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

FRUTAROM INDUSTRIES LTD.

INTERIM FINANCIAL INFORMATION

(Unaudited)

31 MARCH 2013

FRUTAROM INDUSTRIES LTD.

INTERIM FINANCIAL INFORMATION

(Unaudited)

31 MARCH 2013

TABLE OF CONTENTS

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

Introduction

We have reviewed the accompanying financial information of Frutarom Industries Ltd. and its subsidiaries (hereafter - the group), which includes the condensed consolidated statement of financial position as of 31 March, 2013 and the related condensed consolidated statement of income, comprehensive income, changes in shareholders' equity and cash flows for the three-month period then ended. The Board of Directors and management are responsible for preparation and presentation of the financial information for this reporting period in accordance with IAS 34 – "Interim Financial Reporting"; our responsibility is to express a conclusion of the financial data for this interim period based on our review.

We did not review the condensed interim financial information of certain consolidated companies, whose assets included in consolidation constitute approximately 25.65% of total consolidated assets as of 31 March, 2013 and whose revenues included in consolidation constitute approximately 24.45% of total consolidated revenues for the three-month period ended on that date. The condensed financial information of these companies was reviewed by other auditors, whose review reports have been furnished to us; and our conclusion, insofar as it relates to the financial information included for these companies, is based on review reports of the other auditors.

Scope of review

Our review was performed in accordance with Standard No. 1 on Review Engagements of the Institute of Certified Public Accountants in Israel - "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". Review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Auditing Standards generally accepted in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review and the review reports of the other auditors, nothing came to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34.

Haifa, Israel	Kesselman & Kesselman
22, May, 2013	Certified Public Accountants (lsr.)
	A member firm of PricewaterhouseCoopers International Limited

FRUTAROM INDUSTRIES LTD.

CONDESED CONSOLDIATED STATEMENT OF FINANCIAL POSITION

31 MARCH 2013

	31 March		31 December
	2013	2012	2012
	(Unaudited)		(Audited)
	U.S. dollars in thousands		
A s s e t s			
CURRENT ASSETS:			
Cash and cash equivalents	48,854	37,526	53,933
Accounts receivable:			
Trade	116,453	115,933	106,754
Other	13,363	7,237	*10,847
Prepaid expenses and advances to suppliers	8,575	11,705	6,966
Inventories	119,982	133,362	122,433
	307,227	305,763	300,933
NON-CURRENT ASSETS:			
Property, plant and equipment	182,149	193,442	188,824
Intangible assets	269,090	285,652	279,198
Deferred income tax assets	3,426	2,580	3,075
Others	246	692	379
	454,911	482,366	471,476
Total assets	762,138	788,129	772,409

*Restated, see note 3b

Dr. John Farber)
Chairman of the Board)

Ori Yehudai)
President and CEO)

Alon Granot)
Executive Vice
President and CFO)

Date of approval of the interim financial information by the board of directors: May 22, 2013

FRUTAROM INDUSTRIES LTD.

CONDESED CONSOLDIATED STATEMENT OF FINANCIAL POSITION

31 MARCH 2013

	31 March		31 December
	2013	**2012**	**2012**
	(Unaudited)		**(Audited)**
	U.S. dollars in thousands		
Liabilities and equity			
CURRENT LIABILITIES:			
Short-term bank credit and loans and current maturities of long-term loans	49,738	112,143	52,196
Accounts payable:			
Trade	46,913	56,472	48,237
Other	38,659	49,903	39,269
Dividend payable	3,806	3,113	-
	139,116	221,631	139,702
NON-CURRENT LIABILITIES:			
Long-term loans, net of current maturities	128,805	111,727	137,836
Retirement benefit obligations, net	23,698	*18,749	*24,329
Deferred income tax liabilities	23,956	*25,240	*24,420
Other	326	750	892
	176,785	156,466	187,477
Total liabilities	315,901	378,097	327,179
EQUITY:			
Equity attributable to owners of the parent company:			
Ordinary shares	16,728	16,597	16,713
Other capital surplus	102,730	97,835	102,099
Translation differences	6,955	19,894	16,749
Retained earnings	320,578	*276,984	*310,477
Less - cost of company shares held by the company and by subsidiary	(3,090)	(3,199)	(3,043)
	443,901	408,111	442,995
Non-controlling interests	2,336	1,921	2,235
Total equity	446,237	410,032	445,230
Total equity and liabilities	762,138	788,129	772,409

