FRUTAROM INDUSTRIES LTD.
DIRECTORS' REPORT OF THE COMPANY'S STATE OF AFFAIRS
FOR THE PERIOD ENDING MARCH 31, 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 30,000 products to more than 14,000 customers in more than 140 countries, and employing 2,020 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 and 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 2012 constituted 74% of Frutarom's total sales (compared to 33% in 2000). This accelerated growth is the result of the focus on the fast growing area of natural flavors, from development of innovation-based unique solutions combining taste and health for the large multi-national market segment, a focus on mid-size and local customers in emerging and developed markets (focusing in particular on private labels), emphasizing the provision of customized services, 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 multi-national companies and the result of 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, 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 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 development, manufacturing, marketing and sales infrastructures together with continued examination of additional strategic acquisitions.

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

- **Emerging Markets** – Frutarom's accelerated expansion to target markets with higher growth rates is reflected in the 60% growth 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 Q12013, and is expected to continue throughout this year and next year.

- **North America** – Frutarom continues to invest in further rapid growth of the Flavors' activities in the United States, the largest market in the world for flavors, which grew by 43% in 2012. In Q1 of 2013 accelerated internal growth in the American market continued, and is expected to continue throughout this year and next year.

  Frutarom's rapid growth in markets outside of Western Europe has caused Frutarom's sales segment in Western European markets, which represented 51% of total sales in 2010, to become 42% of total sales in 2012.

- **Combination of Taste and Health -** 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 and, gives the Company an important competitive advantage among customers in both developed and emerging markets.

- **Focus on providing quality service and product development for large multi-national customers and for medium size local customers –** Frutarom continues to expand the services it provides to its customers, and its product portfolio and solutions for both large multi-national 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 labels 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.

- **Acquisitions and Mergers, and their contribution to the achievement of profitable growth** - 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 operational synergies in order to optimize the many cross-selling opportunities, cost savings and continued improvement of margins.

After seven acquisitions in 2007 and three in 2009, 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 and made five additional strategic acquisitions in 2011 and three at the beginning of 2012.
In May 2013, Frutarom acquired JannDeRee, as detailed below.

Acquisition of JannDeRee

On May 2, 2013 Frutarom signed an agreement for the acquisition of 100% of the share capital of the South African flavors company JannDeRee (Pty) ("JannDeRee") for approximately US$ 5.2 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, located adjacent to Frutarom South Africa's site, 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.

Frutarom's will take action to integrate activities, including integration of R&D, marketing and sales, purchase, production and supply infrastructures. JannDeRee's management, headed by its its Managing Director, will become part of Frutarom's existing management in South Africa, and they will act jointly for the acceleration of Frutarom's activities in the region.

For further details regarding the acquisition of JannDeRee, see the Company's immediate report published on May 2, 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 as well as to significantly improving profit. 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, 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 recent acquisitions, and further expanding its pool of suppliers with an emphasis on increased purchase of the raw materials it uses from their countries of origin (especially natural raw materials). Integration of the Company's R&D infrastructures also contributes to the strengthening of global purchase and to the possibility of harmonization of the raw materials used by Frutarom in the development and manufacture of its products.

- **Streamlining –** Following the acquisitions, Frutarom has continued according to plan to integrate production sites and activities, and transferring other activities to countries where operating costs are lower, anticipating further significant yearly savings of US$10 million, which will come to fruition already in the second half of 2013 and mainly in 2014.

Realizing Frutarom’s rapid 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 of recent acquisitions, will bring about improved future margins.

It is Frutarom's estimate that its capital structure (total assets of US$762.1 million and equity of US$446.2 million as of March 31, 2013, constituting 58.6% of the total assets) and net debt level (total loans after deduction of cash), which stands at US$129.7 million as of March 31, 2013, supported by the cash flow it achieves and together with bank backing, will allow Frutarom to continue and realize its growth strategy, as it has done over the past few years, including by 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 March 31, 2013 were US$762.1 million compared with US$788.1 million as of March 31, 2012 and US$772.4 million on December 31, 2012.

