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

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

A. REVIEW OF ACTIVITY

Frutarom Industries Ltd. (the **"Company"**) is a global company established in Israel in 1933. Frutarom became a public company in 1996 upon registration of its shares for trade on the Tel Aviv Stock Exchange. In February 2005, the Company's Global Depository Receipts were also listed on the London Stock Exchange Official List. The Company, itself and through its subsidiaries ("**Frutarom**" or the **"Group**") develops, produces and markets flavors and fine ingredients used in the manufacture of food, beverages, flavors, fragrances, pharmaceuticals/nutraceuticals and personal care products. Frutarom operates production facilities in Europe, North America, Latin America, Israel, Asia and Africa, marketing and selling over 31,000 products to more than 15,500 customers in more than 140 countries, and employing 2,600 people throughout the world.

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

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

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

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

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

Rapid growth strategy – profitable organic growth and strategic acquisitions

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

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

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

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

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

- **Focus on providing quality service and product development for large multi-national customers and medium size local customers –** 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.

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

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

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

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

  JannDeRee, founded in 1993, develops, manufactures, and markets flavors with an emphasis on savory flavors and sweet flavor solutions. JannDeRee, which has

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

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

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

- **Acquisition of PTI** – On November 20, 2013, Frutarom completed the acquisition of 75% of the share capital of the Cypriot Vantodio Holdings Limited company ("Vantodio"), holder of the Russian Protein Technologies Ingredients group ("PTI") for a cash payment of US$50.3 million.

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

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

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

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

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

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

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

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

Aroma, established in 1990, develops, manufactures and markets flavor solutions, including and mainly sweet flavors for beverages, dairy products, sweets, snack food and convenience foods. Aroma has 57 employees, a production, development and marketing site in Guatemala City and a wide customer base which includes leading international food and beverage manufacturers as well as local food and beverage manufacturers in Guatemala, Honduras, Costa Rica, El Salvador and other developing countries, mainly in Central America.

This acquisition of the Guatemalan Aroma company is a natural addition following the acquisition of the Brazilian flavor company Mylner, which Frutarom acquired at the beginning of 2012, and to the independent operations which Frutarom has established in Costa Rica, which include a development lab and a marketing and sales infrastructure, which will be integrated with Aroma's operations. It is the Company's estimate that the acquisition will allow Frutarom to strengthen and deepen its presence and market sector in these important markets in Central and South America, while expanding its product portfolio, increasing its research, development, marketing and sales infrastructure while strengthening local production options and improving its customer service in the region in these developing markets.

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

Increase in Margin and Profit

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

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

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

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

Frutarom's capital structure (total assets of US$804.3 million and equity of US$496.3 million as of September 30, 2013, constituting 61.7% of the total assets) and net debt level (total loans after deduction of cash), standing at US$103.1 million as of September 30, 2013, supported by its cash flow and bank backing, will allow Frutarom

to continue and realize its rapid growth strategy, as it has over the past few years, through further strategic acquisitions, while strengthening its competitiveness and its position as one of the leading global companies in the field of flavors and fine ingredients, and to realize its vision:

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

B. FINANCIAL STATUS

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

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

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

C. RESULTS OF OPERATIONS – Q3 2013

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

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

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

Sales

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

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

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

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

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

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

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

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

Gross Profit

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

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

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

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

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

Operating Profit and EBITDA

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

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

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

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

Financing Expenses / Income

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

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

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

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

Profit before Tax

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

Taxes on Income

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

Net Profit

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

Earnings per Share

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

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

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

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

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

Sales

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

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

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

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

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

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

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

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

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

Gross Profit

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

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

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

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

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

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

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

Operating Profit and EBITDA

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

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

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

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

Financing Expenses / Income

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

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

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

Profit before Tax

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

Taxes on Income

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

Net Profit

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

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

Earnings per Share

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

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

E. LIQUIDITY

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

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

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

F. SOURCES OF FINANCING

Sources of Equity

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

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

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

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

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

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

Accounts Payable and Other Payable (Average)

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

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

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

EXPOSURE TO AND MANAGEMENT OF MARKET RISKS

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

G. SENSITIVITY TESTS

The functional currency of the majority of the Group's companies is the local currency in each company's respective country of residence; therefore, the currency translations of retained balances of these companies do not affect the Company's profit and loss report and are directly attributed to the Company's shareholders' equity (currency translation capital fund).

