FRUTAROM INDUSTRIES LTD.
DIRECTORS' REPORT OF THE COMPANY'S STATE OF AFFAIRS
FOR THE PERIOD ENDING DECEMBER 31, 2012

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 it currently constitutes 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 as the result of Frutarom's strategic acquisitions, which have and are being successfully incorporated with Frutarom's global activities.

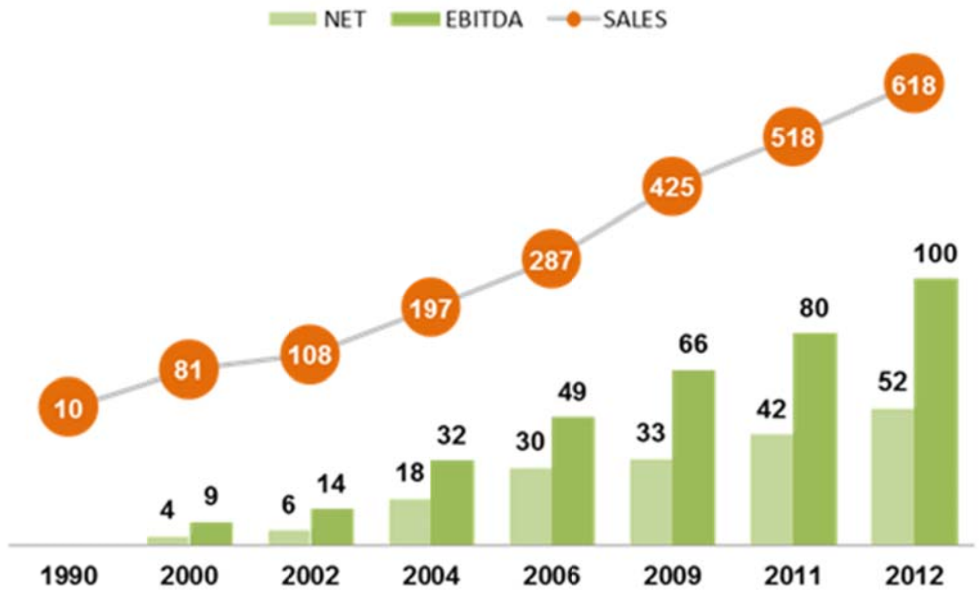
- **The Specialty Fine Ingredients Segment -** Frutarom develops, produces, markets and sells natural flavor extracts, natural functional food ingredients, natural pharmaceutical/nutraceutical extracts, aroma chemicals, essential oils, unique citrus products, natural gums and stabilizers. The Specialty 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.

<u>RAPID GROWTH STRATEGY – PROFITABLE ORGANIC GROWTH AND STRATEGIC ACQUISITIONS</u>

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

Since 2000, Frutarom has grown at an average yearly rate of 19%, through a combination of organic growth and 23 acquisitions. The Company's revenues over this period grew from revenues of US$81 million with an EBITDA of US$9 million and net profit of US$4 million in 2000 to record revenues of US$618 million, EBITDA of more than US$100 million and net profit of US$52 million in 2012, also achieving a record highs US$91 million in cash flow from operating activities.



- **Increasing Flavors' segment** - The successful implementation of Frutarom's rapid and profitable growth strategy allowed Frutarom to significantly increase its activities in the Flavors segment, its most profitable activity, to 74% of total Frutarom sales compared to 33% of total sales in 2000, while achieving organic growth at a rate higher than the growth rates in the markets in which it operates. The Company estimates that its rapid growth trend will continue even under today's challenging market conditions.

- **Emerging Markets** – Frutarom's accelerated expansion to target markets with higher growth rates is reflected in the 60% growth achieved in 2012 (compared with 2011), in the emerging markets of China and South East Asia, Central and South America, Central and Eastern Europe and Africa. The portion of Frutarom's sales out of total Company sales in these strategic markets increased from 27% in 2010 to 36% this year. In the BRIC countries, Frutarom's sales this year grew by 31%.

- **North America** - the results also reflect the continued rapid growth of the Flavors' activities in the United States, which is the largest market in the world for flavors, which increased this year by 43%.

  In light of Frutarom's rapid growth in markets outside of Western Europe, Frutarom's portion of sales in Western European markets (which also increased), standing at 51% in 2010, was 42% this year.

- Frutarom focuses 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.

- **Combination of Taste and Health -** Frutarom is developing 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 and Frutarom's abilities at the unique crossroads of taste and health combinations give 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 for 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, usually with more limited resources than large and multi-national 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 having conducted seven acquisitions in 2007 and three in 2009, all of which were successfully integrated with its global activities and contribute to both a growth in sales and improved margins, Frutarom has continued its acquisition strategy and completed five additional strategic acquisitions in 2011 and three more in the beginning of 2012.

Increase in Margin and Profit

Contribution and integration of acquisitions – Integration of the eight acquisitions is moving ahead successfully and according to plan. The acquisitions have already contributed not only to Frutarom's growth in sales but also to significantly improved 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.

- **Streamlining -** Frutarom is moving forward with the integration of 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.

- **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 while expanding its pool of suppliers with an emphasis on increased purchase of raw materials used in the manufacture of its products from their countries of origin (especially natural raw materials).

  Realizing Frutarom's rapid growth strategy, the continued stabilization of raw material prices, furthering the streamlining processes and improvement of its costs structure, while taking optimal advantage of its productions sites throughout the world and successfully integrating of recent acquisitions, will bring about improved future margins. Frutarom's capital structure (total assets of US$772.5 million and equity of US$453.6 million as of December 31, 2012, constituting 58.7% of the total assets) and net debt level (total loans after deduction of cash), which stands at US$136.1 million as of December 31, 2012, supported by the cash flow it achieves and together with bank backing, will allow Frutarom to continue to realize the strategic growth as it has done over the past few years, including further strategic acquisitions, while strengthening its competitiveness and position as one of the leading global companies in the field of flavors and fine ingredients, and to realize its vision:

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

Acquisitions in 2012

- **Savoury Flavours -** On January 4 2012 Frutarom signed an agreement to acquire 100% of the share capital of the UK company Savoury Flavours (Holding) Ltd. ("Savoury Flavours") for approximately US$ 5.8 million (GBP 3.8 million), and additional consideration to be calculated according to performance, using a mechanism prescribed in the purchase agreement, which according to the Company's estimates will not exceed GBP 0.3 million. The Company also paid an additional GPB 0.1 million for adjustment of working capital as on the date of acquisition (US$0.2 million).

  Savoury Flavours, founded in 1999, develops, manufactures, and markets savory taste solutions including mainly flavors, seasoning compounds, marinades and sauces, specializing in snacks and convenience foods. Savoury Flavours has a development, manufacture and marketing site in the UK, and a wide customer base including food manufacturers and private labels in the UK and in emerging markets.

  Savoury Flavor's sales turnover in 2012 came to US$7.7 million (GBP 4.8 million). Savoury Flavours' production site is located next to the East Anglian Food Ingredients Ltd. (EAFI) production site, which manufacturers savory products as well.

  The geographic proximity between the two sites and the two companies' complimentary product range and technologies allow shared management of the two sites and the integration of their activities, creating synergies between them and with Frutarom's savory activities in the UK and throughout the world, which has grown significantly over the past few years.

For further information regarding the acquisition of Savoury Flavours, see the Company's immediate report dated January 5, 2012.

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- **Etol -** Over the first half of 2012, Frutarom purchased the full share capital of the Slovenian public company ETOL Tovarna arom in eteričnih olj d.d in return for an overall sum of €35.4 million.