*Restated, see note 3b

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

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED STATEMENT OF INCOME

FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2013

	3 months ended 31 March		Year ended 31 December
	2013	**2012**	**2012**
	(Unaudited)		**(Audited)**
	U.S. dollars in thousands, except for income per share data		
SALES	152,165	151,217	618,001
COST OF SALES	94,989	96,285	391,742
GROSS PROFIT	57,176	54,932	226,259
Selling, marketing, research and development expenses- net	25,507	25,260	104,932
General and administrative expenses	12,761	13,016	49,197
Other expenses (income) - net	3	(1,181)	(718)
INCOME FROM OPERATIONS	18,905	17,837	72,848
FINANCIAL EXPENSES - net	1,419	923	7,240
INCOME BEFORE TAXES ON INCOME	17,486	16,914	65,608
INCOME TAX	3,478	3,413	13,628
NET INCOME FOR THIS PERIOD	14,008	13,501	51,980
PROFIT ATTRIBUTED TO:			
Owners of the parent company	13,907	13,405	51,570
Non-controlling interest	101	96	410
TOTAL INCOME	14,008	13,501	51,980
EARNINGS PER SHARE:			
Basic	0.24	0.23	0.9
Fully diluted	0.24	0.23	0.9

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2013

	3 months ended 31 March		Year ended 31 December
	2013	**2012**	**2012**
	(Unaudited)		**(Audited)**
	U.S. dollars in thousands		
INCOME FOR THE PERIOD	14,008	13,501	51,980
Other Comprehensive Income:			
Items that will not be reclassified subsequently to profit or loss -			
*Remeasurement of net defined benefit liability	-	-	(4,756)
Items that could be reclassified subsequently to profit or loss -			
Translation differences	(9,794)	7,538	4,393
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	4,214	21,039	51,617
ATTRIBUTABLE TO:			
OWNERS OF THE PARENT	4,113	20,943	51,207
NON-CONTROLLING INTERESTS	101	96	410
TOTAL INCOME	4,214	21,039	51,617

*Restated, see note 3b

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

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2013

	EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT							
	Ordinary shares	Other capital surplus	Translation differences	Retained earnings	Cost of Company shares held by the company	Total Attributed to Owners Parent company	Non-controlling interests	Total
	U.S. dollars in thousands							
BALANCE AT 1 JANUARY 2013 (audited)	16,713	102,099	16,749	*310,477	(3,043)	442,995	2,235	445,230
CHANGES DURING THE 3 MONTHS ENDED 31 MARCH 2013 (unaudited):								
Comprehensive income -								
income for the period				13,907		13,907	101	14,008
Other comprehensive income -								
translation differences			(9,794)			(9,794)		(9,794)
Total comprehensive income for the period			(9,794)	13,907		4,113	101	4,214
Plans for allotment of company shares to employees of subsidiary:								
Acquisition of the Company shares by subsidiary					(326)	(326)		(326)
Receipts in respect of allotment of company shares to employees		(186)			279	93		93
Allotment of shares and options to senior employees- recognition of compensation related to employee stock and options grants		381				381		381
Proceeds from issuance of shares to senior employees	15	436				451		451
Dividend including erosion				(3,806)		(3,806)		(3,806)
	15	631	-	(3,806)	(47)	(3,207)	-	(3,207)
BALANCE AT 31 MARCH 2013 (unaudited)	16,728	102,730	6,955	320,578	(3,090)	443,901	2,336	446,237

