices.

F. SOURCES OF FINANCING

Sources of Equity

Frutarom's equity as of September 30, 2013 totaled US$496.3 million (61.7% of the balance sheet) compared with US$431.1 million as of September 30, 2012 (56.1% of the balance sheet) and US$445.2 million (57.6% of the balance sheet) as of December 31, 2012.

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

Average long-term credit from banks provided to the Company in Q3 2013 totaled US$97.8 million, compared with US$186.3 million in the same quarter in 2012.

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

The average short-term credit from banks provided to the Company in Q3 2013 came to US$71.58 million, compared with US$12.3 million during the same quarter last year. Over the course of Q2, in light of preferred interest rates, a subsidiary transferred a loan in the amount of US$50 million from non-current liabilities to current liabilities.

Frutarom’s cash balance stood at US$ 61.1 million as at September 30, 2013.

Accounts Payable and Other Payable (Average)

In Q3 2013, the Company had accounts payable and other payables in the amount of US$86.8 million, compared with US$93.0 million in the same quarter last year.

During Q3 2013, the Company granted credit of US$125.0 million to its customers, compared with US$116.0 million in the same quarter last year.

As detailed in this report with respect to the Company's financial status, its liquidity, the positive cash flow it generates from its operating activities and its sources of finance, and assuming no material adverse changes in its sales and/or profitability, the Company estimates that the cash flow it generates from current operations will enable the full repayment of its expected liabilities without the need for external financing sources.

EXPOSURE TO AND MANAGEMENT OF MARKET RISKS

There were no substantial changes in Q3 2013 regarding the Company's exposure to market risks and its management of such, including the impact of the Company's indexation balance compared with the Company's report on this matter in its periodic report for 2012 published by the Company on March 13, 2013. As at September 30, 2013, the Group has long-term loans, net of current maturities, totaling US$67.6 million and short-term debt, including current maturities of long-term loans, of US$96.6 million. The Company has cash balances of US$61.1 million.

G. SENSITIVITY TESTS

The functional currency of the majority of the Group's companies is the local currency in each company’s respective country of residence; therefore, the currency translations of retained balances of these companies do not affect the Company’s profit and loss report 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	**3.891**	**3.714**	**3.537**	**3.360**	**3.183**
	US$ 000				
Cash and cash equivalents	(70)	(35)	702	35	70
Customers	(1,116)	(558)	11,157	558	1,116
Other debtors	(101)	(50)	1,006	50	101
Other long-term creditors	(5)	(3)	53	3	5
	(1,292)	**(646)**	**12,918**	**646**	**1,292**
Credit from banking corporations	1,696	848	16,963	(848)	(1,696)
Suppliers and service providers	484	242	4,841	(242)	(484)
Other creditors	618	309	6,176	(309)	(618)
	2,798	**1,399**	**27,980**	**(1,399)**	**(2,798)**
Total Exposure, net	**1,506**	**753**	**(15,062)**	**(753)**	**(1,506)**

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	**0.682**	**0.651**	**0.620**	**0.589**	**0.558**
				US$ 000		
Cash and cash equivalents		(221)	(111)	2,210	111	221
Customers		(1,410)	(705)	14,102	705	1,410
Other debtors		(106)	(53)	1,057	53	106
		(1,737)	**(869)**	**17,369**	**869**	**1,737**
Credit from banking corporations		1,497	748	14,969	(748)	(1,497)
Suppliers and service providers		649	324	6,485	(324)	(649)
Other creditors		885	442	8,847	(442)	(885)
		3,031	**1,514**	**30,301**	**(1,514)**	**(3,031)**
Total Exposure, net		**1,294**	**645**	**(12,932)**	**(645)**	**(1,294)**

Sensitivity to Changes in the US Dollar-Euro Exchange Rate

		Profit (Loss) from changes		Fair value	Profit (Loss) from changes	
	% of change	+10%	+5%	-	-5%	-10%
	Exchange rate	0.815	0.778	0.741	0.704	0.667
		US$ 000				
Cash and cash equivalents		(2,186)	(1,093)	21,863	1,093	2,186
Customers		(4,689)	(2,345)	46,892	2,345	4,689
Other debtors		(202)	(101)	2,015	101	202
Cash and cash equivalents		(11)	(5)	109	5	11
		(7,088)	**(3,544)**	**70,879**	**3,544**	**7,088**
Credit from banking corporations		4,654	2,327	46,539	(2,327)	(4,654)
Suppliers and service providers		2,120	1,060	21,202	(1,060)	(2,120)
Other creditors		1,444	722	14,436	(722)	(1,444)
		8,218	**4,109**	**82,177**	**(4,109)**	**(8,218)**
Total Exposure, net		**1,130**	**565**	**(11,298)**	**(565)**	**(1,130)**