The Group's current assets as of March 31, 2013 totaled US$307.2 million, compared with US$305.8 million, as of March 31, 2012 and US$300.9 million as of December 31, 2012.

Fixed assets after deduction of cumulative depreciation and other assets net as of March 31, 2013 totaled US$451.2 million, compared with US$479.1 million as of March 31, 2012 and US$468.0 million as of December 31, 2012.

The reduction in the total assets was mainly due to translation differences of values of assets in subsidiaries having operational currency other than the dollar (in light of the weakening of exchange rates of European currencies other than the NIS against the US dollar, as of March 31, 2013 compared with December 31, 2012).

C. RESULTS OF OPERATIONS - Q1 2013

Q1 2013 was a record quarter for Frutarom, in which it achieved record highs in sales, gross profits, operational profit, EBITDA, net profit and earnings per share, despite challenging market conditions in the global economy in general and in Western Europe in particular.

Sales

Frutarom sales in Q1 2013 grew by 0.6% reaching a Q1 record high of US$152.2 million, compared with US$151.2 million in Q1 2012. Currency effect was negligible.

Flavor Activity sales for the quarter increased by 1.5% compared the same quarter last year, to a record high of US$110.6 million, constituting 73% of total Frutarom sales.

Frutarom's sales in Specialty Fine Ingredients increased by 0.1% compared with the same quarter last year, reaching US$37.5 million.

Frutarom’s sales in trade and marketing (not a core activity of Frutarom) decreased by 1.7% compared with Q1 2012, reaching US$5.3 million.

Sales breakdown by segments in Q1 in 2003 - 2013 (US$ M and %)

		Q1 2003	Q1 2004	Q1 2005	Q1 2006	Q1 2007	Q1 2008	Q1 2009	Q1 2010	Q1 2011	Q1 2012	Q1 2013
Flavor Segment	Sales	12.7	20.3	40.3	44.7	49.9	84.4	67.4	75.4	80.2	109.0	110.6
	%	45.0%	46.2%	62.3%	63.0%	62.0%	69.2%	68.5%	66.5%	66.3%	72.1%	72.7%
Fine Ingredient Segment	Sales	14.2	22.5	23.4	25.5	29.1	35.3	29.6	37.6	39.1	37.5	37.5
	%	50.4%	51.3%	36.2%	35.9%	36.2%	28.9%	30.1%	33.1%	32.3%	24.8%	24.7%
Trade & Marketing	Sales	1.8	1.7	1.8	1.4	2.6	3.6	2.2	1.2	2.4	5.4	5.3
	%	6.4%	3.9%	2.8%	2.0%	3.2%	3.0%	2.2%	1.1%	2.0%	3.6%	3.5%
Inter sales Segments	Sales	-0.5	-0.6	-0.8	-0.6	-1.1	-1.3	-0.7	-0.8	-0.7	-0.6	-1.2
	%	-1.8%	-1.4%	-1.2%	-0.9%	-1.4%	-1.1%	-0.8%	-0.7%	-0.6%	-0.4%	-0.8%
Total Sales		28.2	43.9	64.7	71.0	80.5	122.0	98.4	113.5	121.0	151.2	152.2

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

In Q1 2013 Frutarom achieved record highs in sales, gross profits, operational profit, EBITDA and net profit.

	Q1 2012	Q1 2013	Change (%) 2012 - 2013
Sales	151.2	152.2	0.6%
Gross profit	54.9	57.2	4.1%
R&D, Sales, G&A and Other expenses	37.1	38.3	3.2%
Operating profit	17.8	18.9	6.0%
Operating profit net of onetime expenses	17.6	19.0	8%
EBITDA	25.0	25.8	3.2%
EBITDA net of onetime expenses	24.7	25.9	4.7%
Financing Expenses	0.9	1.4	55.5%
Profit before tax	16.9	17.5	3.4%
Net profit	13.5	14.0	3.8%

Gross Profit

Gross profit in Q1 2013 increased by 4.1%, reaching US$57.2 million compared with US$54.9 million in the same quarter in 2012. Gross margin increased, reaching 37.6%, compared with gross margin of 36.3% in Q1 2012. Gross margin net of the trade & marketing activity, not one of Frutarom's core activities, reached 38.4% compared with 37.2% in Q1 2012.