*Restated, see note 3b

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

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2013

	EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT							
	Ordinary shares	Other capital surplus	Translation differences	Retained earnings	Cost of company shares held by subsidiary	Total company's shareholders' equity	Non-controlling interests	Total
	U.S. dollars in thousands							
BALANCE AT 1 JANUARY 2012 (audited)	16,597	97,356	12,356	*266,692	(2,981)	390,020	-	390,020
CHANGES DURING THE 3 MONTHS ENDED 31 MARCH 2012 (unaudited):								
Comprehensive income - income for the period	-	-	-	13,405	-	13,405	96	13,501
Other comprehensive income - translation differences	-	-	7,538	-	-	7,538	-	7,538
Total comprehensive income for the period	-	-	7,538	13,405	-	20,943	96	21,039
Plans for allotment of company shares to employees of subsidiary:								
Acquisition of the Company shares by subsidiary	-	-	-	-	(579)	(579)	-	(579)
Receipts in respect of allotment of company shares to employees	-	(58)	-	-	361	303	-	303
Allotment of shares and options to senior employees- recognition of compensation related to employee stock and options grants	-	537	-	-	-	537	-	537
Dividend including erosion	-	-	-	(3,113)	-	(3,113)	-	(3,113)
	-	479	-	(3,113)	(218)	(2,852)	-	(2,852)
Non-controlling interest arising on business combination	-	-	-	-	-	-	1,825	1,825
BALANCE AT 31 MARCH 2012 (unaudited)	16,597	97,835	19,894	276,984	(3,199)	408,111	1,921	410,032

*Restated, see note 3b

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

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2013

	EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT							
	Ordinary shares	**Other capital surplus**	**Translation differences**	**Retained earnings**	**Cost of company shares held by the company**	**Total attributed to owners of parent company**	**Non-controlling interest**	**Total**
	U.S. dollars in thousands							
BALANCE AT 1 JANUARY 2012 (audited)	16,597	97,356	12,356	*266,692	(2,981)	390,020	-	390,020
CHANGES DURING THE YEAR ENDED DECEMBER 2012:								
Comprehensive income:								
Income for the year	-	-	-	51,570	-	51,570	410	51,980
Other comprehensive income:								
*Remeasurement of net defined benefit liability				(4,756)		(4,756)	-	(4,756)
Translation differences	-	-	4,393	-	-	4,393	-	4,393
Total comprehensive income for the year	-	-	4,393	46,814	-	51,207	410	51,617
Plan for allotment of Company shares to employees of subsidiary:								
Purchase of Company shares by subsidiary	-	-	-	-	(1,330)	(1,330)	-	(1,330)
Receipts in respect of allotment of Company shares to employees	-	(846)	-	-	1,268	422	-	422
Allotment of shares and options to senior employees- Recognition of compensation related to employee stock and option grants	-	1,553	-	-	-	1,553	-	1,553
Proceeds from issuance of shares to senior employees	116	4,036	-	-	-	4,152	-	4,152
Dividend paid	-	-	-	(3,029)	-	(3,029)	-	(3,029)
	16,713	102,099	16,749	310,477	(3,043)	442,995	410	443,405
Non-controlling interest from business combination	-	-	-	-	-	-	1,825	1,825
BALANCE AT 31 DECEMBER 2012 (audited)	16,713	102,099	16,749	310,477	(3,043)	442,995	2,235	445,230