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	0.996	0.951	0.906	0.860	0.815
			US$ 000		
Cash and cash equivalents	(577)	(288)	5,766	288	577
Customers	(862)	(431)	8,620	431	862
Other debtors	(69)	(34)	687	34	69
	(1,508)	**(753)**	**15,073**	**753**	**1,508**
Credit from banking corporations	3,589	1,795	35,890	(1,795)	(3,589)
Suppliers and service providers	197	99	1,971	(99)	(197)
Other creditors	1,066	533	10,663	(533)	(1,066)
	4,852	**2,427**	**48,524**	**(2,427)**	**(4,852)**
Total Exposure, net	**3,344**	**1,674**	**(33,451)**	**(1,674)**	**(3,344)**

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				
Cash and cash equivalents	(792)	(396)	7,923	396	792
Customers	(1,864)	(932)	18,638	932	1,864
Other debtors	(116)	(58)	1,158	58	116
	(2,772)	**(1,386)**	**27,719**	**1,386**	**2,772**
Credit from banking corporations	182	91	1,823	(91)	(182)
Suppliers and service providers	328	164	3,282	(164)	(328)
Other creditors	425	212	4,246	(212)	(425)
Other long-term creditors	117	58	1,167	(58)	(117)
	1,052	**525**	**10,518**	**(525)**	**(1,052)**
Total Exposure, net	**(1,720)**	**(861)**	**17,201**	**861**	**1,720**

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				
Short-term loans in Chinese Yen	11	6	1,795	(6)	(11)
Total exposure, net	**11**	**6**	**1,795**	**(6)**	**(11)**

H. SUMMARY OF SENSITIVITY TESTS TABLES

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	**3.891**	**3.714**	**3.537**	**3.360**	**3.183**
	US$ 000				
Total Exposure net	**1,506**	**753**	**(15,062)**	**(753)**	**(1,506)**

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	**+10%**	**+5%**	**-**	**-5%**	**-10%**
	US$ 000				
Total Exposure net	**1,294**	**645**	**(12,932)**	**(645)**	**(1,294)**

Sensitivity to Changes in the US Dollar-Euro Exchange Rate

	Profit (Loss) from changes		Fair value	Profit (Loss) from changes	
% of change	**+10%**	**+5%**	**-**	**-5%**	**-10%**
Exchange rate	**0.815**	**0.778**	**0.741**	**0.704**	**0.667**
	US$ 000				
Total Exposure net	**1,130**	**565**	**(11,298)**	**(565)**	**(1,130)**

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	**0.996**	**0.951**	**0.906**	**0.860**	**0.815**
	US$ 000				
Total exposure, net	**3,344**	**1,674**	**(33,451)**	**(1,674)**	**(3,344)**

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	**(1,750)**	**(876)**	**17,499**	**876**	**1,750**

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	**11**	**6**	**1,795**	**(6)**	**(11)**

CORPORATE GOVERNANCE ASPECTS

Approval Process of the Financial Statements

The Company's financial statements are submitted for approval to the Board of Directors, the body responsible for the Company's governance, a few days after the Board of Directors' committee for the review of the financial statements (the **"Balance Sheet Committee**") discusses the financial statements and forms its recommendations to the Board of Directors in accordance with the Companies Regulations (Instructions and Terms for the Approval Procedure of the Financial Statements), 2010 ("**Statements Approval Regulations**").

Members of the Company's Board of Directors

The Company's Board of Directors is comprised of seven members, five of whom are directors with accounting and financial expertise as detailed below. For further details regarding the Company's directors see regulation 26 to Chapter D of the Company's periodic report for 2012, published on March 13, 2013 ("**Annual Periodic Report for 2012"**).

Balance Sheet Committee and Members

The members of the Balance Sheet Committee are the members of the Audit Committee – Yacov Elinav, External Director and chairman of the committee, Isaac Angel, External Director, and Gil Leidner, Director. The Balance Sheet Committee members have financial and accounting expertise and the capacity to read and understand financial statements, and have provided the Company with a written declaration in this regard. Mr. Yacov Elinav and Mr. Isaac Angel are independent directors by virtue of their being external directors. Mr. Gil Leidner is an independent director in accordance with the determination of the Company's Audit Committee of May 19, 2011, and the determinations of the Board of Directors on August 17, 2011. For details regarding the skills, education and experience of the members of the Balance Sheet Committee, based on which the Company refers to them as directors with financial and accounting expertise, see regulation 26 in Chapter D of Company's periodic report for 2012.