Sensitivity to Changes in the US Dollar- Israeli Shekel Exchange Rate

	Profit (Loss) from changes		Fair value	Profit (Loss) from changes	
% of change	**+10%**	**+5%**	**-**	**-5%**	**-10%**
Exchange rate	**3.891**	**3.714**	**3.537**	**3.360**	**3.183**
	US$ 000				
Cash and cash equivalents	(70)	(35)	702	35	70
Customers	(1,116)	(558)	11,157	558	1,116
Other debtors	(101)	(50)	1,006	50	101
Other long-term creditors	(5)	(3)	53	3	5
	(1,292)	**(646)**	**12,918**	**646**	**1,292**
Credit from banking corporations	1,696	848	16,963	(848)	(1,696)
Suppliers and service providers	484	242	4,841	(242)	(484)
Other creditors	618	309	6,176	(309)	(618)
	2,798	**1,399**	**27,980**	**(1,399)**	**(2,798)**
Total Exposure, net	**1,506**	**753**	**(15,062)**	**(753)**	**(1,506)**

Sensitivity to Changes in the US Dollar-Pound Sterling Exchange Rate

		Profit (Loss) from changes		Fair value	Profit (Loss) from changes	
	% of change	**+10%**	**+5%**	**-**	**-5%**	**-10%**
	Exchange rate	**0.682**	**0.651**	**0.620**	**0.589**	**0.558**
		US$ 000				
Cash and cash equivalents		(221)	(111)	2,210	111	221
Customers		(1,410)	(705)	14,102	705	1,410
Other debtors		(106)	(53)	1,057	53	106
		(1,737)	**(869)**	**17,369**	**869**	**1,737**
Credit from banking corporations		1,497	748	14,969	(748)	(1,497)
Suppliers and service providers		649	324	6,485	(324)	(649)
Other creditors		885	442	8,847	(442)	(885)
		3,031	**1,514**	**30,301**	**(1,514)**	**(3,031)**
Total Exposure, net		**1,294**	**645**	**(12,932)**	**(645)**	**(1,294)**

Sensitivity to Changes in the US Dollar-Euro Exchange Rate

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

Sensitivity to Changes in the US Dollar-Swiss Franc Exchange Rate

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

Sensitivity to Changes in the US Dollar-Other Currencies Exchange Rate

	Profit (Loss) from changes		Fair value	Profit (Loss) from changes	
% of change	+10%	+5%	-	-5%	-10%
	US$ 000				
Cash and cash equivalents	(792)	(396)	7,923	396	792
Customers	(1,864)	(932)	18,638	932	1,864
Other debtors	(116)	(58)	1,158	58	116
	(2,772)	**(1,386)**	**27,719**	**1,386**	**2,772**
Credit from banking corporations	182	91	1,823	(91)	(182)
Suppliers and service providers	328	164	3,282	(164)	(328)
Other creditors	425	212	4,246	(212)	(425)
Other long-term creditors	117	58	1,167	(58)	(117)
	1,052	**525**	**10,518**	**(525)**	**(1,052)**
Total Exposure, net	**(1,720)**	**(861)**	**17,201**	**861**	**1,720**

Sensitivity to Changes in Interest Rate on Fixed Rate Loans – Fair Value Risk

	Profit (Loss) from changes		Fair value	Profit (Loss) from changes	
% of change	+10%	+5%	-	-5%	-10%
	US$ 000				
Short-term loans in Chinese Yen	11	6	1,795	(6)	(11)
Total exposure, net	**11**	**6**	**1,795**	**(6)**	**(11)**

H. SUMMARY OF SENSITIVITY TESTS TABLES

Sensitivity to Changes in the US Dollar- Israeli Shekel Exchange Rate

	Profit (Loss) from changes		Fair value	Profit (Loss) from changes	
% of change	**+10%**	**+5%**	**-**	**-5%**	**-10%**
Exchange rate	**3.891**	**3.714**	**3.537**	**3.360**	**3.183**
	US$ 000				
Total Exposure net	**1,506**	**753**	**(15,062)**	**(753)**	**(1,506)**