*Restated, see note 3b

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

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2013

	3 months ended 31 March		Year ended 31 December,
	2013	2012	2012
	U.S. dollars in thousands		
	(Unaudited)		(Audited)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash generated from operations (see appendix)	8,599	20,465	104,774
Income tax paid – net	(4,243)	(2,775)	(13,563)
Net cash provided by operating activities	4,356	17,690	91,211
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment	(2,388)	(3,600)	(12,558)
Purchase of intangibles	(245)	(653)	(2,284)
Interest received	43	170	195
Acquisition of subsidiaries - net of cash acquired	(612)	(63,597)	(75,280)
Proceeds from sale of property	44	72	271
Net cash used in investing activities	(3,158)	(67,608)	(89,656)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Receipts from senior employees in respect of allotment of shares	451	-	4,152
Interest paid	(881)	(1,379)	(5,553)
Receipt of long-term bank loans	22	18,788	131,231
Repayment of long-term bank loans	(9,635)	(11,956)	(116,802)
Receipt of short-term bank credit and loans – net	2,948	46,213	7,319
Purchase of company shares by subsidiary – net of receipts in respect of the shares	(233)	(276)	(908)
Dividend paid	-	-	(3,029)
Net cash used in financing activities	(7,328)	51,390	16,410
INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS AND BANK CREDIT	(6,130)	1,472	17,965
BALANCE OF CASH AND CASH EQUIVALENTS AND BANK CREDIT AT BEGINNING OF PERIOD	53,933	36,472	36,472
PROFITS (losses) FROM EXCHANGE DIFFERENCES ON CASH, CASH EQUIVALENTS AND BANK CREDIT	1,051	(690)	(504)
BALANCE OF CASH, CASH EQUIVALENTS AND BANK CREDIT AT END OF PERIOD	48,854	37,254	53,933

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

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2013

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

	3 months ended 31 March		Year ended 31 December,
	2013	2012	2012
	U.S. dollars in thousands		
	(Unaudited)		(Audited)
Income before tax	17,486	16,914	65,608
Adjustments required to reflect the cash flows from operating activities:			
Depreciation and amortization	6,474	6,585	26,012
Recognition of compensation related to employee stock and options grants	381	537	1,553
Liability for employee rights upon retirement – net	56	50	(655)
Loss (gain) from sale and write-off of fixed assets and other assets	(27)	24	92
Erosion of loans	(771)	-	1,003
Interest paid – net	838	1,209	5,358
Loss from change in fair value of financial instruments	-	-	289
Income from bargain purchase	-	(1,729)	(1,729)
	6,951	6,676	31,923
Operating changes in working capital:			
Increase in accounts receivable:			
Trade	(12,559)	(9,684)	(1,712)
Other	(4,472)	173	(206)
Decrease in other long-term receivables	134	-	136
Increase in accounts payable:			
Trade	248	9,766	1,506
Other	1,229	1,764	3,772
Decrease in other long-term payables	-	-	(379)
Decrease (increase) in inventories	(418)	(5,144)	4,126
	(15,838)	(3,125)	7,243
Net cash flow from operating activities	8,599	20,465	104,774

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

FRUTAROM INDUSTRIES LTD.

EXPLANATORY NOTES TO THE CONDENSED CONSOLDIATED FINANCIAL INFORMATION

31 MARCH 2013

(UNAUDITED)

NOTE 1 - GENERAL:

a. Frutarom Industries Ltd. is a global company, founded in 1933. The Company operates through the consolidated company (hereafter - Frutarom Ltd.) and the companies under its control (hereafter – the Group). The Group has two main operations: the Flavours activity and the Fine Ingredients activity. The Group develops, manufactures, markets and sells flavours and fine ingredients used by producers of food and beverage, pharma-nutraceutical, flavours and fragrances, and personal care and cosmetics products as well as other products.

b. A substantial portion of the Company’s products are used by its customers in the manufacture of beverages, ice cream and yogurt, the demand for which generally increases during the summer months. As a result, Frutarom's business is characterized by seasonal fluctuations with generally higher sales in the second and the third quarters and lower sales in the first quarter and especially in the fourth quarter due to end of year festivals taking place in most sale destinations of Frutarom.

NOTE 2 - BASIS OF PREPARATION OF CONDESED CONSOLIDATED FINANCIAL STATEMENTS

a. The interim condensed consolidated financial information of the group as of 31 March , 2012 and for the 3 month period ended on that date (hereinafter - the interim financial information) was prepared in accordance with International Accounting Standard No. 34 - "Interim Financial Reporting" (hereafter – "IAS 34"). The interim financial information should be read in conjunction with the annual financial statements as of 31 December, 2012 and for the year ended on that date and with the notes thereto, which were all prepared in accordance with International Financial Reporting Standards (hereafter – "IFRS").
The interim financial information is reviewed and is not audited.

b. Estimates -

The preparation of interim financial statements requires management to exercise its judgment; it also requires the use of accounting estimates and assumptions that affect the application of the group's accounting policy and the amounts of reported assets, liabilities, income and expenses. Actual results may differ from those estimates.
In preparation of these condensed consolidated interim financial statements, the significant judgments that were exercised by the management in applying the group's accounting policy and the key sources of estimation uncertainty were similar to those applied in the consolidated annual financial statements for the year ended December 31, 2012.