  Etol, founded in 1924, deals in the development, manufacture and marketing of sweet and savory taste solutions, focusing on natural flavor products for the food and beverage industry. Etol also has great experience in the development and manufacture of fruit based flavors and products and food systems, specializing in local fruits of its geographic region, as well as extensive activities in the growing area of bases for beverages, in which Frutarom intends to significantly invest and expand activities. Etol products are sold to a wide customer base in Central and Eastern Europe and in emerging markets, with a focus on Slovenia, Russia, Poland, Ukraine, Turkey, Croatia, Serbia, Slovakia, Belarus, Macedonia, Czech Republic, Kazakhstan and other developed countries including Switzerland, Germany and England. Etol's customers include leading food and beverage manufacturers in the countries it operates in, including large multi-national food companies. Etol's activities are synergetic to Frutarom's activities.

  Etol and its subsidiaries employ some 240 employees, including a leading human capital in the areas of research and development and sales, and an experienced management team. Etol has a manufacturing and marketing site in Sofia Vas, Slovenia, in which it has invested extensively over the past few years, and has incorporated innovative technologies in the area of flavors. Etol also has additional real estate properties for future expansion. Frutarom is working towards the integration of Etol's activities with its global activities in the area of flavors, including by transfer of R&D and manufacturing activities to Etol, achieving a competitive advantage in light of Etol's R&D capabilities, its excellent geographic location and its attractive cost basis, harmonization of raw materials and utilization of the many cross-selling opportunities.

  The Etol Group's sales turnover in 2012 totaled €52.3 million (US$67.2 million).

  For further information regarding the acquisition of Etol, see the Company's immediate reports published on January 17, 18 and 26, 2012, February 12, 2012, March 17, 2012, May 8, 2012 and June 6 and 26, 2012.

- **Mylner** – On February 7, Frutarom signed an agreement to acquire 100% of the share capital of Mylner Indústria E Comércio Ltda, a Brazilian Flavors company, and its Brazilian parent company, Vila Osório Participações s/a in return for approximately US$15.7 million (BRL 27.1 million). Frutarom also paid Mylner a further BRL 4.4 million for Mylner's cash balance. The acquisition was completed upon signing.

Mylner, founded in 1974, develops manufactures and markets flavor solutions, focusing mainly on sweet flavors for beverages and baked goods, natural plant extracts and natural flavor products. Mylner has a modern development, production and marketing site in Sao Paulo, Brazil, including land for future expansion. Mylner's wide customer base includes leading food and beverage manufacturers in Brazil and in other developing countries in Latin America. Mylner's sales turnover in 2012 came to US$9.2 million (BRL 18 million).

For further information regarding the acquisition of Mylner, see Note 5 to the Company's financial statements of December 31, 2012, and the Company's immediate reports published on February 7, 2012.

B. FINANCIAL STATUS

The Group's total assets as of December 31, 2012 were US$772.5 million compared with US$650.0 million as of December 31, 2011.

The Group's current assets totaled US$301.0 million, compared with US$246.6 million, as of December 31, 2011.

The fixed assets after deduction of cumulative depreciation and other assets net as of December 31, 2012 totaled US$468.0 million, compared with US$401.2 million as of December 31, 2011.

The rise in the total assets is mainly due to acquisitions completed in 2012, and from translation differences of values of assets in subsidiaries having operational currency other than the dollar (in light of the strengthening of exchange rates of European currencies and the NIS against the US dollar, as of December 31, 2012 compared with December 31, 2011).

C. RESULTS OF OPERATIONS IN 2012

2012 was another record year for Frutarom, in which it achieved record highs in sales, gross profits, operational profit, EBITDA, net profit, earnings per share and cash flow, despite challenging market conditions in the global economy in general and in Western Europe in particular, and despite the strengthening of the US dollar versus the main currencies in which Frutarom operates, which lowered sales and profits in dollar terms.

Sales

In 2012, Frutarom sales, net of currency effects, grew by 24.2% reaching a yearly record high of US$618.0 million, compared with US$518.4 million in 2011. Currency effect detracted 5.0% from growth and sales (US$26.1 million), in light of the strengthening of the US dollar versus European currencies and the Israeli shekel, so that in dollar terms, sales grew by 19.2%. The acquisitions made in 2011 and 2012 contributed US$115.5 million to sales over the period. Organic growth (net of the contribution of the acquisitions and currency effects) was 2.0% this year.

Flavor Activity sales, net of currency effects, increased by 29.5% compared last year, to a record high of US$457.3 million, constituting 74% of total Frutarom sales.

Accelerated growth in Flavors, the most profitable among Frutarom's activities, is the result of organic growth at a rate higher than the growth rates in the markets in which Frutarom operates, and from the acquisitions made in 2011 and 2012 in Flavors, which contributed US$97.9 million to sales in 2012. Organic growth in Flavors (net the contribution of these acquisitions and currency effects) reached 3.1% this year.

Frutarom's sales in Specialty Fine Ingredients increased, net of currency effects, by 0.1% compared with last year, reaching US$140.8 million. Dollar sales in Specialty Fine Ingredients taking into account currency effects fell by 2.9%. Specialty Fine Ingredients customers' reduction of inventory affected the fall in sales.

Frutarom's sales in Trade and marketing increased by US$16.0 million compared with 2011, reaching US$22.3 million. Sales included Etol's Trade and Marketing activity in Central Europe, which contributed US$17.6 million to sales in 2012.

Sales Breakdown by Fields of Activity 2002-2012 (US$ M)

		2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Flavor Activity	Sales	45.3	68.2	110.9	150.4	187.0	247.7	339.8	297.1	306.4	369.9	457.3
	%	42%	49%	56%	62%	65%	67%	72%	70%	68%	71%	74%
Fine Ingredient Activity	Sales	57.7	67.0	81.7	89.8	98.4	115.0	124.3	123.8	141.5	145.0	140.8
	%	54%	48%	41%	37%	34%	31%	26%	29%	31%	28%	23%
Trade & Marketing	Sales	6.2	6.5	6.8	6.3	6.7	10.5	13.2	7.1	5.4	6.4	22.3
	%	6%	5%	4%	3%	2%	3%	3%	2%	1%	1%	4%
Inter Segments	Sales	-1.7	-2.3	-2.6	-2.7	-4.9	-4.9	-4.0	-2.8	-2.2	-2.9	-2.4
	%	-2%	-2%	-1%	-1%	-2%	-1%	-1%	-1%	0%	0%	0%
Total Sales		107.5	139.3	196.8	243.8	287.2	368.3	473.3	425.2	451.1	518.4	618.0

As stated, the strengthening of the US$ between 2011 and 2012, versus European currencies and the NIS, detracted US$26.1 million from total Frutarom sales; US$21.7 million from the Flavors activity, and US$4.4 million from the Specialty Fine Ingredients activity.

The following is a summary of the profit and loss report for 2011 - 2012 (US$ M):

	2011	2012	Change (%) 2011-2012
Sales	518.4	618.0	19.2%
Gross profit	188.6	226.3	20.0%
R&D, Sales, G&A and Other expenses	129.9	153.4	18.1%
Operating profit	58.7	72.8	24.2%
Operating profit net of onetime expenses	60.6	74.3	22.6%
EBITDA	80.4	100.4	24.9%
EBITDA net of onetime expenses	82.3	101.9	23.8%
Financing Expenses	5.8	7.2	24.9%
Profit before tax	52.9	65.6	24.1%
Net profit	42.0	52.0	23.7%

In 2012 Frutarom achieved record highs in sales, gross profits, operational profit, EBITDA, net profit, cash flow and earnings per share, despite the strengthening of the US$ versus the main currencies in which Frutarom operates (European currencies and the NIS), which reduced dollar terms sales and profits by 5.0%.

Gross Profit

Gross profit in 2012 increased by 20%, reaching a yearly record high of US$226.3 million compared with US$188.6 million in 2011. Gross margin, net of Trade and Marketing activity added following the acquisition of Etol (a non-core activity for Frutarom) and net of onetime reorganization expenses of US$0.4 million, reached 37.4%, compared with gross margin of 36.4% in 2011. Gross margin, including Trade and Marketing activity added following the acquisition of Etol, also increased, reaching 36.6%.