The main effect of the actions which Frutarom has taken to utilize its operational synergies resulting from recent acquisitions and to maximize potential for reducing raw material costs is not yet seen in its results. Frutarom continues to strengthen its global purchase infrastructure, utilizing its added purchase power from its recent acquisitions and continuously expanding its pool of suppliers and with an emphasis on purchase of raw materials used in the manufacture of its products from their countries of origin (especially natural raw materials).

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

In Q1 2013, sales and marketing, R&D, G&A and other expenses totaled US$38.3 million (25.2% of sales), compared with US$37.1 million (24.5% of sales) last year.

Sales and marketing expenses, R&D, G&A and other expenses included onetime expenses of US$0.1 million.

Over the same period last year, sales and marketing, R&D, G&A and other expenses included onetime income came to US$0.2 million.

Sales and marketing, R&D, G&A and other expenses net of one-time expenses in Q1 2013 came to US$38.2 million (25.1% of sales) compared with US$37.3 million (24.7% of sales) last year.

Frutarom has acted and continues to act to achieve optimal efficiency, to improve its cost structure and strengthen its future competitiveness, while maximally utilizing its sites throughout the world and the successful integration of its latest acquisitions.

Operating Profit and EBITDA

In Q1 2013, operating profit increased by 6.0%, reaching US$18.9 million (12.4% of sales), compared with US$17.8 million last year (11.8% of sales).

Operational profit net of onetime expenses (for reorganization and acquisitions) in Q1 2013 increased by 8%, reaching US$19.0 million (12.5% of sales), compared with US$17.6 million (11.6% of sales) last year.

Frutarom's EBITDA in Q1 2013, net of onetime expenses (for reorganization and acquisitions) increased by 4.9%, reaching US$25.9 million (17.0% of sales), compared with US$24.7 million for the same period last year (16.3% of sales).

Frutarom's EBITDA for Q1 2013 increased by 3.2%, reaching of US$25.8 million (16.9% of sales) compared with US$25.0 million during the same period last year (16.5% of sales).

Financing Expenses / Income

In Q1 2013, financing expenses totaled US$1.4 million (0.9% of sales), compared with US$0.9 million in the same quarter last year (0.6% of sales).

Interest expenses in Q1 2013 totaled US$1.2 million, compared with US$1.9 million during the same period last year.

In Q1 2013 financing expenses from exchange differentials came to US$0.2 million (0.1% of sales), compared with financing income of US$1.0 million (0.6% of sales) in the same quarter last year.Financing expenses from exchange differentials result from the strengthening of the US dollar versus European currencies (other than the NIS) as of March 31, 2013, compared with the exchange rate of the US dollar versus those same currencies on December 31, 2012, as opposed to financing income in Q1 2012, which resulted from the weakening of the US versus European currencies and the NIS during the same period last year.

Profit before Tax

In Q1 2013, profit before tax came to US$17.5 million (11.5% of sales), compared with US$16.9 million (11.2% of sales) in the same quarter last year.

Taxes on Income

In Q1 2013, taxes on income totaled US$3.5 million (19.9% of profit before tax) compared with US$3.4 million (20.2% of profit before tax) in Q1 2012.

Net Profit

In Q1 2013, net profit rose by 3.8% reaching US$14.0 million, compared with US$13.5 million in Q1 2012. Net margin reached 9.2% in Q1 2013, compared with 8.9% in Q1 2012.

Earnings per Share

In Q1 2013, earnings per share reached US$0.24, compared with US$0.23 in 2012.