NOTE 3 - PRINCIPAL ACCOUNTING POLICIES:

a. The significant accounting policies and computation methods used in preparing the interim financial information are consistent with those used in preparing the 2012 annual financial statements, except for the following:

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

NOTE 3 - PRINCIPAL ACCOUNTING POLICIES (continued):

b. First-time implementation of IFRS

Beginning on 1 January 2013, the Group first-time implements IAS 19 Amendment. According to the standard, the first-time implementation is done retrospectively and therefore, financial information of previous periods is restated.

IAS 19 Amendment makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits covered by IAS 19. The following is a summary of the key changes in the amended standard:

- "Actuarial gains and losses" are renamed "Remeasurement of net defined benefit liability (asset); hereinafter - Remeasurement), including, in addition to actuarial gains and losses certain other components as defined in IAS 19 Amendment. Remeasurement are recognized in other comprehensive income. This eliminates the options to recognize actuarial gains and losses in profit or loss or to use the corridor approach.

- Past service cost is recognized immediately in the period of a plan amendment and is no longer spread over future-service period to vesting.

- In defined benefit plans with plan assets, net interest expenses/income on the balance of net employee benefit asset or liability using the discount rate used in IAS 19 in its current version to measure the defined benefit liability. This accounting treatment replaces the use of the "interest cost" and "expected return of plan assets" that existed in IAS 19 in its previous version.

- The distinction between short- and long-term benefits for measurement purposes is based on when payment is expected, not when payment can be demanded.

- Any benefit that has a future-service obligation is not a termination benefit. A liability for a termination benefit is recognized when the entity can no longer withdraw the offer of the termination benefit or recognizes any related restructuring costs.

- Disclosure requirements are broader than those existing in the previous version of IAS 19. Until the first-time implementation of IAS 19 Amendment, the accounting policy of the Company was to recognize actuarial gains and losses arising from changes in actuarial assumptions and resulting from differences between past assumptions and actual results if they are more than the greater of 10% of the present value of the define benefit obligation and 10% of the fair value of plan assets. Those actuarial gains or losses are recognized to profit or loss over the average expected work period of the employees. After the first-time implementation of IAS 19 Amendment, the Company is not deferring the recognition of "Remeasurement". Remeasurement as computed under the new guidance are fully recognized to other comprehensive income in the period they incurred.

NOTE 3 - PRINCIPAL ACCOUNTING POLICIES (continued):

The effect of first-time implementation on the statement of financial position:

	As previously reported	Effect of first-time implementation of IAS 19 Amendment	As reported in these financial statements
	U.S. dollars in thousands		
1) **Statement of financial position for March 31, 2012 (unaudited):**			
Retirement benefit obligation, net	13,965	4,784	18,749
Deferred tax liabilities	26,450	(2,355)	25,240
Retained earnings	280,558	(3,574)	276,984
2) **Statement of financial position as of December 31, 2012 (audited)**			
Accounts receivable	10,949	(102)	10,847
Retirement benefit obligation, net	13,229	11,100	24,329
Deferred tax liabilities	27,292	(2,872)	24,420
Retained earnings	318,807	(8,330)	310,477

c. Amendment to IAS 1 "Financial Statements Presentation" (hereinafter - IAS 1 Amendment) IAS 1 Amendment changes the disclosure of other comprehensive income in the statement of comprehensive income. The key changes in the IAS 1 are as follows:

- The amendment requires entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be recycled to profit or loss in the future. Items that will not be recycled will be presented separately from items that may be recycled in the future.