Balance Sheet Committee Processes for Forming Recommendation to the Board of Directors

The Company's financial statements were discussed at the meeting of the Balance Sheet Committee held on November 24, 2013. The members of the committee were sent the Company's financial statements of September 30, 2013 two business days prior to the meeting for their perusal. The three members of the Balance Sheet Committee participated in the discussion, and in addition the Company's independent auditors, Mr. Ori Yehudai, the Company's President and CEO, Mr. Alon Granot, the Executive Vice President and CFO, Mr. Guy Gill, the Vice President of Finance, and Ms. Karin Ben Ari, a legal counsel in the Company, attended the meeting. At the meeting, presentations were given by the Company and by the auditors. The Balance Sheet Committee discussed, among other things, the estimates and evaluations included in the financial statements, the internal control on financial reporting, the completeness and fairness of the disclosure in the financial statements, the accounting policy adopted and the financial practice implemented with regard to the material matters of the Group, and the valuations, including the assumptions and estimations on which the data in the financial statements is based. Within the discussion, the Balance Sheet Committee formed its recommendations to the Board of Directors in accordance with the Statements Approval Regulations. The recommendations of the committee were delivered to the Company's Board of Directors two business days prior to the Board meeting at which the financial statements were discussed, which in the opinion of the Board of Directors and in accordance with its resolution was a reasonable time period in light of the scope and complexity of the recommendations.

Approval Procedure of the Reports by the Board of Directors

The members of the Board of Directors receive the draft of the financial statements several days prior to the date of the Board meeting at which the statements are submitted for their approval. The Company's independent auditors and members of the Company's senior management are invited to attend the meeting at which the Company’s financial statements are presented for approval, including Mr. Ori Yehudai, the President and CEO, Mr. Alon Granot, Executive Vice President and CFO, Mr. Amos Anatot, Executive Vice President Global Supply Chain and Operations, Mr. Guy Gill - Vice President of Finance, 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 that meeting. During the meeting, the Board of Directors discusses the recommendations of the Balance Sheet Committee regarding the financial statements, and the President and CEO and Executive Vice President and CFO presents the Group's business and financial results for the relevant period in comparison with previous periods, emphasizing special events that occurred during the period, to the Board of Directors. During the presentation of the results of the Group, the Company's management members answer questions and relate to the Directors' comments. Following presentation of the Company's financial results, the Company's independent auditors answer the Directors’ questions. Finally, the Board of Directors votes on approval of the financial statements. All of the members of the Board of Directors were present at the Board meeting held on November 26, 2013, where the financial statements of September 30, 2013 were unanimously approved.

DISCLOSURE RELATING TO THE CORPORATE FINANCIAL REPORTING

- On August 5, 2013 the Company's Board of Directors approved a compensation policy for the Company, after the policy had also been approved by the Compensation Committee on August 4, 2013. The compensation policy will be brought before the General Meeting for approval. For further details see the Call for General Meeting which the Company published on August 6, 2013 and the immediate report on Deferral of the General Meeting (hereinafter: the **"Company's Report on Call for Meeting"**).
- On August 5, 2013 following the approval of the Compensation Committee on August 4, 2013, the Company's Board of Directors approved the purchase of liability insurance policies for directors and office holders who are not controlling members of relatives of such, for a period of three years, or until the annual General Meeting held in 2016, the later of the two options. The amount of coverage will not exceed US$80 million and the annual premium to be paid for said policy will not exceed US$200,000 (remaining the same as the currently approved premium). The conditions of all policies purchased will be the customary conditions in the market with regard to the Company, the nature of its activities and exposure. Purchase of the insurance policies is to be brought before the Company's General Meeting for approval. For further details see the Company's Reports on Call for Meeting.

A. <u>DISTRIBUTION OF DIVIDEND IN 2013</u>

On March 12, 2013 the Company's Board of Directors resolved on the distribution of a dividend in the amount of NIS 0.24 per share (total: US$3,892 thousand). The dividend was paid out on May 5, 2013.

B. EVENTS AFTER THE DATE OF CLOSING THE REPORT ON THE FINANCIAL STATUS

- On October 1, 2013 the Company granted option warrants to employees and office holders. For further details, see the Company's outline and the immediate report dated September 4, 2013 and October 1, 2013.

- On November 20, 2013, Frutarom completed 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 return for a payment of US$50.3 million. For further details see the Company's reports on the matter from November 18 and 20, 2013.

- On November 25, 2013, Frutarom completed the acquisition of the International Aroma Group, a Panamanian flavor company, holder of the Guatemalan Aroma group ("Aroma"), in return for a net cash payment of US$12.5 million (US$13 million, with a deduction of Aroma's cash balance and cash equivalents in the amount of US$0.5 million). For further details see the Company's report on the matter from November 25, 2013.

C. CRITICAL ACCOUNTING ESTIMATIONS

There were no material changes in the Company’s critical accounting estimations during the period of the report compared with the estimation presented in the periodic report for 2012.

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 two meetings during Q3 2013.

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

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

November 26, 2013