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

BOARD OF DIRECTORS' DISCUSSIONS OF THE COMPANY'S STATE OF BUSINESS

A. REVIEW OF ACTIVITY

Frutarom Industries Ltd. (the **"Company"**) is a global company established in Israel in 1933. Frutarom became a public company in 1996 upon registration of its shares for trade on the Tel Aviv Stock Exchange. In February 2005, the Company's Global Depository Receipts were also listed on the London Stock Exchange Official List. The Company, itself and through its subsidiaries ("**Frutarom**" or the **"Group"**) develops, produces and markets flavors and fine ingredients used in the manufacture of food, beverages, flavors, fragrances, pharmaceuticals/nutraceuticals and personal care products. Frutarom operates production facilities in Europe, North America, Latin America, Israel, Asia and Africa, marketing and selling over 30,000 products to more than 14,000 customers in more than 140 countries, and employing 2,080 people throughout the world.

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

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

  In recent years, Frutarom's Flavors segment has undergone accelerated growth, and in the first half of 2013 constituted 73% 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, natural bio-technology algae-based products, aroma chemicals, essential oils, unique citrus products, natural gums and stabilizers. The Specialty Fine Ingredients products are sold primarily to the food, beverage, flavor, fragrance, pharmaceutical/nutraceutical and personal care industries.

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

Rapid growth strategy – profitable organic growth and strategic acquisitions

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

- Frutarom focuses on and will continue to invest great resources in accelerating growth and increasing its market share in emerging markets where growth rates are higher, and in North America, in order to maximize the rapid growth potential and the many business opportunities therein, including 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 the first half of 2013, and is expected to continue throughout the remainder of 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 the first half of 2013 accelerated internal growth in the American market continued, and is expected to continue.

  Frutarom's rapid growth in markets outside of Western Europe has caused Frutarom's sales segment in non- Western European markets, which represented 49% of total sales in 2010, to increase to 58% of total sales in 2012 and to continue growing in 2013.

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

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

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

After five strategic acquisitions in 2011 and three at the beginning of 2012, all of which were successfully integrated with its global activities and which have contributed to both a growth in sales and improved margins, Frutarom has continued its acquisition strategy and acquired the South African JannDeRee in May 2013, as detailed below.

<u>Acquisition of JannDeRee</u>

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) Limited ("**JannDeRee**") for approximately US$ 5 million.

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

JannDeRee, founded in 1993, develops, manufactures, and markets flavors with an emphasis on savory flavors and sweet flavor solutions. JannDeRee, which has grown rapidly over the past few years, has a research and development, production and marketing site in Johannesburg, South Africa, 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 is acting to integrate activities, including integration of Frutarom's sites in South Africa with JannDeRee's sites, integration of purchase, production and supply infrastructures and unification of R&D, marketing and sales.

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

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 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 Plans -** 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 significant yearly savings of US$10 million, which will begin coming to fruition over the second half of 2013 and mainly in 2014. These plans include, among other things, closing one of Frutarom's sites in Northern Germany and integration of its activities with other more efficient sites; transfer of the Flavors activity from Frutarom's New Jersey site to the modern facility it acquired as part of the FSI acquisition in Cincinnati, where Frutarom now manages its growing Flavors activity in North America; and transfer of activities to more efficient and competitive sites, providing customers with shorter supply times and improved services. Frutarom’s plans also include a number of projects for lowering logistic costs, in order to achieve a more efficient chain of supply.

Frutarom anticipates that the realization of its 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$777.1 million and equity of US$467.0 million as of June 30, 2013, constituting 60.1% of the total assets) and net debt level (total loans after deduction of cash), which stands at US$131.3 million as of June 30, 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, through further strategic acquisitions, while strengthening its competitiveness and its position as one of the leading global companies in the field of flavors and fine ingredients, and to realize its vision:

“To be the Preferred Partner for Tasty and Healthy Success”

B. FINANCIAL STATUS

The Group's total assets as of June 30, 2013 stand at US$777.1 million compared with US$754.3 million as of June 30, 2012 and US$772.4 million on December 31, 2012.

The Group's current assets as of June 30, 2013 totaled US$315.3 million, compared with US$293.4 million, as of June 30, 2012 and US$300.9 million as of December 31, 2012.

Fixed assets after deduction of cumulative depreciation and other assets net as of June 30, 2013 totaled US$458.3 million, compared with US$457.9 million as of June 30, 2012 and US$468.0 million as of December 31, 2012.

C. RESULTS OF OPERATIONS – Q2 2013

Q2 2013 was a record quarter for Frutarom, in which it achieved second quarter record highs in sales which reached US$168.6 million, in gross profit, operating profit, in EBITDA which reached US$33.9 million (net of one-time expenses), in net profit which reached US$19.1 million (net of one-time expenses), and in earnings per share, all despite challenging market conditions in the economy in general and in Central and Western Europe in particular.

The trend of improvement in gross and operating profit and margins continues. Gross margin increased, reaching 39.6% compared with 37.5% during the same quarter last year.

Integration and streamlining processes, which include integration of production sites and transfer of activities to countries where operating costs are lower, are moving ahead according to plan and successfully. Operating margin, net of one-time expenses (expenses for realization of streamlining plans as stated) has risen, reaching 16.0% in Q2 of this year, compared to 13.5% in the same quarter last year.

Sales

Frutarom sales in Q2 2013 grew by 2.3% reaching a Q2 record high of US$168.6 million, compared with US$164.8 million in Q2 2012, and US$152.2 million in Q1 of this year. Currency effect this quarter was negligible.

Flavor Activity sales for the quarter increased by 2.2% compared to the same quarter last year, to a Q2 record high of US$125.1 million, constituting 74% of total Frutarom sales.

Frutarom sales in Specialty Fine Ingredients increased by 3.0% compared to the same quarter last year and reached US$37.6 million.