  Entities that choose to present other comprehensive income items before tax will be required to show the amount of tax related to the two groups separately.

- The title used by IAS 1 for the statement of comprehensive income has changed to "statement of profit or loss and other comprehensive income. However, IAS 1 still permits entities to use other titles.

  The Group first-time implemented IAS 1 Amendment beginning 1 January 2013 retrospectively for all reported periods.
  As some other comprehensive income items of the Group (e.g. financial statements translation differences) may be recycled to profit or loss, while other items in other comprehensive income (e.g. remeasurements of defined benefit plans) may not be recycled to profit or loss, then following the implementation of the amendment, the Company presented each group separately in the statement of comprehensive income.

d. The first-time implementation of additional new IFRSs and amendments to existing standards which are yet to be effective and the group did not elect to early adopt are detailed in the 2012 financial statements of the group.

NOTE 4 – DIVIDEND

On 12, March 2013, the Company's Board of Directors declared the distribution of a dividend of NIS 0.24 per share, in the total amount of $ 3,806 thousands.

NOTE 5 – SEGMENT REPORTING

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

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

	Flavors operations	Fine ingredients operations	Trade and Marketing operations	Eliminations	Total Consolidated
	U.S. dollars in thousands				
3 months ended 31 March 2013 (unaudited):					
Revenues	110,593	37,515	5,293	(1,236)	152,165
Segment results	14,512	4,156	183	54	18,905
3 months ended 31 March 2012 (unaudited):					
Revenues	108,966	37,468	5,386	(603)	151,217
Segment results	14,002	3,646	362	(173)	17,837
Year ended 31 December 2012 (audited):					
Revenues	457,341	140,763	22,342	(2,445)	618,001
Segment results	59,477	12,378	1,000	(7)	72,848

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

	3 months ended 31 March 2013	3 months ended 31 March 2012	Year ended 31 December 2012
	(Unaudited)	(Unaudited)	(Audited)
	U.S. dollars in thousands		
Reported segment profits	18,905	17,837	72,848
Financing expenses (income)	1,419	923	7,240
Profit before taxes on income	17,486	16,914	65,608

NOTE 6 – SUBSEQUENT EVENTS

On May 2, 2013 Frutarom signed, through a subsidiary, an agreement for the acquisition of 100% of the share capital of the Flavour South African Company JannDeRee for the sum of 5.2M USD.

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

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

For this matter, the members of the management are:

1. Ori Yehudai, President and CEO
2. Alon Granot, Executive Vice President and CFO
3. Amos Anatot, Executive Vice President Global Supply Chain and Operations.
4. Dana Maor, Global Vice President, Human Resources
5. Guy Gill, Vice President Finance
6. Tali Mirsky-Lachman, Global Vice President, Legal Affairs and Corporate Secretary
7. Lilit Levi, Global Chief Information Officer

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

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

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

In the Annual Report Regarding Effectiveness of Internal Audit on Financial Reporting and on Disclosure attached to the Periodic Report ending on December 31, 2012 (hereinafter: the "**Last Annual Report Regarding Effectiveness**") the Board of Directors and the Company's management assessed the internal audit in the Company; based on this assessment, the Board of Directors and the Company's management concluded that said internal audit, as at December 31, 2012, is effective.

As of the date of the report, no events or issues were brought to the attention of the Board of Directors and the Company's management which could change the assessment of effectiveness of the internal audit, as was presented in the Last Annual Report Regarding Effectiveness.

Based on the assessment of effectiveness performed by the management supervised by the Board of Directors as explained below, and subject to the statements below regarding the Acquired Company (as defined below), the Board of Directors and management of the corporation have concluded that the internal audit on the financial report and on disclosure in the corporation as at March 31, 2013, is effective.

Acquisition of the Etol Company ("**Etol**")

Regarding the description of Etol and the acquisition transaction, see Note 5G to the Company's 2012 Periodic Report.

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

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

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

(A) The date on which the transaction was concluded and the internal audit processes required for implementation – insufficient time had passed to fully implement the Company's internal audit processes at Etol.