Contributing factors to improvement in gross profit and margins were organic growth in sales and stability in the prices of raw materials Frutarom uses in the manufacture of its products. The main effect of the actions which Frutarom takes to optimize its potential to reduce raw material costs and the utilization of the many operational synergies resulting from recent acquisitions is not yet seen in the 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 from their countries of origin (especially natural raw materials) used in the manufacture of its products.

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

In 2012, sales and marketing, R&D, G&A and other expenses totaled US$153.4 million (24.8% from sales), compared with US$129.9 million in 2011 (25.1% of sales).

Sales and marketing expenses, R&D, G&A and other expenses included onetime expenses of US$1.1 million. These onetime expenses included US$1.8 million for re-organization, acquisition expenses in the amount of US$1.0 million, and one-time income of US$1.7 million from gain on a bargain price for the acquisition of Etol.

Over the same period last year, sales and marketing, R&D, G&A and other expenses included onetime expenses for acquisitions, which came to US$1.9 million.

The increase in expenses derives from the increase in the scope of activity, and mainly from the acquisitions made in 2011 and 2012.

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

Operating Profit and EBITDA

In 2012, operating profit increased by 24.2%, reaching a yearly record high of US$72.8 million, (11.8% of sales) compared with US$58.7 million last year (11.3% of sales).

Operational profit net of onetime expenses (for reorganization and acquisitions) in 2012 increased by 22.6%, reaching US$74.3 million (12.0% of sales), compared with US$60.6 million (11.7% of sales) last year.

Frutarom's EBITDA for 2012 increased by 24.9%, reaching a yearly record high of US$100.4 million (16.2% of sales) compared with US$80.4 million during the same period last year (15.5% of sales).

EBITDA in 2012, net of onetime expenses (for reorganization and acquisitions) increased by 23.8%, reaching US$101.9 million (16.5% of sales), compared with US$82.3 million for the same period last year (15.9% of sales).

Financing Expenses / Income

In 2012, financing expenses totaled US$7.2 million (1.2% of sales), compared with US$5.8 million in 2011 (1.1% of sales).

Interest expenses in 2012 totaled US$7.2 million, compared with US$2.5 million over the same period last year. The interest expenses increase derived primarily from an increase in loans taken for the acquisitions.

In 2012 financing expenses from exchange differentials were negligible, compared with US$3.3 million in 2011.

Profit before Tax

In 2012, profit before tax went up by 24.1%, reaching a yearly record high of US$65.6 million (10.6% of sales, compared with US$52.9 million (10.2% of sales) in 2011.

Taxes on Income

In 2012, taxes on income totaled US$13.6 million (20.8% of profit before tax) compared with US$10.8 million (20.5% of profit before tax) in 2011. Tax expenses for 2011 and 2012 were affected by income from closing tax assessments for previous years and the distribution of profits among the various countries.

Net Profit

In 2012, net profit increased by 23.7%, reaching a yearly record high of US$52.0 million, compared with US$42.0 million in 2011. Net margin reached 8.4% in 2012, compared with 8.1% in 2011.

Earnings per Share

In 2012, earnings per share increased by 22.5%, reaching yearly record high of US$0.90, compared with US$0.73 in 2011.

D. RESULTS OF OPERATIONS IN Q4 2012

Sales

In Q4 2012, Frutarom sales, net of currency effects, grew by 13.5%, reaching a fourth quarter record high of US$144.9 million, compared with US$131.6 million during Q4 2011, despite challenging market conditions throughout the world and particularly in Western Europe. Currency effects detracted 3.4% from growth in sales (US$4.5 million), in light of the strengthening of the average exchange rate of the US dollar versus European currencies (except the GBP) and the NIS in Q4, compared to Q4 last year, so that in dollar terms, sales grew by 10.1%. The acquisitions made Q1 2012 contributed US$17.2 million to sales over the quarter. Organic growth (net of the contribution of the acquisitions and currency effects) was 0.5% this quarter.

Flavors Activity sales net of currency effects increased by 15.7% compared to Q4 last year, reaching a fourth quarter record high of US$111.7 million. The acquisitions made in the first quarter of 2012 in Flavors contributed US$13.8 million to sales during this quarter. Organic growth in Flavors (net of the contribution of the acquisitions and currency effect) reached 2.0% this quarter.

Specialty Fine Ingredients Activity sales reached US$29.5 million, compared with US$30.9 million in the same quarter last year, a 3.2% decrease in sales net of currency effects. A decrease in inventory among Frutarom's specialty fine ingredients' customers affected the fall in sales.

Frutarom sales in Trade and Marketing (not one of Frutarom's core activities) increased, achieving US$4.3 million. Sales included Etol's Trade and Marketing activity in Central Europe, which contributed US$3.4 million to sales this quarter.

<u>Sales Breakdown by Activity for Q4 2002-2012 (US$ M)</u>

		Q4 2002	Q4 2003	Q4 2004	Q4 2005	Q4 2006	Q4 2007	Q4 2008	Q4 2009	Q4 2010	Q4 2011	Q4 2012
Flavors Activity	**Sales**	10.4	18.5	40.1	30.8	45.5	78.5	71.3	76.6	78.1	100.1	111.7
	%	44%	51%	70%	59%	63%	72%	72%	71%	69%	76%	77%
Fine Ingredient Activity	**Sales**	12.1	17.2	16.1	20.0	26.4	28.9	25.5	30.9	33.2	30.9	29.5
	%	51%	47%	28%	38%	36%	27%	26%	29%	30%	23%	20%
Trade & Marketing	**Sales**	1.5	1.4	1.5	1.3	2.0	2.6	2.7	1.4	1.6	1.1	4.3
	%	6%	4%	3%	2%	3%	2%	3%	1%	1%	1%	3%
Inter Segments	**Sales**	-0.5	-0.6	-0.7	0.5	-1.4	-1.5	-0.8	-0.4	-0.5	-0.5	-0.7
	%	-2%	-2%	-1%	-1%	-2%	-1%	-1%	-1%	0%	0%	0%
Total sales		23.5	36.5	57.0	52.6	72.5	108.5	98.7	108.5	112.4	131.6	144.9

As stated, the strengthening of the dollar between 2011 and 2012, versus European currencies (other than the GBP) and the NIS, detracted US$4.5 million from total Frutarom sales; US$4.1 million from Flavors sales, and US$0.4 million from Specialty Fine Ingredients sales.

The following is a summary of the profit and loss report for Q4 in the years 2011 - 2012:

In Q4 2012 Frutarom achieved record high fourth quarter highs in sales, gross profits, operational profit, EBITDA, net profit and earnings per share, despite the strengthening of the dollar versus the Euro, the Swiss franc and the NIS, which detracted 3.4% from sales and from dollar profits.

	Q4 2011	Q4 2012	Change 2011-2012 (%)
Sales	131.6	144.9	10.1%
Gross profit	46.8	51.5	10.1%
R&D, sales, G&A and Other expenses	34.6	37.8	9.2%
Operating profit	12.2	13.7	12.9%
Operating profit without one-time expenses for acquisitions	12.6	15.0	19.7%
EBITDA	18.1	20.7	13.9%
EBITDA without one-time expenses for acquisitions	18.5	21.9	18.5%
Financing expenses	3.2	1.4	-56.3%
Profit before tax	8.9	12.3	38.0%
Net profit	7.9	10.5	33.1%

Gross Profit

Gross profit in Q4 2012 increased by 10.1% and reached a record Q4 high of US$51.5 million, compared with US$46.8 million in the same quarter in 2011. The gross margin, net of Etol's Trade and Marketing (a non-core activity of Frutarom) and net of onetime reorganization expenses of US$0.4 million, increased, reaching 36.4%, compared with gross profit of 35.5% in Q4 2011. Gross profit including Etol's Trade and Marketing activity came to 35.5%.