Sales breakdown by segments in Q2 in 2003 - 2013 (US$ M and %)

		Q2 2003	Q2 2004	Q2 2005	Q2 2006	Q2 2007	Q2 2008	Q2 2009	Q2 2010	Q2 2011	Q2 2012	Q2 2013
Flavors Activity	**Sales**	15.7	23.7	43.1	49.5	61.7	98.1	75.8	77.4	92.7	122.5	125.1
	(%)	49.1%	53.1%	64.2%	68.4%	67.3%	74.0%	71.0%	67.7%	71.0%	74.3%	74.2%
Specialty Fine Ingredients Activity	**Sales**	15.2	19.7	23.7	22.5	28.9	32.5	29.7	36.2	37.2	36.5	37.6
	(%)	47.4%	44.2%	35.3%	31.1%	31.5%	24.5%	27.9%	31.7%	28.5%	22.2%	22.3%
Trade and Marketing	**Sales**	1.7	1.9	1.5	1.5	2.1	2.9	2.0	1.1	1.6	6.3	7.2
	(%)	5.5%	4.2%	2.2%	2.1%	2.3%	2.2%	1.9%	1.0%	1.2%	3.8%	4.2%
Inter-activity sales	**Sales**	-0.6	-0.8	-1.2	-1.1	-1.0	-0.9	-0.8	-0.4	-0.9	-0.5	-1.2
	(%)	-1.9%	-1.8%	-1.8%	-1.6%	-1.1%	-0.7%	-0.8%	-0.4%	-0.7%	-0.3%	-0.7%
Total Sales		32.0	44.6	67.1	72.3	91.7	132.6	106.7	114.3	130.6	164.8	168.6

The following is a summary of the profit and loss report for Q2 2012 - 2013 (US$ M):

In Q2 2013 Frutarom achieved Q2 record highs in sales, gross profit, operating profit, EBITDA , net profit and earning per share.

	2012 Q2	2013 Q2	Change (%) 2012 - 2013
Sales	164.8	168.6	2.3%
Gross profit	61.8	66.9	8.2%
R&D, Sales, G&A and Other expenses	40.0	41.9	4.0%
Operating profit	21.8	24.9	14.4%
Operating profit net of one-time expenses	22.2	27.0	21.6%
EBITDA	28.5	32.5	14%
EBITDA net of one-time expenses	28.9	33.9	17.3%
Financing Expenses	4.3	2.3	-46.9%
Profit before tax	17.5	22.6	29.6%
Net profit	13.5	17.6	30.1%
Net profit net of one-time expenses	13.9	19.1	37.7%

Gross Profit

Gross profit in Q2 2013 increased by 8.2%, reaching a quarterly high of US$66.9 million compared with US$61.8 million in the same quarter in 2012. Gross margin increased, reaching 39.6%, compared with gross margin of 37.5% in Q2 2012. Gross margin net of the Trade & Marketing activity (which is not one of Frutarom's core activities) reached 40.4% compared with 38.5% in Q2 2012.

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

In addition, Frutarom continues to strengthen its global purchase infrastructure, utilizing its added purchase power from its acquisitions and continuously expanding its pool of suppliers 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). The Company acts to continue realizing the opportunities created following its acquisitions in order to achieve optimization and operational efficiency, integrating its production sites, transferring activities to more efficient and competitive plants for more efficient logistics infrastructures and chain of supply, while also reducing costs and improving its logistics infrastructure.

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

In Q2 2013, sales and marketing, R&D, G&A and other expenses net of one-time expenses totaled US$39.9 million (23.7% of sales), compared with US$39.6 million (24.0% of sales) in the same quarter last year.

Sales and marketing, R&D, G&A and other expenses in Q2 of 2013 (including one-time expenses) came to US$41.9 million (24.9% of sales) compared with US$40.0 million (24.3% of sales) in the same quarter last year.

Sales and marketing, R&D, G&A and other expenses in Q2 2013 included one-time expenses of US$2.1 million, mostly in light of the closing of one of Frutarom's sites in North Germany and integration of its activities with other sites, as part of the Company's streamlining plan.

Over the same period last year, sales and marketing, R&D, G&A and other expenses included one-time expenses for acquisitions in the amount of US$0.4 million.

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. The successful integration of its latest acquisitions and the streamlining actions, which are moving ahead successfully as stated, will contribute to savings in expenses in the second half of 2013 and mainly in 2014.

Operating Profit and EBITDA

Operating profit net of one-time expenses (for reorganization) in Q2 2013 increased by 21.6%, reaching US$27.0 million (16.0% of sales), compared with US$22.2 million (13.5% of sales) last year.

Operating profit in Q2 2013 (including the one-time expenses) increased by 14.4% reaching US$24.9 million (14.8% of sales) compared with US$21.8 million (13.2% of sales) during the same period last year.

Frutarom's EBITDA in Q2 2013, net of one-time expenses (for reorganization) increased by 17.3%, reaching US$33.9 million (20.1% of sales), compared with US$28.9 million for the same period last year (17.6% of sales).

Frutarom's EBITDA for Q2 2013 (including the one-time expenses) increased by 14.0%, reaching of US$32.5 million (19.3% of sales) compared with US$28.5 million during the same period last year (17.3% of sales).

Financing Expenses / Income

In Q2 2013, financing expenses totaled US$2.3 million (1.4% of sales), compared with US$4.3 million in the same quarter last year (2.6% of sales).

Interest expenses in Q2 2013 totaled US$1.2 million, compared with US$1.9 million during the same period last year.

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

In Q1 2013 financing expenses from exchange differentials came to US$1.1 million (0.7% of sales), compared with financing expenses of US$2.4 million (1.4% of sales) in the same quarter last year.

Profit before Tax

In Q2 2013, profit before tax increased by 30% and came to US$22.6 million (13.4% of sales), compared with US$17.5 million (10.6% of sales) in the same quarter last year.

Taxes on Income

In Q2 2013, taxes on income totaled US$5.0 million (22.1% of profit before tax) compared with US$3.9 million (22.5% of profit before tax) in Q2 2012.

Net Profit

In Q2 2013, net profit net of one-time expenses (for reorganization) rose by 37.7% reaching a record high of US$19.1 million, compared with US$13.9 million in Q2 2012. Net margin reached 11.3% in Q2 2013, compared with 8.4% in Q2 2012.

Net profit for Q2 2013 (including said one-time expenses) increased by 30.0% reaching a record high of US$ 17.6 million compared with US$13.5 million for Q2 2012. Net margin came to 10.5% in Q2 2013, compared with 8.2% in Q2 2012.

Earnings per Share

In Q2 2013, earnings per share net of one-time expenses increased by 35.6% reaching a record of US$0.33, compared with US$0.24 last year.

Earnings per share in Q2 2012 including the one-time expenses increased by 27.4%, reaching US$0.30, compared with US$0.23 in 2012.

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

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

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

D. RESULTS OF OPERATIONS IN THE FIRST HALF OF 2013

Sales

In H1 2013, Frutarom's sales increased by 1.5% reaching a half-yearly high of US$ 320.8 million compared to US$ 316.0 million in the same period in 2012. Currency effect was negligible**.**

Frutarom's sales in the Flavors segment increased by approximately 1.8% compared to the H1 last year, reaching a half-yearly high of US$ 235.7 million, constituting 73.5% of Frutarom’s total sales.