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

In order to assess the effectiveness of Etol's internal audit, the Company, starting from the date of completion of the acquisition of the Acquired Company, has been examining examine the Acquired Company's existing processes and audits in the matter of financial reporting and disclosure, mapping out risks and identifying material processes.

The Company's management would like to emphasize that based on: its work experience with Etol from the date of acquisition, Etol’s internal auditor’s control, the opinion of the Acquired Company's auditing accountants, and based on the fact that Etol prior to it’s acquisition was a traded company which reported under the rules of the IFRS, the exclusion of the acquired company from the Report Regarding Effectiveness of Internal Audit has low probability of affecting the Company's internal audit or the information presented in the financial statements.

Directors' Declarations

Declaration of the President and CEO

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

1. I have reviewed the Quarterly Report of Frutarom Industries Ltd. (the "**Company**") for the first quarter of 2013 (the "**Reports**");
2. To my knowledge, the Reports do not include any false representations of any material fact and do not omit representation of any material fact required in order to ensure that the representations contained in these, in light of the circumstances under which they were included, are not misleading in relation to the period of the Reports;
3. To my knowledge, the financial reports and other financial information contained in the reports duly reflect the Company's financial situation, its results of operations and cash flow for the dates and periods to which the Reports relate in all material aspects;
4. I have disclosed to the Company's auditors, the Board of Directors and the Audit Committee of the Company's Board of Directors, based on my most updated assessment of the internal control on financial reporting and disclosure:
    a. All the material deficiencies and weaknesses in prescribing and implementing the internal control on the financial reporting and on the disclosure, if any, which may reasonably adversely affect the ability of the Company to gather, process or report on financial information in a manner which could raise concerns regarding the reliability of the financial reporting and the preparation of the financial reports in accordance to the provisions of the law; and –
    b. Any fraud, material or not material, which involves the president and CEO or anyone directly reporting to him or other employees who hold significant positions in the internal control on the financial reporting and on disclosure;
5. I, alone, or together with others in the Company:

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

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

c. No events or issues occurring during the period between the periodic report for 2012 and this time of this Report which could change the Board of Directors' and management's conclusion regarding effectiveness of the internal report on the Company's financial statement and on the disclosure have been brought to my attention.

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

Date: May 22, 2013

____

Ori Yehudai

President and CEO

Directors' Declarations

Declaration of the Executive Vice President and CFO

The undersigned, Alon Granot, hereby declares as follows:

1. I have reviewed the financial reports and other financial information contained in the interim reports of Frutarom Industries Ltd. (the "**Company**") for the first quarter of 2013 (the "**Reports**");
2. To my knowledge, the interim financial reports and other financial information contained in the interim Reports do not include any false representations of any material fact and do not omit representation of any material fact required in order to ensure that the representations contained in these, in light of the circumstances under which such representations were included, are not misleading in relation to the period of the Reports;
3. To my knowledge, the interim financial reports and other financial information contained in the interim reports duly reflect the Company's financial situation, its results of operations and cash flow for the dates and periods to which the Reports relate in all material aspects;
4. I have disclosed to the Company's auditors, the Board of Directors and the Audit Committee of the Company's Board of Directors, based on my most updated assessment of the internal control on financial reporting and disclosure:
   a. All the material deficiencies and weaknesses in prescribing and implementing the internal control on the financial reporting and on the disclosure, if any, which may reasonably adversely affect the ability of the Company to gather, process or report on financial information in a manner which could raise concerns regarding the reliability of the financial reporting and the preparation of the financial reports in accordance to the provisions of the law; and –
   b. Any fraud, material or not material, which involves the president and CEO or anyone directly reporting to him or other employees who hold

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

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

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

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

    c. No events or issues occurring during the period between the periodic report for 2012 and this time, relating to interim financial reports and to any other financial information contained in the interim report, which could, in my opinion, change the Board of Directors' and management's conclusion regarding effectiveness of the internal report on the Company's financial statement and on the disclosure have been brought to my attention.

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

Date: May 22, 2013

____

Alon Granot
Executive Vice President and CFO