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

Sales and marketing, R&D, G&A and other expenses came to US$37.8 million in Q4 2012 (26.1% of sales) compared with US$34.6 million in Q4 2011 (26.3% of sales) in Q4 2011.

Sales and marketing expenses, R&D, G&A and other expenses in Q4 2012 included onetime reorganization expenses in the amount of US$0.9 million.

The increase in expenses derives from the increase in activities, and mainly from acquisitions made in 2012.

As mentioned, Frutarom continues to strive towards maximal efficiency, improving its cost structure and strengthening its future competitiveness, maximally utilizing its sites throughout the world and successfully integrating its most recent acquisitions.

Operating Profit and EBITDA

In Q4 2012, operating profit increased by 12.9% reaching a fourth quarter high of US$13.7 million (9.5% of sales) compared with US$12.2 million (9.2% of sales) for the same quarter last year.

Operating profit net of onetime reorganization expenses in Q4 2012 increase by 19.7%, reaching US$15.0 million (10.4% of sales), compared with US$12.6 million in Q4 2011 (9.5% of sales).

The EBITDA Frutarom achieved in Q4 2012 increased by 13.9%, reaching a fourth quarter high of US$20.7 million (14.3% of sales) compared with US$18.1 million in the same period last year (13.8% of sales).

The EBITDA net of onetime reorganization expenses in Q4 2012 increased by 18.5% reaching US$21.9 million (15.1% of sales) compared with US$18.5 million (14.1% of sales) in Q4 last year.

Financing Expenses / Income

In Q4 2012, financing expenses came to US$1.4 million (1.0% of sales) compared with financing expenses of US$3.2 million (2.5% of sales) in Q4 2011.

Interest expenses in Q4 2012 totaled US$1.6 million, compared with US$1.3 million in Q4 of last year.

Financing income from exchange differentials totaled US$0.2 million, compared with US$1.9 million during the same quarter last year. The increase in financing income for exchange differentials derives from the weakening of the exchange rate of the US$

mainly versus European currencies (except the GBP) and the NIS as of December 31, 2012, compared with the opposite trend during the same period in 2011.

Profit before Tax

In Q4 2012, profit before tax went up by 38.0%, reaching a fourth quarter record high of US$12.3 million (8.5% of sales), compared with US$8.9 million (6.8% of sales) in Q4 2011.

Taxes on Income

Taxes on income in Q4 2012 came to US$1.8 million (14.3% of profits before tax) compared to US$1.0 million during the same quarter last year (11.2% of profits before tax).

The rate of tax expenses for Q4 2011 and 2012 was affected by tax income from closing tax assessments for previous years, and distribution of profit among the different countries.

Net Profit

In Q4 2012, net profit went up by 33.1%, reaching a fourth quarter high of US$10.5 million, compared with US$7.9 million in Q4 2011. Net margin totaled 7.3%, compared with 6.0% in Q4 2011.

Earnings per Share

In Q4 2012, earnings per share increased by 30.9%, achieving a fourth quarter record high of US$0.18 per share, compared with US$0.14 per share in Q4 2011.

Summary of the quarterly profit and loss reports for 2009 - 2012 (US$ M):

	Q1 2009	Q2 2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012
Income	98.4	106.7	111.6	108.5	113.5	114.3	111.0	112.4	121.0	130.6	135.3	131.6	151.2	164.8	157.1	144.9
Gross profit	35.2	39.4	41.2	39.6	43.5	46.9	43.2	41.3	45.7	48.5	47.7	46.8	54.9	61.8	58.1	51.5
Selling, Marketing, R&D, G&A and Other Expenses	25.0	26.7	27.9	28.6	26.9	27.5	28.2	29.2	29.0	31.5	34.8	34.6	37.1	40.0	38.5	37.8
Operating profit	10.2	12.8	13.3	11.0	16.6	19.4	15.0	12.1	16.6	17.0	12.9	12.2	17.8	21.8	19.5	13.7
EBITDA	14.5	17.4	18.3	16.0	21.3	24.0	19.8	16.9	21.5	22.2	18.6	18.1	25.0	28.5	26.3	20.7
Finance expenses	3.3	0.1	0.0	0.9	1.3	2.3	-0.2	-0.2	-0.9	0.8	2.6	3.2	0.9	4.3	20.6	1.4
Profit before tax	6.9	12.7	13.2	10.1	15.3	17.1	15.2	12.2	17.5	16.2	10.3	8.9	16.9	17.5	18.9	12.3
Net profit	5.6	10.1	10.0	7.5	11.1	13.0	11.1	8.8	13.1	12.3	8.7	7.9	13.5	13.5	14.4	10.5

Frutarom's business is characterized by seasonal fluctuations, generally with higher sales in the first half of a given year, with lower sales and profitability during the second half; this occurs mainly in the fourth quarter. The seasonality is a result of the fact that a substantial portion of the Company's products is used by its customers in the manufacture of beverages, ice cream and yogurt, for which demand increases during the summer months. As a result, sales of certain flavor solutions and specialty fine ingredients produced by the Company rise in the first half of the year, as manufacturers of beverages, ice cream and yogurt restock their inventories and increase production in advance of rising demand during the summer months. Furthermore, most of the end of year holidays throughout the world, which have an effect on Frutarom's activity volume, fall in the fourth quarter. The effect of seasonality on Company's results and business has become more subtle in recent years as the Company has increased sales of savory flavor products, among others, following the acquisition of companies specializing in savory. The more moderate effect of seasonality is also due to an increase in the sales of natural functional food ingredients, and natural pharmaceutical/nutraceutical extracts, which are intended for the pharmaceutical/nutraceutical industries and are less affected by seasonality in demand.

E. LIQUIDITY

The Company's cash flow from operating activities grew by 156% throughout 2012 reaching US$91.2 million, compared with US$35.6 million in 2011. A significant improvement in cash flow from operating activities was also achieved in Q4 2012, reaching US$28.6 million, compared with US$3.1 million in Q4 2011.

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 December 31, 2012 totaled US$453.6 million (58.7% of the balance sheet) compared with US$393.6 million as of December 31, 2011 (60.6% of the balance sheet). The change derives from the acquisitions completed in 2012, from an increase in net profit and from translation differences of values of assets in subsidiaries having operational currency other than the US$ (in light of the strengthening of exchange rates of European currencies and the NIS against the US$ as of December 31, 2012 compared with December 31, 2011).

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

Average long-term credit from banks provided to the Company in Q4 2012 totaled US$178.2 million, compared with US$84.1 million in Q4 2011. The increase derives from the increase in loans taken for financing the Company's acquisitions.

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

The average short-term credit from banks provided to the Company in Q4 2012 came to US$13.1 million, compared with US$62.8 million during the corresponding quarter in 2011. 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 Q4 2012, the Company had accounts payable and other payables in the amount of US$90.3 million, compared with US$75.6 million in the same quarter last year. During Q4 2012, the Company granted credit of US$113.6 million to its customers, compared with US$90.4 million during Q4 2011. The increase in accounts payable and other payable is mainly the result of Frutarom's recent acquisitions.

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

The Group's activity is characterized by significant decentralization. Through its two main activities (Flavors and Specialty Fine Ingredients) the Company produces thousands of products intended for thousands of customers throughout the world, using thousands of raw materials purchased from a wide range of suppliers worldwide. The Group is not significantly dependent on any one of its customers, products or suppliers.

A. RESPONSIBILITY FOR MARKET RISK MANAGEMENT

Mr. Alon Granot, Executive Vice President and CFO, is responsible for managing market risk. The Company's Management and Board of Directors are updated on material changes in the Company's exposure to various risks, and conduct discussions as needed.