Sensitivity to Changes in the US Dollar-Pound Sterling Exchange Rate

	Profit (Loss) from changes		Fair value	Profit (Loss) from changes	
% of change	**+10%**	**+5%**	**-**	**-5%**	**-10%**
Exchange rate	**+10%**	**+5%**	**-**	**-5%**	**-10%**
	US$ 000				
Total Exposure net	**1,294**	**645**	**(12,932)**	**(645)**	**(1,294)**

Sensitivity to Changes in the US Dollar-Euro Exchange Rate

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

Sensitivity to Changes in the US Dollar-Swiss Franc Exchange Rate

	Profit (Loss) from changes		Fair value	Profit (Loss) from changes	
% of change	**+10%**	**+5%**	**-**	**-5%**	**-10%**
Exchange rate	**0.996**	**0.951**	**0.906**	**0.860**	**0.815**
	US$ 000				
Total exposure, net	**3,344**	**1,674**	**(33,451)**	**(1,674)**	**(3,344)**

Sensitivity to Changes in the US Dollar-Other Currencies Exchange Rate

	Profit (Loss) from changes		Fair value	Profit (Loss) from changes	
% of change	**+10%**	**+5%**	**-**	**-5%**	**-10%**
	US$ 000				
Total exposure, net	**(1,750)**	**(876)**	**17,499**	**876**	**1,750**

Sensitivity to Changes in Interest Rate on Fixed-Rate Loans – Fair Value Risk

	Profit (Loss) from changes		Fair value	Profit (Loss) from changes	
% of change	**+10%**	**+5%**	**-**	**-5%**	**-10%**
	US$ 000				
Total exposure to change in fair value	**11**	**6**	**1,795**	**(6)**	**(11)**

CORPORATE GOVERNANCE ASPECTS

Approval Process of the Financial Statements

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

Members of the Company's Board of Directors

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

Balance Sheet Committee and Members

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

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

The Company's financial statements were discussed at the meeting of the Balance Sheet Committee held on November 24, 2013. The members of the committee were sent the Company's financial statements of September 30, 2013 two business days prior to the meeting for their perusal. The three members of the Balance Sheet Committee participated in the discussion, and in addition the Company's independent auditors, Mr. Ori Yehudai, the Company's President and CEO, Mr. Alon Granot, the Executive Vice President and CFO, Mr. Guy Gill, the Vice President of Finance, and Ms. Karin Ben Ari, a legal counsel in the Company, attended the meeting. At the meeting,

presentations were given by the Company and by the auditors. The Balance Sheet Committee discussed, among other things, the estimates and evaluations included in the financial statements, the internal control on financial reporting, the completeness and fairness of the disclosure in the financial statements, the accounting policy adopted and the financial practice implemented with regard to the material matters of the Group, and the valuations, including the assumptions and estimations on which the data in the financial statements is based. Within the discussion, the Balance Sheet Committee formed its recommendations to the Board of Directors in accordance with the Statements Approval Regulations. The recommendations of the committee were delivered to the Company's Board of Directors two business days prior to the Board meeting at which the financial statements were discussed, which in the opinion of the Board of Directors and in accordance with its resolution was a reasonable time period in light of the scope and complexity of the recommendations.

Approval Procedure of the Reports by the Board of Directors

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

DISCLOSURE RELATING TO THE CORPORATE FINANCIAL REPORTING

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

A. DISTRIBUTION OF DIVIDEND IN 2013

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

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

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

- On November 20, 2013, Frutarom completed the acquisition of 75% of the share capital of the Cypriot Vantodio Holdings Limited company ("Vantodio"), holder of the Russian Protein Technologies Ingredients group ("PTI"), in return for a payment of US$50.3 million. For further details see the Company's reports on the matter from November 18 and 20, 2013.