Frutarom's sales in Specialty Fine Ingredients segment increased by 1.6% compared with the H1 of last year, reaching US$75.1 million.

Sales breakdown by segments in H1 in 2003 - 2013 (US$ M and %)

		H1 2003	H1 2004	H1 2005	H1 2006	H1 2007	H1 2008	H1 2009	H1 2010	H1 2011	H1 2012	H1 2013
Flavor Segment	sales	28.4	42.6	83.4	94.2	111.6	182.5	143.1	152.8	172.9	231.4	235.7
	(%)	47.2%	48.1%	63.3%	65.7%	64.8%	71.7%	69.8%	67.1%	68.7%	73.2%	73.5%
Fine Ingredient Segment	sales	29.3	43.6	47.1	48.0	58.0	67.8	59.3	73.8	76.3	74.0	75.1
	(%)	48.7%	49.3%	35.7%	33.5%	33.7%	26.6%	28.9%	32.4%	30.3%	23.4%	23.4%
Trade & Marketing	sales	3.5	3.6	3.3	2.9	4.7	6.6	4.2	2.3	3.9	11.7	12.4
	(%)	5.8%	4.1%	2.5%	2.0%	2.7%	2.6%	2.1%	1.0%	1.6%	3.7%	3.9%
Inter -activity sales	sales	-1.1	-1.3	-2.0	-1.8	-2.1	-2.3	-1.5	-1.2	-1.5	-1.1	-2.5
	(%)	-1.8%	-1.5%	-1.5%	-1.2%	-1.2%	-0.9%	-0.8%	-0.5%	-0.6%	-0.3%	-0.8%
Total Sales		60.2	88.5	131.8	143.3	172.2	254.6	205.1	227.7	251.6	316.0	320.8

The following is a summary of the profit and loss report for H1 2012 - 2013 (US$ M):

In H1 2013 Frutarom achieved half-yearly record highs in gross profit, operating profit, EBITDA, net profit and earning per share.

	H1 2012	H1 2013	Change (%) 2012 - 2013
Sales	316.0	320.8	1.5%
Gross profit	116.7	124.0	6.3%
R&D, Sales, G&A and Other expenses	77.1	80.2	4.0%
Operating profit	39.6	43.8	10.6%
Operating profit net of one-time expenses	39.8	46.0	15.6%
EBITDA	53.5	58.3	9.0%
EBITDA net of one-time expenses	53.6	59.8	11.5%
Financing Expenses	5.2	3.7	-29.1%
Profit before tax	34.4	40.1	16.7%
Net profit	27.0	31.6	17.0%
Net profit net of one-time expenses	26.7	33.2	24.4%

Gross Profit

Gross profit in H1 2013 increased by 6.3%, reaching a half-yearly high of US$124.0 million compared with US$116.7 million in the period in 2012. Gross margin increased, reaching 38.7%, compared with gross margin of 36.9% in H1 2012. Gross margin net of the Trade & Marketing activity (not one of Frutarom's core activities) reached 39.8% compared with 37.9% in H1 2012.

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

In H1 2013, sales and marketing, R&D, G&A and other expenses net of one-time expenses (for reorganization) totaled US$78.0 million (24.3% of sales), compared with US$76.9 million (24.3% of sales) in the same period last year.

Sales and marketing, R&D, G&A and other expenses in H1 of 2013 (including the one-time expenses) came to US$80.2 million (25.0% of sales) compared with US$77.1 million (24.4% of sales) in the same quarter last year.

Sales and marketing, R&D, G&A and other expenses in H1 2013 included one-time expenses of US$2.2 million, mostly in light of the closing of one of Frutarom's sites in North Germany and its integration with other sites, as part of the Company's streamlining plan.

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

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

Operating Profit and EBITDA

Operating profit net of one-time expenses (for reorganization) in H1 2013 increased by 15.6%, reaching US$46.0 million (14.3% of sales), compared with US$39.8 million (12.6% of sales) last year.

Operating profit in H1 2013 (including the one-time expenses) increased by 10.6% reaching US$43.8 million (13.7% of sales) compared with US$39.6 million (12.5% of sales) during the same period last year.

Frutarom's EBITDA in H1 2013, net of one-time expenses (for reorganization) increased by 11.5%, reaching US$59.8 million (18.6% of sales), compared with US$53.6 million for the same period last year (17.0% of sales).

Frutarom's EBITDA in H1 2013 (including the one-time expenses) increased by 9.0%, reaching of US$58.3 million (18.2% of sales) compared with US$53.5 million during the same period last year (16.9% of sales).

Financing Expenses / Income

In H1 2013, financing expenses totaled US$3.7 million compared with US$5.2 million in the same period last year.

Interest expenses in H1 2013 totaled US$2.4 million, compared with US$3.8 million during the same period last year. Reduction in interest expenses derives from a reduction in the Company's current loan status (with the contribution of the achieved cash flow) and from a reduction in interest rates.

In H1 2013 financing expenses from exchange differentials came to US$1.3 million compared with US$1.4 million expenses in the same period last year.

Profit before Tax

In H1 2013, profit before tax increased by 16.7% and came to US$40.1 million (12.5% of sales), compared with US$34.4 million (10.9% of sales) in the same period last year.

Taxes on Income

In H1 2013, taxes on income totaled US$8.5 million (21.2% of profit before tax) compared with US$7.3 million (21.3% of profit before tax) in H1 2012.

Net Profit

In H1 2013, net profit rose by 24.4% net of onetime expenses (for reorganization) reaching a record high US$33.2 million, compared with US$26.7 million in H1 2012. Net margin reached 10.3% in H1 2013, compared with 8.4% in H1 2012.

Net profit for H1 2013 (including the one-time expenses) increased by 17.0% reaching a record high of US$ 31.6 million compared with US$27.0 million for H1 2012. Net margin one-time came to 9.9%, compared with 8.6% in H1 2012.

Earnings per Share

Earnings per share in H1 of 2013 net of one-time expenses (for reorganization) increased by 23.2% reaching a record high of US$ 0.57 , compared with US$ 0.46 per share during H1 last year.
Earnings per share in Q2 2013 (including said one-time expenses) increased by 15.7%, reaching a record high of US$0.54, compared with US$0.47 in H1 2012.

E. LIQUIDITY

The Company's cash flow from operating activities in Q2 2013 reached US$16.4 million, compared with US$22.3 million in Q2 2012.