For details about Mr. Alon Granot, see Regulation 26a in Chapter D to this report (Additional Details on the Corporation).

B. DESCRIPTION OF MARKET RISKS

Raw Material Price Risks

The Company is dependent on third parties for its supply of raw materials. The Company purchases raw materials from a very wide range of suppliers, with no single supplier representing more than 5% of total raw material purchases. Although there is more than one supplier for most of the raw materials purchased by Frutarom, and most of these materials are widely available, there can be no guarantee that this will continue to be the case. Furthermore, the price, quality and availability of the principal raw materials used by Frutarom, mainly in the area of natural products, are subject to fluctuations as a result of international supply and demand. Many of the raw materials used by the Group are crop-related; therefore their price, quality and availability could be adversely affected by unfavorable weather conditions. The Company does not normally make future transactions and is exposed to price fluctuations in the raw materials it uses in accordance with global price trends. The Company's Executive Vice President for Global Supply Chain and Operations follows raw material prices on an ongoing basis.

Over the past few years there has been a continuing trend of substantial price increases for most of the raw materials Frutarom uses for the manufacture of its products. There was some stabilization in price levels in 2012, and even a drop in some raw material prices.

Currency Risks

The Company's sales worldwide are conducted in a number of currencies (mainly in Euro, US Dollars, Swiss Francs, Pounds Sterling and New Israeli Shekels). Therefore, there is sensitivity to fluctuations in the exchange rates of these and other currencies. However, the fact that Frutarom's raw materials purchases are in fact conducted in various currencies reduces the exposure to currency fluctuation risks. Most of the non-US dollar monetary balances derive from the local activity of the Company's subsidiaries in Europe and in Israel. The functional currency of these companies is the local currency, and therefore the currency translation balances in the local currency of each of these companies does not influence the Group's finance expenses, and is directly attributed to a currency translation capital fund. Monetary balances in other currencies are attributed to financing expenses. Currency exposure is reviewed as necessary, and at least once every quarter. The Company does not generally take external hedging actions nor does it use other financial instruments for protection against currency fluctuations. For more details see Note 3A of the Company's financial statement of December 31, 2012, attached to this report.

Interest Risks

The Company's sources of banking finance, short- and long-term, are quoted in Euro, US Dollar, Pound Sterling, Swiss Franc, NIS and Chinese Yuan, (according to the functional currency of the borrowing company), and bear variable Libor interest. The

Company's policy is not to take protective steps against possible interest increases and there is therefore sensitivity to changes in interest rates. As of the balance sheet date, the Company does not hold any financial derivatives. As of December 31, 2012 the Company held long-term loans with the deduction of current maturities in an overall amount of US$137.8 million. The scope of its short-term debt, including current maturities of long-term loans, was US$52.2 million. The Company has cash flow reserves of US$53.9 million.

Risks Related to the Company's Activities in Europe

Over the past few years there has been economic uncertainty in world markets. A number of European countries, including those which are part of the EU, are suffering a financial crisis which has led to a recession in some of these countries. Frutarom estimates that the impact of the financial crisis and the slow-down in European Market growth on its activities is not expected to be significant, as its main sales are in the food industry, which is considered more protected and less influenced by recessions and slow-downs. Frutarom's activity in the PIGS countries (Portugal, Ireland, Greece and Spain) is marginal and negligible.

C. THE COMPANY'S POLICY REGARDING MARKET RISK MANAGEMENT

1. The Group's management conducts an ongoing evaluation of market risks in the area of raw material prices. Unusual occurrences such as acute currency devaluations in a target country or price changes in important raw materials that could influence the Group's activity are discussed by the Board of Directors. Frutarom is working to strengthen its global purchasing, to strengthen relations with manufacturers of raw materials in the target countries in which these are produced, and to adjust the selling price of its products as necessary and in accordance with significant fluctuations in the pricing of raw materials. The Executive Vice President of Supply Chain and Operations is responsible for management of market risks in the area of raw materials prices.

2. The Group's management attempts to reduce currency exposure, whether economic or accounting, by balancing liabilities and assets in each of the various currencies in which the Group operates. The Executive Vice President and CFO is responsible for the management of currency exposure in the Group. The Group typically takes loans in local currency with variable Libor interest.

3. The risk level is not limited in advance by quantity; rather the level of exposure is evaluated by the Group's accounting department on a regular basis, and discussed among the Group's management, allowing immediate response to any unusual developments in the various markets. The exposure level is also reviewed by the Company's Board of Directors on an ad hoc basis.

4. During this report period, Frutarom did not use financial instruments or other instruments to protect itself from the market risks to which it is exposed.

In 2012, there were no changes to the Group's risk management policy.

D. SUPERVISION OF RISK MANAGEMENT POLICY AND ITS IMPLEMENTATION

The exposure to raw material prices is evaluated by the Executive Vice President of Global Supply Chain and Operations, the purchasing department and operations management on a regular basis and reported to the management as necessary. Discussions are held by the Company's management once every quarter, addressing the implementation of risk management policy as it relates to raw materials prices, currency and interest. The Executive Vice President and CFO reports to the Board of Directors regarding exposure to these risks at least once a year and during times of extreme changes in the global economy, exchange rates, raw material prices, and interest rates.

In 2012, there were no deviations from the planned policy.

E. LINKAGE BASES REPORT

CURRENCY EXPOSURE ACCORDING TO PRIMARY LINKAGE BASES AS AT DECEMBER 31, 2012

	US$	NIS	GBP	Euro	CHF	Others	Total
Assets	In US$ 000						
Cash and cash equivalents	18,157	1,008	2,953	19,046	3,533	9,236	53,933
Customers	18,663	10,644	12,695	42,429	7,030	15,293	106,754
Other debtors	3,076	818	1,609	9,178	2,027	1,205	17,915
Inventory	40,460	-	18,066	35,489	19,836	8,582	122,433
Other long term debtors	162	-		3,292		-	3,454
Fixed assets, net	39,586	-	12,884	73,661	54,678	8,015	188,824
Other assets, net	66,114	-	53,707	138,145	3,903	17,329	279,198
Total assets	**186,218**	**12,470**	**101,914**	**321,240**	**91,007**	**59,661**	**772,511**
Liabilities							
Bank loans	53,552	5,893	22,694	60,256	46,177	1,460	190,032
Suppliers	14,183	2,841	3,350	20,639	4,829	2,395	48,237
Other creditors	4,138	7,449	7,211	10,697	6,633	3,141	39,269
Employee retirement rights liabilities	-	-	-	10,509	2,596	124	13,229
Deferred taxes	4,909		6,493	8,407	6,602	881	27,292
Other long term liabilities	-	-	-	-	-	892	892
Total liabilities	**76,782**	**16,183**	**39,748**	**110,508**	**66,837**	**8,893**	**318,951**
Equity capital							**453,560**
Net assets (liabilities)	**109,436**	**(3,713)**	**62,166**	**210,732**	**24,170**	**50,768**	-

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	**4.106**	**3.920**	**3.733**	**3.546**	**3.360**
			US$ 000		
Cash and cash equivalents	(101)	(50)	1,008	50	101
Customers	(1,064)	(532)	10,644	532	1,064
Other debtors	(82)	(41)	818	41	82
	(1,247)	**(623)**	**12,470**	**623**	**1,247**
Credit from banking corporations	589	295	5,893	(295)	(589)
Suppliers and service providers	284	142	2,841	(142)	(284)
Other creditors	745	372	7,449	(372)	(745)
	1,618	**809**	**16,183**	**(809)**	**(1,618)**
Total exposure, net	**371**	**186**	**(3,713)**	**(186)**	**(371)**