Summary of the quarterly profit and loss reports for 2010 - 2013 (US$ M):

	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013
Income	113.5	114.3	111.0	112.4	121.0	130.6	135.3	131.6	151.2	164.8	157.1	144.9	152.2
Gross profit	43.5	46.9	43.2	41.3	45.7	48.5	47.7	46.8	54.9	61.8	58.1	51.5	57.2
Selling, Marketing, R&D, G&A and Other Expenses	26.9	27.5	28.2	29.2	29.0	31.5	34.8	34.6	37.1	40.0	38.5	37.8	38.3
Operating profit	16.6	19.4	15.0	12.1	16.6	17.0	12.9	12.2	17.8	21.8	19.5	13.7	18.9
EBITDA	21.3	24.0	19.8	16.9	21.5	22.2	18.6	18.1	25.0	28.5	26.3	20.7	25.8
Finance expenses	1.3	2.3	-0.2	-0.2	-0.9	0.8	2.6	3.2	0.9	4.3	20.6	1.4	1.4
Profit before tax	15.3	17.1	15.2	12.2	17.5	16.2	10.3	8.9	16.9	17.5	18.9	12.3	17.5
Net profit	11.1	13.0	11.1	8.8	13.1	12.3	8.7	7.9	13.5	13.5	14.4	10.5	14.0

Many of the Company’s products are used by customers who produce 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 works, are given to seasonal fluctuations, and usually during any given year, 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 in most of Frutarom’s target countries.

D. LIQUIDITY

The Company's cash flow from operating activities in Q1 2013 reached US$4.4 million, compared with US$17.7 million in Q1 2012.

The reduction in cash flow results mainly from an increase in working capital needs in the first quarter of the year, following an increase in activity in the first quarter compared to the fourth quarter of 2012 (as opposed to a minor change, after deduction of the acquisitions, during the same period last year), and from increase resulting from tax payments timing differences.

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.

E. SOURCES OF FINANCING

Sources of Equity

Frutarom's equity as of March 31, 2013 totaled US$446.2 million (58.6% of the balance sheet) compared with US$410.0 million as of March 31, 2012 (52.0% of the balance sheet) and US$445.2 million (57.6%) 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 Q1 2013 totaled US$171.4 million, compared with US$163.0 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 Q1 2013 came to US$14.0 million, compared with US$50.9 million during the corresponding quarter last year. The decrease derives from the exchange of short term loans, which the Company took for interim financing of acquisitions with long term loans.

Accounts Payable and Other Payable (Average)

In Q1 2013, the Company had accounts payable and other payables in the amount of US$81.7 million, compared with US$89.0 million in the same quarter last year. During Q1 2013, the Company granted credit of US$111.2 million to its customers, compared with US$109.4 million during Q1 2012.

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 Q1 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 March 31, 2013, the Group has long term loans, net of current maturities, totaling US$128.8 million and short term debt, including current maturities of long term loans, of US$49.7 million total. The Company has cash balances of US$48.9 million.

F. SENSITIVITY TESTS

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	**4.013**	**3.830**	**3.648**	**3.466**	**3.283**
	US$ 000				
Cash and cash equivalents	(44)	(22)	442	22	44
Customers	(1,218)	(609)	12,181	609	1,218
Other debtors	(103)	(52)	1,030	52	103
Other long term creditors	(6)	(3)	56	3	6
	(1,371)	**(686)**	**13,709**	**686**	**1,371**
Credit from banking corporations	872	436	8,717	(436)	(872)
Suppliers and service providers	434	217	4,338	(217)	(434)
Other creditors	973	486	9,726	(486)	(973)
	2,279	**1,139**	**22,781**	**(1,139)**	**(2,279)**
Total exposure, net	**908**	**453**	**(9,072)**	**(453)**	**(908)**

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	**0.725**	**0.692**	**0.659**	**0.626**	**0.593**
	US$ 000				
Cash and cash equivalents	(303)	(152)	3,032	152	303
Customers	(1,142)	(571)	11,421	571	1,142
Other debtors	(136)	(68)	1,362	68	136
	(1,581)	**(791)**	**15,815**	**791**	**1,581**
Credit from banking corporations	1,833	916	18,329	(916)	(1,833)
Suppliers and service providers	625	313	6,251	(313)	(625)
Other creditors	726	363	7,259	(363)	(726)
	3,184	**1,592**	**31,839**	**(1,592)**	**(3,184)**
Total exposure, net	**1,603**	**801**	**(16,024)**	**(801)**	**(1,603)**