The change in cash flow derives from higher consumption of working capital this quarter, compared with Q2 2012, in light of the larger increase in activities between the second quarter and the first quarter of this year, as opposed to last year, where the increase in activities between the second quarter and the first quarter was lower.

Tax payments in the quarter came to US$4.9M compared with US$0.4M last year. The difference derives from timing differences for tax payments, a higher profit before tax this quarter and tax returns received last year.

Cash flow from working capital for H1 came to US$20.8 M compared with US$39.9 M during the same period last year.
The reduction in cash flow is mainly the result of an increase in consumption of working capital in H1 of this year following a larger increase in activities between H1 of this year and Q4 of 2012, compared with the increase in activities between H1 of 2012 and Q4 of 2011.

Tax payments in H1 came to US$9.2M compared with US$3.1M PY. The difference derives from timing differences for tax payments, a higher profit before tax this half and tax returns received last year.

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 June 30, 2013 totaled US$466.9 million (60.1% of the balance sheet) compared with US$409.3 million as of June 30, 2012 (54.3% 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 Q2 2013 totaled US$142.0 million, compared with US$168.0 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 Q2 2013 came to US$36.8 million, compared with US$44.9 million during the corresponding quarter last year.

Accounts Payable and Other Payable (Average)

In Q2 2013, the Company had accounts payable and other payables in the amount of US$84.8 million, compared with US$96.3 million in the same quarter last year.

During Q2 2013, the Company granted credit of US$126.0 million to its customers, compared with US$117.3 million during Q2 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 Q2 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 June 30, 2013, the Group has long term loans, net of current maturities, totaling US$71.0 million and short term debt, including current maturities of long term loans, of US$100.5 million. The Company has cash balances of US$40.2 million.

G. 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	**3.980**	**3.799**	**3.618**	**3.437**	**3.256**
	US$ 000				
Cash and cash equivalents	(35)	(17)	349	17	35
Customers	(1,113)	(556)	11,127	556	1,113
Other debtors	(127)	(64)	1,274	64	127
Other long term creditors	(6)	(3)	61	3	6
	(1,281)	**(640)**	**12,811**	**640**	**1,281**
Credit from banking corporations	1,512	756	15,119	(756)	(1,512)
Suppliers and service providers	599	299	5,985	(299)	(599)
Other creditors	481	241	4,811	(241)	(481)
	2,592	**1,296**	**25,915**	**(1,296)**	**(2,592)**
Total exposure, net	**1,311**	**656**	**(13,104)**	**(656)**	**(1,311)**

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	**0.721**	**0.688**	**0.655**	**0.623**	**0.590**
	US$ 000				
Cash and cash equivalents	(409)	(204)	4,089	204	409
Customers	(1,405)	(703)	14,053	703	1,405
Other debtors	(103)	(51)	1,029	51	103
	(1,917)	**(958)**	**19,171**	**958**	**1,917**
Credit from banking corporations	1,706	853	17,058	(853)	(1,706)
Suppliers and service providers	694	347	6,942	(347)	(694)
Other creditors	825	413	8,254	(413)	(825)
	-	-	-	-	-
Total exposure, net	**1,308**	**655**	**(13,083)**	**(655)**	**(1,308)**

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	**0.843**	**0.805**	**0.767**	**0.728**	**0.690**
	US$ 000				
Cash and cash equivalents	(1,039)	(519)	10,385	519	1,039
Customers	(4,958)	(2,479)	49,575	2,479	4,958
Other debtors	(944)	(472)	9,441	472	944
Other long term debtors	(17)	(8)	166	8	17
	(6,958)	**(3,478)**	**69,567**	**3,478**	**6,958**
Credit from banking corporations	4,403	2,202	44,033	(2,202)	(4,403)
Suppliers and service providers	2,196	1,098	21,955	(1,098)	(2,196)
Other creditors	1,299	650	12,994	(650)	(1,299)
	7,898	**3,950**	**78,982**	**(3,950)**	**(7,898)**
Total exposure, net	**940**	**472**	**(9,415)**	**(472)**	**(940)**

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	**1.041**	**0.994**	**0.946**	**0.899**	**0.852**
	US$ 000				
Cash and cash equivalents	(300)	(150)	3,003	150	300
Customers	(812)	(406)	8,119	406	812
Other debtors	(70)	(35)	704	35	70
	(1,182)	**(591)**	**11,826**	**591**	**1,182**
Credit from banking corporations	4,348	2,174	43,477	(2,174)	(4,348)
Suppliers and service providers	306	153	3,058	(153)	(306)
Other creditors	861	430	8,609	(430)	(861)
	5,515	**2,757**	**55,144**	**(2,757)**	**(5,515)**
Total exposure, net	**4,333**	**2,166**	**(43,318)**	**(2,166)**	**(4,333)**

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	(745)	(372)	7,447	372	745
Customers	(1,882)	(941)	18,816	941	1,882
Other debtors	(95)	(48)	954	48	95
	(2,722)	**(1,361)**	**27,217**	**1,361**	**2,722**
Credit from banks	178	89	1,776	(89)	(178)
Suppliers and service providers	298	149	2,982	(149)	(298)
Other creditors	330	165	3,299	(165)	(330)
Other long term creditors	65	32	649	(32)	(65)
	871	**435**	**8,706**	**(435)**	**(871)**
Total exposure, net	**(1,851)**	**(926)**	**18,511**	**926**	**1,851**

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	1,740	(8)	(17)
Total exposure, net	**17**	**9**	**1,740**	**(8)**	**(17)**

H. 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	**3.980**	**3.799**	**3.618**	**3.437**	**3.256**
	US$ 000				
Total Exposure net	**1,311**	**656**	**(13,104)**	**(656)**	**(1,311)**

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	**3.980**	**3.799**	**3.618**	**3.437**	**3.256**
	US$ 000				
Total Exposure net	**1,311**	**656**	**(13,104)**	**(656)**	**(1,311)**

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	**0.843**	**0.805**	**0.767**	**0.728**	**0.690**
	US$ 000				
Total exposure, net	**940**	**472**	**(9,415)**	**(472)**	**(940)**

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	**1.041**	**0.994**	**0.946**	**0.899**	**0.852**
	US$ 000				
Total exposure, net	**4,333**	**2,166**	**(43,318)**	**(2,166)**	**(4,333)**

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	**(1,851)**	**(926)**	**18,511**	**926**	**1,851**

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**	**1,740**	**(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 ("**Annual Periodic Report for 2012"**).