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	**0.680**	**0.649**	**0.618**	**0.587**	**0.557**
			US$ 000		
Cash and cash equivalents	(295)	(148)	2,953	148	295
Customers	(1,270)	(635)	12,695	635	1,270
Other debtors	(95)	(47)	948	47	95
	(1,660)	**(830)**	**16,596**	**830**	**1,660**
Credit from banking corporations	2,269	1,135	22,694	(1,135)	(2,269)
Bank loans	335	168	3,350	(168)	(335)
Suppliers and service providers	721	361	7,211	(361)	(721)
Other creditors	-	-	-	-	-
	3,325	**1,664**	**33,255**	**(1,664)**	**(3,325)**
Total exposure, net	**1,665**	**834**	**(16,659)**	**(834)**	**(1,665)**

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	**0.835**	**0.797**	**0.759**	**0.721**	**0.683**
			US$ 000		
Cash and cash equivalents	(1,905)	(952)	19,046	952	1,905
Customers	(4,243)	(2,121)	42,429	2,121	4,243
Other debtors	(719)	(360)	7,193	360	719
	(6,867)	**(3,433)**	**68,668**	**3,433**	**6,867**
Credit from banking corporations	6,026	3,013	60,256	(3,013)	(6,026)
Suppliers and service providers	2,064	1,032	20,639	(1,032)	(2,064)
Other creditors	1,070	535	10,697	(535)	(1,070)
	9,160	**4,580**	**91,592**	**(4,580)**	**(9,160)**
Total exposure, net	**2,293**	**1,147**	**(22,924)**	**(1,147)**	**(2,293)**

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	**1.007**	**0.962**	**0.916**	**0.870**	**0.824**
			US$ 000		
Cash and cash equivalents	(353)	(177)	3,533	177	353
Customers	(703)	(352)	7,030	352	703
Other debtors	(82)	(41)	815	41	82
	(1,138)	**(570)**	**11,378**	**570**	**1,138**
Credit from banking corporations	483	241	4,829	(241)	(483)
Suppliers and service providers	663	332	6,633	(332)	(663)
Other creditors	**5,764**	**2,882**	**57,639**	**(2,882)**	**(5,764)**
Total exposure, net	**4,626**	**2,312**	**(46,261)**	**(2,312)**	**(4,626)**

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	(924)	(462)	9,236	462	924
Customers	(1,529)	(765)	15,293	765	1,529
Other debtors	(55)	(28)	552	28	55
	(2,508)	**(1,255)**	**25,081**	**1,255**	**2,508**
Credit from banks	146	73	1,460	(73)	(146)
Suppliers and service providers	240	120	2,395	(120)	(240)
Other creditors	314	157	3,141	(157)	(314)
Other long term creditors	89	45	892	(45)	(89)
	789	**395**	**7,888**	**(395)**	**(789)**
Total exposure, net	**(1,719)**	**(860)**	**17,193**	**860**	**1,719**

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)	14	8	1,450	(7)	(14)
Total exposure, net	14	8	1,450	(7)	(14)

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	4.106	3.920	3.733	3.546	3.360
	US$ 000				
Total Exposure net	371	186	(3,713)	(186)	(371)

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	0.680	0.649	0.618	0.587	0.557
	US$ 000				
Total Exposure net	1,665	834	(16,659)	(834)	(1,665)

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	0.835	0.797	0.759	0.721	0.683
	US$ 000				
Total exposure, net	2,293	1,147	(22,924)	(1,147)	(2,293)

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	1.007	0.962	0.916	0.870	0.824
	US$ 000				
Total exposure, net	4,626	2,312	(46,261)	(2,312)	(4,626)

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	(1,719)	(860)	17,193	860	1,719

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	14	8	1,450	(7)	(14)

CORPORATE GOVERNANCE ASPECTS

A. DIRECTORS WITH ACCOUNTING AND FINANCIAL EXPERTISE AND INDEPENDENT DIRECTORS

Directors with Accounting and Financial Expertise

The Company's Board of Directors has determined that the minimum number of directors with accounting and financial expertise will be set at two. This number takes into account the nature of the Company's activity, its size, the scope of its activity and the complexity of its activity. The Board believes that this minimum number will enable it to fulfill its responsibilities and requirements in accordance with the law and the Company's Articles of Association, especially with respect to its responsibility to evaluate the Company's financial status and to prepare and approve the financial reports.

As of the date of this report’s publication, the Board of Directors of the Company includes five directors with accounting and financial expertise: Dr. John J. Farber, Mr. Hans Abderhalden, Mr. Yacov Elinav, Mr. Isaac Angel and Mr. Gil Leidner. For details regarding their skills, education, experience and knowhow, based on which the Company refers to them as directors with financial and accounting expertise, refer to regulation 26 in Chapter D of this report (Additional Details on the Corporation).

Independent Directors

As of the date of this report, the Company has not adopted the instruction with respect to the ratio of Independent Directors (as the term is defined in the Companies Law – 1999) into its Articles of Association.

B. DETAILS ABOUT THE CORPORATION'S INTERNAL AUDITOR

The Company's Internal Auditor

Mr. Yoav Barak, CPA, was appointed internal auditor of the Company and began his work as internal auditor on January 17, 2005. The internal auditor complies with the provisions of section 146(b) of the Companies' Law 1999 and with the provisions of section 8 of the Internal Audit Law, 1992.

To the best of the Company's knowledge, the internal auditor does not hold securities of the Company.

To the best of the Company's knowledge, the internal auditor does not have material business relations or other material relations with the Group or with a related entity.

The internal auditor is not an employee of the Company, but provides the auditing services as an external contractor. The internal auditor does not fill other positions in the Company or provide additional external services.

Appointment Method

The appointment of the internal auditor was approved by the Company's Board of Directors on January 17, 2005, based on the Board of Directors' Audit Committee's recommendation. The appointment was approved by the Company's Board of Directors after reviewing the internal auditor's education (as a CPA and economist), his experience in the field of internal auditing and his experience in various managerial positions. The Company's Board of Directors found the internal auditor to be suitable to serve in this position in light of Frutarom's size, scope of activity and level of complexity.

The Internal Auditor's Supervisor

The internal auditor reports to the Company Board of Directors' Audit Committee and to the President of the Company.

Audit Work Plan

The audit work plan is an annual plan prepared by the internal auditor in coordination with the President of the Company and its management, and approved by the Board of Directors' Audit Committee. The preparation of the work plan is determined by the topics perceived as worthy of thorough analysis. The factors are determined according to their risk level with the goal of detecting faults, achieving efficiencies, ensuring the protection of the Group's assets and the compliance of the Group's procedures with the respective local laws. The annual audit work plan also includes a follow-up by the Company's management on the implementation of recommendations brought by the internal auditor and the Audit Committee. The internal auditor has independent discretion to deviate from the approved audit plan, subject to consultation with the Audit Committee. The internal audit is carried out in accordance with the approved annual audit plan and is updated as necessary in accordance with the findings of the audit. The internal audit is carried out through questionnaires and physical audits at the Company sites and held companies in Israel and throughout the world. Some of the audit topics are audited throughout the Group, while others are specific topics audited according to the annual work plan.

Auditing Outside of Israel or of Held Companies

The annual audit work plan refers to the activities of all the companies in the Group, both in Israel and abroad, including the Company's substantial held companies.

Scope of the Internal Auditor's Position

The scope of the internal auditor's position is adjusted to the Group's rate of expansion and growth. The internal auditor renders services to the Group at a scope of two and a half to three working days per week.

	Number of hours invested in internal auditing in the Company in 2012
Activity in Israel	610
Activity outside of Israel	519

The scope and level of complexity of the Group's activity were taken into account in determining the scope of the internal auditor's position.

In 2012, the Internal Auditor's scope of services totaled 1,129 working-hours compared to 1,113 working-hours in 2011.