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	**0.861**	**0.822**	**0.783**	**0.744**	**0.704**
	US$ 000				
Cash and cash equivalents	(1,858)	(929)	18,581	929	1,858
Customers	(4,596)	(2,298)	45,960	2,298	4,596
Other debtors	(874)	(437)	8,741	437	874
Other long term debtors	(19)	(10)	190	10	19
	(7,347)	**(3,674)**	**73,472**	**3,674**	**7,347**
Credit from banking corporations	5,532	2,766	55,324	(2,766)	(5,532)
Suppliers and service providers	2,225	1,112	22,248	(1,112)	(2,225)
Other creditors	1,071	535	10,708	(535)	(1,071)
	8,828	**4,413**	**88,280**	**(4,413)**	**(8,828)**
Total exposure, net	**1,481**	**739**	**(14,808)**	**(739)**	**(1,481)**

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	**1.049**	**1.002**	**0.954**	**0.906**	**0.858**
	US$ 000				
Cash and cash equivalents	(290)	(145)	2,899	145	290
Customers	(839)	(419)	8,387	419	839
Other debtors	(89)	(44)	885	44	89
	(1,218)	**(608)**	**12,171**	**608**	**1,218**
Credit from banking corporations	4,433	2,217	44,334	(2,217)	(4,433)
Suppliers and service providers	390	195	3,902	(195)	(390)
Other creditors	786	393	7,862	(393)	(786)
	5,609	**2,805**	**56,098**	**(2,805)**	**(5,609)**
Total exposure, net	**4,391**	**2,197**	**(43,927)**	**(2,197)**	**(4,391)**

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	(713)	(356)	7,128	356	713
Customers	(1,492)	(746)	14,919	746	1,492
Other debtors	(81)	(40)	807	40	81
	(2,286)	**(1,142)**	**22,854**	**1,142**	**2,286**
Credit from banks	179	89	1,787	(89)	(179)
Suppliers and service providers	215	108	2,154	(108)	(215)
Other creditors	292	146	2,922	(146)	(292)
Other long term creditors	33	16	326	(16)	(33)
	719	**359**	**7,189**	**(359)**	**(719)**
Total exposure, net	**(1,567)**	**(783)**	**15,665**	**783**	**1,567**

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				
Long Term Loans (Euro)	17	9	1,715	(8)	(17)
Total exposure, net	17	9	1,715	(8)	(17)

G. SUMMARY OF SENSITIVITY TESTS TABLES

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 balance sheet 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	**4.013**	**3.830**	**3.648**	**3.466**	**3.283**
	US$ 000				
Total Exposure net	**908**	**453**	**(9,072)**	**(453)**	**(908)**

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	**0.725**	**0.692**	**0.659**	**0.626**	**0.593**
	US$ 000				
Total Exposure net	**1,603**	**801**	**(16,024)**	**(801)**	**(1,603)**

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	**0.861**	**0.822**	**0.783**	**0.744**	**0.704**
	US$ 000				
Total exposure, net	**1,481**	**739**	**(14,808)**	**(739)**	**(1,481)**

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	**1.049**	**1.002**	**0.954**	**0.906**	**0.858**
	US$ 000				
Total exposure, net	**4,391**	**2,197**	**(43,927)**	**(2,197)**	**(4,391)**

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	**(1,567)**	**(783)**	**15,665**	**783**	**1,567**

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, net	**17**	**9**	**1,715**	**(8)**	**(17)**

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 ("**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 May 20, 2013. The members of the committee were sent the Company's financial statements of March 31, 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 May 22, 2013, where the financial statements of March 31, 2013 were unanimously approved.

DISCLOSURE RELATING TO THE CORPORATE FINANCIAL REPORTING

A. DIVIDEND DISTRIBUTION IN 2013

On March 12, 2013, the Company's Board of Directors resolved to approve a distribution of a cash dividend in the amount of NIS 0.24 per share (total amount of US$3,806 thousand). The dividend was paid out on May 5, 2013.

B. OCCURRENCES FOLLOWING THE DATE OF THE REPORT ON THE FINANCIAL STATUS

On April 24, 2013 the Company granted option warrants to employees and office holders. For further details see the outline and immediate report published by the Company on April 2 and April 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 Q1 2013.

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

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

May 22, 2013