Balance Sheet Committee and Members

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

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

The Company's financial statements were discussed at the meeting of the Balance Sheet Committee held on August 18, 2013. The members of the committee were sent the Company's financial statements of June 30, 2013 two business days prior to the meeting for their perusal. The three members of the Balance Sheet Committee participated in the discussion, and in addition the Company's independent auditors, Mr. Ori Yehudai, the Company's President and CEO, Mr. Alon Granot, the Executive Vice President and CFO, Mr. Guy Gill, the Vice President of Finance, and Ms. Karin Ben Ari, a legal counsel in the Company, attended the meeting. At the meeting, presentations were given by the Company and by the auditors. The Balance Sheet Committee discussed, among other things, the estimates and evaluations included in the financial statements, the internal control on financial reporting, the completeness and fairness of the disclosure in the financial statements, the accounting policy adopted and the financial practice implemented with regard to the material matters of the Group, and the valuations, including the assumptions and estimations on which the data in the financial statements is based. Within the discussion, the Balance Sheet Committee formed its recommendations to the Board of Directors in accordance with the Statements Approval Regulations. The recommendations of the committee were delivered to the Company's Board of Directors two business days prior to the Board meeting at which the financial statements were discussed, which in the opinion of the Board of Directors and in accordance with its resolution was a reasonable time period in light of the scope and complexity of the recommendations.

<u>Approval Procedure of the Reports by the Board of Directors</u>

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 August 20, 2013, where the financial statements of June 30, 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$3,892 thousand). The dividend was paid out on May 5, 2013.

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

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

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 one meeting during Q2 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

August 20, 2013

FRUTAROM INDUSTRIES LTD.

INTERIM FINANCIAL INFORMATION

(Unaudited)

30 JUNE 2013

FRUTAROM INDUSTRIES LTD.

INTERIM FINANCIAL INFORMATION

(Unaudited)

30 JUNE 2013

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Review Report of Interim Financial Information

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 30 June 2013 and the related condensed consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the six and three-month periods 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 26.8% of total consolidated assets as of 30 June 2013 and whose revenues included in consolidation constitute approximately 27.4% and 30.1% of total consolidated revenues for the six and three-month periods ended on that date, respectively. 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
20 August, 2013	Certified Public Accountants (lsr.)
	A member firm of PricewaterhouseCoopers International Limited

Kesselman & Kesselman, 1 Nathanson Street, Haifa 33034, Israel, P.O Box 33984, Haifa 31339
Telephone: +972 -4- 8605000, Fax:+972 -4- 8605001, www.pwc.co.il

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLDIATED STATEMENT OF FINANCIAL POSITION

30 JUNE 2013

	30 June		31 December
	2013	2012	2012
	(Unaudited)		(Audited)
	U.S. dollars in thousands		
A s s e t s			
CURRENT ASSETS:			
Cash and cash equivalents	40,241	38,639	53,933
Accounts receivable:			
Trade	127,927	117,279	106,754
Other	13,754	5,953	*10,847
Prepaid expenses and advances to suppliers	7,845	8,836	6,966
Inventory	125,502	122,663	122,433
	315,269	293,370	300,933
NON-CURRENT ASSETS:			
Property, plant and equipment	185,567	184,549	188,824
Intangible assets	272,764	273,337	279,198
Deferred income tax assets	3,226	2,630	3,075
Other	227	461	379
	461,784	460,977	471,476
Total assets	777,053	754,347	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: August 20, 2013

	30 June 2013	30 June 2012	31 December 2012
	(Unaudited)	(Unaudited)	(Audited)
	U.S. dollars in thousands		
Liabilities and shareholders' equity			
CURRENT LIABILITIES:			
Short-term bank credit and loans and current maturities of long-term loans	100,543	56,347	52,196
Accounts payable:			
Trade	48,679	50,579	48,237
Other	40,964	48,242	39,269
	190,186	155,168	139,702
NON-CURRENT LIABILITIES:			
Long-term loans, net of current maturities	70,972	147,057	137,836
Retirement benefit obligations, net	24,209	*17,979	*24,329
Deferred income tax liabilities	23,786	*23,811	*24,420
Other	950	1,026	892
	119,917	189,873	187,477
Total liabilities	310,103	345,041	327,179
EQUITY:			
Equity attributable to owners of the parent:			
Ordinary shares	16,728	16,597	16,713
Capital surplus	102,980	97,823	102,099
Translation differences	9,612	5,065	16,749
Retained earnings	337,990	*290,494	*310,477
Less - cost of company shares held by the company and by subsidiary	(2,873)	(2,716)	(3,043)
	464,437	407,263	442,995
Non-controlling interests	2,513	2,043	2,235
Total equity	466,950	409,306	445,230
Total equity and liabilities	777,053	754,347	772,409

*Restated, see note 3b.

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

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED STATEMENT OF INCOME

FOR THE SIX AND THREE-MONTH PERIOD ENDED 30 JUNE 2013

	6 months ended 30 June		3 months ended 30 June		Year ended 31 December
	2013	**2012**	**2013**	**2012**	**2012**
	(Unaudited)				**(Audited)**
	U.S. dollars in thousands (except for income per share data)				
SALES	320,813	316,013	168,648	164,796	618,001
COST OF SALES	196,787	199,311	101,798	103,026	391,742
GROSS PROFIT	124,026	116,702	66,850	61,770	226,259
Selling, marketing, research and development expenses – net	52,909	52,737	27,402	27,477	104,932
General and administrative expenses	25,285	25,130	12,524	12,114	49,197
Other expenses (income) - net	1,995	(787)	1,992	394	(718)
INCOME FROM OPERATIONS	43,837	39,622	24,932	21,785	72,848
FINANCIAL EXPENSES (INCOME) - net	3,710	5,236	2,291	4,313	7,240
INCOME BEFORE TAX ON INCOME	40,127	34,386	22,641	17,472	65,608
TAX ON INCOME	8,487	7,337	5,009	3,924	13,628
INCOME FOR THE PERIOD	31,640	27,049	17,632	13,548	51,980
PROFIT ATTRIBUTABLE TO:					
OWNERS OF THE PARENT	31,405	26,831	17,498	13,426	51,570
NON-CONTROLLING INTERESTS	235	218	134	122	410
TOTAL INCOME	31,640	27,049	17,632	13,548	51,980
EARNINGS PER SHARE:					
Basic	0.54	0.47	0.30	0.23	0.9
Fully diluted	0.54	0.47	0.30	0.23	0.9

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

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX AND THREE-MONTH PERIOD ENDED 30 JUNE 2013