Performing the Internal Audit

As reported to the Company by the internal auditor, the work of internal audit is conducted according to professional standards accepted in Israel and the world, including the professional standards of the Israel Institute of Internal Auditors, which ensure a professional, reliable and independent audit. The audit reports are based on the findings of the audit and the documented facts. The Board of Directors is of the opinion that the internal auditor meets the requirements set forth in the above-mentioned professional standards, taking into account the professionalism, qualifications, experience, familiarity with the Group and the manner in which he prepares, submits and presents the findings of his audit.

Free Access to the Internal Auditor

The internal auditor has free and independent access to the Group's information systems, including those of held companies (whether ordinary or computerized), to all databases and to all programs for automatic data processing of the Company and its related companies, including financial data. The internal auditor may enter any and all assets of the Company, including its held companies, and conduct the audit.

The Internal Auditor's Report

The internal auditor prepares the audit reports in writing and submits them to the Audit Committee and to the members of the Company's management.

During 2012, three meetings of the Audit Committee were held which included discussions on the findings of the internal auditor. The meetings were held on the following dates: January 22, 2012, August 16, 2012 and November 22, 2012. The members of the Company's Audit Committee, the President of the Company, the Executive Vice President and CFO, the Executive Vice President for Global Supply Chain and Operations, the Global VP Legal and Corporate Secretary, the VP Finance and other relevant managers in the Group received the audit reports prior to the Audit Committee meetings in which discussions were held on the internal auditor's findings. Relevant managers were present at the Audit Committee's meetings when the audit reports relating to their activity were reviewed, as per the request of the Chairmen of the Audit Committee.

Assessment by the Board of Directors of the Company of the Internal Auditor's Activity

In the opinion of the Audit Committee, the scope, character and continuity of the internal auditor's activity and work plan are reasonable under the circumstances and fulfill the goals of the internal audit of the Company.

Compensation

The internal auditor's compensation in 2012 was NIS 296 thousand. No securities were granted to the internal auditor as part of his terms of engagement. The Company believes that this compensation will not affect the internal auditor's professional judgment. The internal auditor's remuneration is not in any way dependent on the results of his work.

C. DETAILS ON THE CORPORATION'S EXTERNAL AUDITOR

The independent auditor of the Company is Kesselman & Kesselman, a member firm of PricewaterhouseCoopers. The assets of the consolidated companies which are audited by local accountants constitute 26% of the Company's total assets, and their revenue constitutes 26% of the total consolidated revenue of the Group.

The fees paid by the Company to its auditor are as detailed below:

1. Total fee for auditing services, for services related to the audit and for tax services in 2012 totaled US$1,200 thousand (compared to US$1,167 thousand in 2011) in Israel and in the subsidiaries abroad (14,251 hours in 2012 compared to 14,769 hours in 2011). The amount paid for tax services does not exceed 45% of the total fees detailed in this paragraph.

2. Other fees for additional services - the overall fees for services provided by the independent auditor which are not included in paragraph 1 above totaled US$78 thousand in 2012 (compared to US$56 thousand in 2011) in Israel and in subsidiaries abroad.

The Company's general meeting of shareholders approved the appointment of the independent auditor and authorized the Company's Board of Directors to determine its fees.

D. DISCLOSURE REGARDING THE APPROVAL PROCESS OF THE FINANCIAL REPORTS

The Company's financial reports are submitted for approval to the Board of Directors, the Company’s overall supervising body, a few days after the Board of Directors’ committee for the review of the financial reports (the "**Balance Sheet Committee**") has discussed the financial reports and formed recommendations to the Board of Directors in accordance with the Companies Regulations (Instructions and Terms for the Approval Procedure of the Financial Reports), 2010 ("**Reports Approval Regulations**").

Members of the Company's Board of Directors

The Board of Directors of the Company has seven members, five of whom are directors having accounting and financial expertise as detailed above. For more details regarding the Company’s Board of Directors, see regulation 26 to Chapter D of this report (Further Details on the Corporation)

Members of the Balance Sheet Committee

The members of the Balance Sheet Committee are the members of the Audit Committee – Mr. Yacov Elinav, External Director and the chairman of the committee, Mr. Isaac Angel, External Director, and Mr. Gil Leidner, Director. The Balance Sheet Committee members have financial and accounting expertise and ability to read financial reports and provided the Company with a written declaration in this regard. Mr. Yacov Elinav and Mr. Isaac Angel are independent directors by virtue of their status as External Directors. Mr. Gil Leidner is an independent director in accordance with the determination of the Company’s Audit Committee from May 19, 2011 and the Board of Director’s resolution dated August 17, 2011. For details regarding the skills, education, experience and knowhow of the members of the Balance Sheet Committee, based on which the Company refers to them as directors with financial and accounting expertise, refer to regulation 26 in Chapter D of this report (Additional Details on the Corporation).

Balance Sheet Committee Process for Forming its Recommendation to the Board of Directors

The Company's financial reports were discussed at the meeting of the Balance Sheet Committee held on March 7, 2013. The members of the committee received the 2012 financial reports two business days prior to the meeting. All three members of the Balance Sheet Committee attended the meeting, as well as the Company's independent auditors, the Company's President and CEO, Mr. Ori Yehudai, the Executive Vice President and CFO, Mr. Alon Granot, the Vice President of Finance, Mr. Guy Gill, and

Karin Ben Ari, Legal Counsel. At the meeting, the Balance Sheet Committee discussed, inter alia, the estimates and evaluations in the financial reports, the effectiveness of the internal control on financial reporting, the completeness and fairness of the disclosure in the financial reports, the accounting policy adopted, the accounting handling of the Group's material issues, and the valuations, including the assumptions and estimations on which the information in the financial reports is based. In the framework of the discussion, the Balance Sheet Committee formed its recommendations to the Board of Directors in accordance with the Reports Approval Regulations.

The recommendations of the committee were delivered to the Company's Board of Directors three business days before the Board's meeting at which the financial reports were discussed. The Board of Directors considered the said time period reasonable in light of the scope and complexity of the recommendations.

Board of Directors' Report Approval Procedure

The members of the Board of Directors receive the draft financial reports several days before the date of the Board meeting at which the reports are brought for their approval. The Company's Independent auditors and members of the Company's senior management are also invited to attend the meeting, including Mr. Ori Yehudai, the President and CEO, Mr. Alon Granot, Executive Vice President and CFO, Mr. Amos Anatot, Executive Vice President and COO Global Supply Chain, 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. Mr. Yoav Barak, the Company's internal auditor, is also invited to the meeting. During the meeting, the Board of Directors discusses the recommendations of the Balance Sheet Committee regarding the financial reports. The President and CEO and Executive Vice President and CFO also present the Group's business and financial results for the relevant period in comparison to previous periods to the Board of Directors at this meeting, with emphasis on special events that occurred during the period. During the presentation of the Group's results, members of the Company's management 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 reports. All of the members of the Board of Directors were present at the Board meeting held on March 12, 2013, and the financial reports for 2012 were unanimously approved.

E. SENIOR OFFICE HOLDERS' REMUNERATION

(1) On March 12, 2013 the Company's Board of Directors, after approval by the Compensation Committee of the Board of Directors (the "**Compensation Committee**") from March 7, 2013, resolved on bonuses for senior office holders in the Company for 2012 (except the bonus for the President and CEO of the Company, as detailed in section 5 below). As the Company has not yet adopted a compensation policy under the 20^{th} amendment to the Companies Law 1999 ("**20^{th}**

Amendment"), bonuses were approved according to the criteria which have served the Company in resolving on bonuses prior to the enactment of 20th Amendment, and according to other relevant criteria under the provisions of 20th Amendment, all as set forth in section 3 below. The bonuses were approved after a detailed discussion held by the compensation Committee and the Board of Directors with regard to each office holder separately.

In addition, the Board of Directors approved the purchase of Company shares for the purpose of granting such to office holders and others as part of the 2012 Plan. For further details regarding this resolution, see the Company's immediate report published on March 13, 2013.