	6 months ended 30 June		3 months ended 31 March		Year ended 31 December
	2013	2012	2013	2012	2012
	(Unaudited)		(Unaudited)		(Audited)
	U.S. dollars in thousands				
INCOME FOR THE PERIOD					
Other Comprehensive Income:	31,640	27,049	17,632	13,548	51,980
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	(7,095)	(7,291)	2,699	(14,829)	4,393
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	24,545	19,758	20,331	(1,281)	51,617
OTHER COMPREHENSIVE INCOME ATTRIBUTABLE TO:					
OWNERS OF THE PARENT	24,268	19,540	20,155	(1,403)	51,207
NON-CONTROLLING INTERESTS	277	218	176	122	410
TOTAL INCOME	24,545	19,758	20,331	(1,281)	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 SIX AND THREE-MONTH PERIOD ENDED 30 JUNE 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 6 MONTH PERIOD ENDED 30 JUNE 2013 (unaudited):								
Comprehensive income:								
Income for the period	-	-	-	31,405	-	31,405	235	31,640
Other comprehensive income:								
Translation differences	-	-	(7,137)	-	-	(7,137)	42	(7,095)
Total comprehensive income for the period	-	-	(7,137)	31,405	-	24,268	277	24,545
Plans for allotment of company shares to employees of subsidiary:								
Acquisition of company shares by subsidiary	-	-	-	-	(326)	(326)	-	(326)
Receipts in respect of allotment of company shares to employees	-	(332)	-	-	496	164	-	164
Allotment of shares and options to senior employees:								
Recognition of compensation related to employee stock and options grants	-	777	-	-	-	777	-	777
Proceeds from issuance of shares to senior employees	15	436	-	-	-	451	-	451
Dividend paid to the non-controlling interests in subsidiary	-	-	-	-	-	-	(97)	(97)
Dividend paid, including erosion	-	-	-	(3,892)	-	(3,892)	-	(3,892)
	15	881	-	(3,892)	170	(2,826)	(97)	(2,923)
Non-controlling interest arising on business combination	-	-	-	-	-	-	98	98
BALANCE AT 30 JUNE 2013 (unaudited)	16,728	102,980	9,612	337,990	(2,873)	464,437	2,513	466,950

*Restated, see note 3b.

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

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX AND THREE-MONTH PERIOD ENDED 30 JUNE 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 APRIL 2013 (unaudited)	16,728	102,730	6,955	320,578	(3,090)	443,901	2,336	446,237
CHANGES DURING THE 3 MONTH PERIOD ENDED 30 JUNE 2013 (unaudited):								
Comprehensive income:								
Income for the period	-	-	-	17,498	-	17,498	134	17,632
Other comprehensive income:								
Translation differences	-	-	2,657	-	-	2,657	42	2,699
Total comprehensive income for the period	-	-	2,657	17,498	-	20,155	176	20,331
Plans for allotment of company shares to employees of subsidiary:								
Acquisition of company shares by subsidiary	-	-	-	-	-	-	-	-
Receipts in respect of allotment of company shares to employees	-	(146)	-	-	217	71	-	71
Allotment of shares and options to senior employees:								
Recognition of compensation related to employee stock and options grants	-	396	-	-	-	396	-	396
Proceeds from issuance of shares to senior employees	-	-	-	-	-	-	-	-
Dividend paid to the non-controlling interests in subsidiary	-	-	-	-	-	-	(97)	(97)
Dividend paid, including erosion	-	-	-	(86)	-	(86)	-	(86)
Non-controlling interest arising on business combination	-	-	-	-	-	-	98	98
BALANCE AT 30 JUNE 2013 (unaudited)	16,728	102,980	9,612	337,990	(2,873)	464,437	2,513	466,950

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

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX AND THREE-MONTH PERIOD ENDED 30 JUNE 2013

	EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT							
	Ordinary shares	**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 2012 (audited)	16,597	97,356	12,356	*226,692	(2,981)	390,020	-	390.020
CHANGES DURING THE 6 MONTH PERIOD ENDED 30 JUNE 2012 (unaudited):								
Comprehensive income:								
Income for the period	-	-	-	26,831	-	26,831	218	27,049
Other comprehensive income:								
Translation differences	-	-	(7,291)	-	-	(7,921)	-	(7,921)
Total comprehensive income for the period	-	-	(7,291)	26,831	-	19,540	218	19,758
Plans for allotment of company shares to employees of subsidiary:								
Acquisition of company shares by subsidiary	-	-	-	-	(579)	(579)	-	(579)
Receipts in respect of allotment of company shares to employees	-	(380)	-	-	844	464	-	464
Allotment of shares and options to senior employees:								
Recognition of compensation related to employee stock and options grants	-	847	-	-	-	847	-	847
Dividend paid, including erosion	-	-	-	(3,029)	-	(3,029)	-	(3,029)
	-	467	-	(3,029)	265	(2,297)	-	(2,297)
Non-controlling interest arising on business combination	-	-	-	-	-	-	1,825	1,825
BALANCE AT 30 JUNE 2012 (unaudited)	16,597	97,823	5,065	290,494	(2,716)	407,263	2,043	409,306

*Restated, see note 3b.

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

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX AND THREE-MONTH PERIOD ENDED 30 JUNE 2013

	EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT							
	Ordinary shares	**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 APRIL 2012 (audited)	16,597	97,835	19,894	276,984	(3,199)	408,111	1,921	410,032
CHANGES DURING THE 3 MONTH PERIOD ENDED 30 JUNE 2012 (unaudited):								
Comprehensive income:								
Income for the period	-	-	-	13,426	-	13,426	122	13,548
Other comprehensive income:								
Translation differences	-	-	(14,829)	-	-	(14,829)	-	(14,829)
Total comprehensive income for the period	-	-	(14,829)	13,426	-	(1,403)	122	(1,281)
Plans for allotment of company shares to employees of subsidiary:								
Acquisition of company shares by subsidiary	-	-	-	-	-	-	-	-
Receipts in respect of allotment of company shares to employees	-	(322)	-	-	483	161	-	161
Allotment of shares and options to senior employees:								
Recognition of compensation related to employee stock and options grants	-	310	-	-	-	310	-	310
Dividend paid, including erosion	-	-	-	84	-	84	-	84
	-	(12)	-	84	483	555	-	555
BALANCE AT 30 JUNE 2012 (unaudited)	16,597	97,823	5,065	290,494	(2,716)	407,263	2,043	409,306

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

FRUTAROM INDUSTRIES LTD.
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX AND THREE-MONTH PERIOD ENDED 30 JUNE 2013

	EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT							
	Ordinary shares	**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 (audited)							
BALANCE AT 1 JANUARY 2012	16,597	97,356	12,356	*226,692	(2,981)	390,020	-	390,020
CHANGES DURING THE YEAR ENDED 31 DECEBMBER 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 period	-	-	4,393	46,814	-	51,207	410	51,617
Plans for allotment of company shares to employees of subsidiary:								
Acquisition 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 options grants	-	1,553	-	-	-	1,553	-	1,553
Proceeds from issuance of shares to senior employees	116	4,036	-	-	-	4,152	-	4,152
Dividend paid, including erosion	-	-	-	(3,029)	-	(3,029)	-	(3,029)
	16,713	102,099	16,749	310,477	(3,043)	442,995	410	443,405
Non-controlling interest arising on business combination	-	-	-	-	-	-	1,825	1,825
BALANCE AT 31 DECEMBER 2012	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 statement.

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX AND THREE-MONTH PERIOD ENDED 30 JUNE 2013

	6 months ended 30 June		3 months ended 30 June		Year ended 31 December
	2013	2012	2013	2012	2012
	(Unaudited)		(Unaudited)		(Audited)
	U.S. dollars in thousands				
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash generated from operations (see appendix)	29,964	43,074	21,365	22,609	104,774
Income tax paid	(9,166)	(3,129)	(4,923)	(354)	(13,563)
Net cash provided by operating activities	20,798	39,945	16,442	22,255	91,211
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchase of property, plant and equipment	(8,108)	(6,510)	(5,720)	(2,910)	(12,558)
Purchase of intangibles	(430)	(1,353)	(185)	(700)	(2,284)
Interest received	43	188	-	18	195
Acquisition of subsidiaries - net of cash acquired (see note 4)	(5,822)	(65,088)	(5,210)	(1,491)	(75,280)
Proceeds from sale of property, plant and equipment	56	109	12	37	271
Net cash used in investing activities	(14,261)	(72,654)	(11,103)	(5,046)	(89,656)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Dividend paid to the non-controlling interests in subsidiary	(97)	-	(97)	-	-
Receipts from senior employees in respect of allotment of shares	451	-	-	-	4,152
Interest paid	(1,899)	(3,575)	(1,018)	(2,196)	(5,553)
Receipt of long-term bank loans	22	81,239	-	62,451	131,231
Repayment of long-term bank loans	(24,719)	(47,550)	(15,084)	(35,594)	(116,802)
Receipt of short-term bank credit and loans – net	9,329	6,138	6,381	(40,075)	7,319
Purchase of company shares by subsidiary – net of receipts in respect of the shares	(162)	(115)	71	161	(908)
Dividend paid	(3,892)	(3,029)	(3,892)	(3,029)	(3,029)
Net cash used in financing activities	(20,967)	33,108	(13,639)	(18,282)	16,410
INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS AND BANK CREDIT	(14,430)	399	(8,300)	(1,073)	17,965
Balance of cash and cash equivalents and bank credit at beginning of period	53,933	36,472	48,854	37,254	36,472
Profits (losses) from exchange differences on cash, cash equivalents and bank credit	738	350	(313)	1,040	(504)
BALANCE OF CASH, CASH EQUIVALENTS AND BANK CREDIT AT END OF PERIOD	40,241	37,221	40,241	37,221	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 SIX AND THREE-MONTH PERIOD ENDED 30 JUNE 2013

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

	6 months ended 30 June		3 months ended 30 June		Year ended 31 December
	2013	2012	2013	2012	2012
	(Unaudited)		(Unaudited)		(Audited)
	U.S. dollars in thousands				
Income before tax	40,127	34,386	22,641	17,472	65,608
Adjustments required to reflect the cash flows from operating activities:					
Depreciation and amortization	13,649	13,006	7,175	6,421	26,012
Recognition of compensation related to employee stock and options grants	777	847	396	310	1,553
Liability for employee rights upon retirement – net	174	43	118	(7)	(655)
Loss (gain) from sale and write-off of fixed assets and other assets	(23)	31	4	7	92
Erosion of loans	73	-	844	-	1,003
Interest paid – net	1,856	3,387	1,018	2,178	5,358
Loss from change in fair value of financial Instruments	-	205	-	205	289
Income from bargain purchase	-	(1,729)	-	-	(1,729)
	16,506	15,790	9,555	9,114	31,923
Operating changes in working capital:					
Decrease (increase) in accounts receivable:					
Trade	(22,457)	(15,245)	(9,898)	(5,561)	(1,712)
Other	(1,006)	2,523	3,466	2,350	(206)
Decrease (increase) in other long-term receivables	152	-	18	-	136
Increase (decrease) in accounts payable:					
Trade	1,084	5,346	836	(4,420)	1,506
Other	477	(801)	(752)	(2,565)	3,772
Increase (decrease) in other long-term Payables	(34)	-	(34)	-	(379)
Decrease (increase) in inventory	(4,885)	1,075	(4,467)	6,219	4,126
	(26,669)	(7,102)	(10,831)	(3,977)	7,243
Cash flows from operating activities	29,964	43,074	21,365	22,609	104,774

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

NOTE 1 - GENERAL:

a. Frutarom Industries Ltd. (hereafter – the Company.) 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 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

a. The interim condensed consolidated financial information of the group as of 30 June 2013 and for the 6 and 3 month periods 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. 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:

NOTE 3 - PRINCIPAL ACCOUNTING POLICIES (continued):

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

b. First-time implementation of IFRS

1. IAS 19

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

NOTE 3 - PRINCIPAL ACCOUNTING POLICIES (continued)**:**

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.

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 June 30, 2012 (unaudited):			
Retirement benefit obligation, net	13,195	4,784	17,979
Deferred tax liabilities	25,021	(1,210)	23,811
Retained earnings	294,068	(3,574)	290,494
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

2. 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.

NOTE 3 - PRINCIPAL ACCOUNTING POLICIES (continued)**:**

- 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.

3. 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 – ACQUISITION OF JannDeRee (Pty) Limited

On May 2, 2013 Frutarom signed, through a subsidiary, an agreement for the acquisition of 100% of the share capital of the South African company acquisition of JannDeRee (Pty) Limited (hereafter – "JannDeRee") in consideration for $ 4,957 thousands (44,400 Rand) in cash and 5% from the shares of Frutarom South Africa.

JannDeRee, founded in 1993, develops, manufactures, and markets flavors with an emphasis on savory flavors solutions. JannDeRee, has a research and development, production and marketing site in Johannesburg, South Africa, located adjacent to Frutarom's site in South Africa, and a wide customer base in South Africa and in other important emerging countries in the sub-Saharan region. JannDeRee's activities are synergetic with Frutarom's activities in South Africa in the field of flavors.