(2) Prior to the discussion on the remuneration of senior officeholders, the members of the Board of Directors were presented with all relevant data for each senior officeholder as required by regulations 21 and 22 of the Securities Regulations (Immediate and Periodic Reports), 1979 and by the provisions of sections B and C to the sixth addendum to these regulations, and other relevant data needed in order to resolve on the matter of the compensation, its components, fairness and reasonableness, including (A) financial data regarding the last year and previous years, data from previous years regarding the Company's profitability and the amounts of bonuses paid in the Company, the overall compensation paid to each of the relevant senior office holders including all components thereof, terms of existing agreements for each senior office holder; (B) each office holder's capabilities, achievements and contributions to the Company; (C) the recommendations of the Company's President regarding compensation for each senior office holder serving under him (D) comparative data regarding compensation paid to senior office holders in comparable positions in other public companies in Israel with of a similar scope and nature to those of the Company; and (E) data regarding average and median wages of Company employees. The Compensation Committee and Board of Directors were provided with a survey regarding this data during the course of the meeting.

(3) In determining the amount of the bonuses (other than the bonus for the President and CEO of the Company, as detailed in section 5 below) the Compensation Committee and the Board of Directors took into account, inter alia, the following parameters: (a) the business and financial performance of the Group, its size, scope and nature of activity, the profit, profit margins and rate of growth achieved; (b) each senior office holders' contribution to these achievements, the economic value of services rendered by each one to the Group, the scope of office, tasks, existing employment agreement, areas of responsibility and each senior office holder's satisfaction of requirements of the position he holds; (c) the Company's business goals; (d) professional experience and achievements of each senior office holder, education, skills and expected contributions to the Company; (e) customary terms of wages in the Company, the relation between the senior office holder's terms of employment and the average and median wages of other Company employees, and the effect of any the gaps between these on work relations in the Company. The

Compensation Committee and the Board of Directors also took into account the Company's growth rate over the year, successful realization of the latest strategic acquisitions and the integration of such, and the fact of the Company's status as one of the leading companies in the world in its field, as well as considerations regarding promotion of the Company's goals, its work plans and policies and creating proper incentives for Company office holders, taking into account the long term and according to the office holders position. Bonuses were not determined on the basis of any ceiling amounts or pre-defined goals.

(4) The Board of Directors in its meeting of March 12, 2013 also discussed compensation for senior office holders under the provisions of regulation 10(b)(4) to the Securities Regulations (Periodic and Immediate Reports) 1970. The Board of Directors resolved, after a detailed discussion held with regard to each office holder separately, that the compensation granted to each one was fair and reasonable in light of the size and complexity of the Group, its business achievements over the last few years, tasks and scope of responsibility of each one of the senior office holders in the Group and each one's contribution to the achievements and economic value of the services provided to the Group by each one of the senior office holders.

(5) On December 6, 2012, the Board of Directors approved formalization of the annual bonus for the Company's President and CEO (the President), as part of his existing terms of employment, after approval of the Company's Audit Committee sitting as the Compensation Committee, on December 4, 2012. For further details regarding formalization of the President's bonus, the method of determination and reasoning, see the Company's report dated December 7, 2012.

DISCLOSURE RELATING TO THE CORPORATE FINANCIAL REPORTING

A. DIVIDEND DISTRIBUTION IN 2012

On March 14, 2012, the Company's Board of Directors resolved to approve a distribution of a cash dividend in the amount of NIS 0.2 per share. On May 6, 2012, a dividend in the total amount of US$3,029 thousand was paid out.

B. OCCURRENCES FOLLOWING THE DATE OF THE REPORT ON THE FINANCIAL STATUS WHICH ARE MENTIONED IN THE FINANCIAL REPORT

On March 12, 2013, concurrently with the approval of the financial statements of December 31, 2012, the Company's Board of Directors resolved on the distribution of a dividend in the amount of NIS 0.24 per share, in a total amount of NIS 13,997 thousand (US$3,801 thousand).

C. CRITICAL ACCOUNTING ESTIMATIONS

Preparation of the Company's financial reports in accordance with IFRS demands the use of critical accounting estimates, requiring Company management to use its judgment in the process of implementing the Company's general accounting policies in order to prepare estimates and make assumptions that influence the amounts presented in the financial reports.

Below are the critical accounting estimations used in preparing the Company's financial reports; during their implementation, management was required to make assumptions regarding circumstances and events involving significant uncertainty. In using its discretion to determine these estimates, Company management relied on past experience, various facts and on reasonable assumptions in accordance with the appropriate circumstances for each estimate. Actual results may differ from management's estimates. Regarding the material accounting estimates used in preparing the Company's financial reports, see also Note 4 to the Company's financial reports dated December 31, 2012, attached to this report.

Taxes on Income and Deferred Taxes

The Company is assessed for tax purposes in numerous jurisdictions; accordingly, the Company's management is required to exercise discretion in order to determine the overall provision in respect of taxes on income. The Company records provisions in its books based on its estimates of whether additional taxes will be due. Where the final tax outcome of these matters as determined by tax authorities is different from the amounts that were initially recorded, such differences will be carried to income and loss in the period in which the final tax assessment is determined by the tax authorities.

The Company also records deferred tax assets and liabilities based on the differences between the book value of its assets and liabilities and the amounts taken into account for tax purposes. The Company regularly reviews its deferred tax assets for recoverability based on historical taxable income, projected future taxable income, the expected timing of the reversals of existing temporary differences and the implementation of tax planning strategies. If the Company is unable to generate sufficient future taxable income, or if there is a material change in the actual effective tax rates or time period within which the underlying temporary differences become taxable or deductible, the Company could be required to eliminate a portion of the deferred tax asset resulting in an increase in its effective tax rate and an adverse impact on operating results.

Severance Pay

The present value of the Company's liabilities in regards to severance pay is dependent on several factors that are determined on an actuarial basis, based on a number of assumptions. The assumptions used in the calculation of the net cost (income) in regards to severance pay include the long-term yield rate on the related severance pay funds and the rate of discount. Changes in those assumptions will impact the carrying amount of the assets and liabilities in respect of severance pay. The assumption regarding the expected yield on severance pay funds is determined uniformly in accordance with long-term historical yields.

The assumption regarding the required rate of discount is determined by external actuaries at the end of each year. This rate of discount is used in determining the estimated updated value of the future cash flows that would be required to cover the severance pay liabilities. The market of high quality corporate bonds is not sufficiently liquid to serve as a basis for determining the discount rate. Therefore, the determination of the required rate is based on the interest rates applicable to government bonds denominated in the currency in which the benefits will be paid having maturity periods approximating to the periods of the related liabilities.

Other key assumptions relating to pension liabilities, such as future payroll raises, are based on existing rates of payroll inflation.

Provision for Contingent Liabilities

Provisions for contingent legal liabilities are recorded in the books at the discretion of Company management regarding the likelihood that the cash flows will be used to meet such liabilities, and on the basis of the management's estimate regarding the present value of the expected cash flows that would be required to meet the existing liabilities.

Provision for Impairment in Respect of Goodwill and Intangibles

Once per year, the Company reviews the need to provide for impairment of goodwill and intangibles. The need to make such a provision is assessed in relation to the recoverable value of the Company's cash generating units. The recoverable amount of a cash generating unit is determined in accordance with the assumptions and calculations made by the Group's management.

D. EXCLUSION OF THE COMPANY'S SEPARATE FINANCIAL REPORT UNDER REGULATION 9(C) OF THE REGULATIONS

The Company in its 2012 Annual Report, did not include a separate financial report as set forth in Regulation 9C of the Regulations (the **"Solo Report"**) 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 contained in Regulation 10(14) of the Regulations and found that they do not exist.

The Board of Directors of the Company held nine meetings during 2012.

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

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

March 12, 2013