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

Frutarom will take actions to integrate activities, including integration of R&D, marketing and sales infrastructures, purchase, production and supply infrastructures.

The acquisition was financed through independent resources and was completed at the time of signing.

The cost of acquisition was allocated to tangible assets, intangible assets and liabilities which were acquired based on their fair value at the time of the acquisition. Determination of the fair falue of the acquired assets and liabilities is subject to final assessment of allocation of the consideration of the purchase to the fair value of assets and liabilities; this assessment is performed by the Company and has not yet been completed as of the date of approval of these financial statements.

NOTE 4 – Acquisition of JannDeRee (Pty) Limited (continue):

Assets and liabilities of JannDeRee at date of acquisition:

	Fair value U.S. dollars in thousands
Current assets:	
Cash and cash equivalents	139
Accounts receivable:	
Trade	780
Inventory	336
Non-current assets:	
Fixed assets	369
Deferred income taxes	79
Intangible assets	4,672
Current liabilities :	
Accounts payable and accruals-	
Trade	(357)
Others	(336)
Non-current liabilities -	
Others	(726)
	4,957

NOTE 5 – DIVIDEND:

On 12, March 2013, the Company's Board of Directors declared the distribution of a dividend of NIS 0.24 per share, On 6 May, 2013, a dividend of $ 3,892 thousands was paid to the shareholders

NOTE 6 – EVENTS DURING THE PERIOD:

a. As part of the procedures designed to increase the efficiency of its operations, the Company transferred the production operations conducted in the Nesse site located in Germany to other Company sites. As of the date of this report the transfer has been completed.

The Company recorded in the reported quarter results of operations (under "other expense) a one-off expense of $ 1,910 in respect of provision for re organization and fixed assets depreciation.

b. In the course of the second quarter and as a result of better interest rate, a subsidiary reclassified a $50 million loan from non-current liabilities to current liabilities.

NOTE 7 – 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				
6 months ended 30 June 2013: (unaudited):					
Revenues	235,708	75,141	12,446	(2,482)	320,813
Segment results	33,719	9,785	377	(44)	43,837
6 months ended 30 June 2012: (unaudited):					
Revenues	231,435	73,992	11,685	(1,099)	316,013
Segment results	31,985	7,077	617	(57)	39,622
3 months ended 30 June 2013 (unaudited):					
Revenues	125,115	37,626	7,153	(1,246)	168,648
Segment results	19,207	5,629	194	(98)	24,932
3 months ended 30 June 2012 (unaudited):					
Revenues	122,469	36,524	6,299	(496)	164,796
Segment results	17,983	3,431	255	116	21,785
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:

	6 months ended 30 June		3 months ended 30 June		Year ended 31 December
	2013	2012	2013	2012	2012
	(Unaudited)		(Unaudited)		(Audited)
	U.S. dollars in thousands				
Reported segment income	43,837	39,622	24,932	21,785	72,848
Financing expenses (income)	3,710	5,236	2,291	4,313	7,240
Profit before taxes on income	40,127	34,386	22,641	17,472	65,608

NOTE 8 – SUBSEQUENT EVENTS

On August 5, 2013, the Law for Change of National Priorities (Legislative Amendments for Achieving the Budgetary Goals for 2013-2014), 2013 (hereinafter - the Law) was published in Reshumot (the Israeli government official gazette), which enacts, among other things, the following amendments:

1. Raising the corporate tax rate to 26.5% (instead of 25%).beginning in 2014 and thereafter.

2. Commencing tax year 2014 and thereafter the tax rate on the income of preferred enterprises of a qualifying Company in Development Zone A as stated in the Encouragement of Capital Investment Law, 1959 (hereinafter - the Encouragement Law) shall increase to 9% (instead of 7% in 2014 and 6% in 2015 and thereafter) and for companies located in zones other than Zone A the rate shall increase to 16% (instead of 12.5% in 2014 and 12% in 2015 and thereafter). In addition, the tax rate on dividends distributed on January 1, 2014 and thereafter originating from preferred income under the Encouragement Law will be raised to 20% (instead of 15%).

   The balances of deferred tax as of June 30, 2013 do not account for the expected impact of the Law as its legislation has not been effectively completed by that date. Those impacts are expected to be reflected in the financial statements issued beginning on the date when the legislation was effectively completed, i.e. the financial information for the third quarter of 2013.

   In the third quarter of 2013, in which the legislation process has been completed, the law is expected to cause a USD 292 thousand increase in net deferred tax liabilities. The Company's tax expenses for the 6 and 3 month period ended in June 30, 2013 would have increased by a similar amount.

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

The management of Frutarom Industries Ltd (the "**Company**"), supervised by the Company's Board of Directors is responsible for prescribing and conducting a 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. Ram Pinkhas, 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 CFO 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 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 Quarterly Report Regarding Effectiveness of Internal Audit on Financial Reporting and on Disclosure attached to the Quarterly Report ending on March 31, 2013 (hereinafter: the "Last Quarterly 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 March 31, 2013, is effective.

Save the issue of the acquired company, as defined hereinbelow, 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 found in the Last Quarterly Report Regarding Effectiveness.

Subject to the provisions above and below, as of the date of the Report, based on the assessment of effectiveness of the internal audit in the Last Quarterly Report Regarding Effectiveness and based on information brought to the attention of the Board of Directors and the Company's management as stated above, the internal audit is effective.

Acquisition of the Etol Company ("Etol") over the reporting year and reference to FAQ (SOX)

Regarding the description of Etol and the acquisition transaction, see Note 5G to the Company's 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 report of assessment of effectiveness of internal audit for this quarter 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 for assessment and mapping out internal audit processes existing at Etol from the date on which the transaction was completed until the date of the report, or for full implementation of 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 has begun examination of 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, based on the opinion of the acquired company's auditing accountants and based on the fact that Etol prior to it’s acquisition was not 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 CFO

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

1. I have reviewed the Quarterly Report of Frutarom Industries Ltd. (the "**Company**") for the second 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 latest quarterly report (the report for the period ending on March 31, 2013) 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: August 20, 2013 `

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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 second 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), 5770-2010, as may be relevant to the financial reports and other financial information contained in the Reports, is brought to my attention by others in the 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 latest quarterly report (the report for the period ending on March 31, 2013) 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: August 20, 2013 `

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Alon Granot
Executive Vice President and CFO