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

C. CRITICAL ACCOUNTING ESTIMATIONS

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

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

The Company did not include a separate financial report as set forth in Regulation 9C of the Securities Regulations (Periodic and Immediate Reports) 1970 (the **"Solo Report"** and the **"Regulations",** respectively) due to the negligibility of the additional information of such report and the fact that the Solo Report would not add any material information for a reasonable investor, to that contained in the Company's consolidated reports.

The Company's decision that the information is negligible is based on the fact that the Company does not have any commercial activities of any kind and therefore the Company's results of operations have no effect on the Group's consolidated profit and loss reports. The Company does not employ workers and it does not have any sales or expenses to third parties.

All the Company's revenues (dividends and financing income on revaluation of capital notes with Frutarom Ltd.) derive from Frutarom Ltd.

As far as the balance sheet is concerned, apart from the settling of accounts with the Income Tax Authority, the Company does not have any balances vis-à-vis third parties. Its only balances are loans and balances vis-à-vis the (wholly owned) companies in the Group, and land property in the amount of US$139 thousand.

The Company's management determined that as long as income from externals or from companies not wholly owned by the Company are lower than 5% of the total revenues in the consolidated financial statements, and as long as the expenses to externals or from companies not wholly owned by the Company are lower than 5% of the total expenses in the consolidated financial statements, the Company's separate financial information as set forth in Regulation 9C of the Regulations is negligible and its absence will not affect the prospects of investors in the Company's shares to estimate the Company's liquidity prospects, and will not add any material information for a reasonable investor.

Company management has also examined the warning signs specified in Regulation 10(14) of the Regulations and found that they do not exist.

The Board of Directors of the Company held two meetings during Q3 2013.

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

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

November 26, 2013

FRUTAROM INDUSTRIES LTD.

INTERIM FINANCIAL INFORMATION

(Unaudited)

30 SEPTEMBER 2013

FRUTAROM INDUSTRIES LTD.

INTERIM FINANCIAL INFORMATION

(Unaudited)

30 SEPTEMBER 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 September 2013 and the related condensed consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the nine 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 27% of total consolidated assets as of 30 September 2013 and whose revenues included in consolidation constitute approximately 27% and 27% of total consolidated revenues for the nine 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
November 26, 2013

Kesselman & Kesselman
Certified Public Accountants (lsr.)

A member firm of PricewaterhouseCoopers International Limited

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 SEPTEMBER 2013

	30 September		31 December
	2013	2012	2012
	(Unaudited)		(Audited)
	U.S. dollars in thousands		
A s s e t s			
CURRENT ASSETS:			
Cash and cash equivalents	61,087	44,255	53,933
Accounts receivable:			
Trade	123,703	117,410	106,754
Other	7,681	5,487	*10,847
Prepaid expenses and advances to suppliers	9,572	9,822	6,966
Inventory	129,541	122,943	122,433
	331,584	299,917	300,933
NON-CURRENT ASSETS:			
Property, plant and equipment	191,396	187,405	188,824
Intangible assets	277,763	277,507	279,198
Deferred income tax assets	3,365	2,940	3,075
Other	162	342	379
	472,686	468,194	471,476
Total assets	804,270	768,111	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: November 26, 2013.

	30 September		31 December
	2013	2012	2012
	(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	96,599	53,627	52,196
Accounts payable:			
Trade	46,196	44,667	48,237
Other	47,333	50,948	39,269
	190,128	149,242	139,702
NON-CURRENT LIABILITIES:			
Long-term loans, net of current maturities	67,637	142,845	137,836
Retirement benefit obligations, net	25,264	*18,286	*24,329
Deferred income tax liabilities	23,744	*25,535	*24,420
Other	1,167	1,074	892
	117,812	187,740	187,477
Total liabilities	307,940	336,982	327,179
EQUITY:			
Equity attributable to owners of the parent:			
Ordinary shares	16,759	16,600	16,713
Capital surplus	103,437	98,209	102,099
Translation differences	20,806	12,808	16,749
Retained earnings	354,844	*304,775	*310,477
Less - cost of company shares held by the company and by subsidiary	(2,219)	(3,416)	(3,043)
	493,627	428,976	442,995
Non-controlling interests	2,703	2,153	2,235
Total equity	496,330	431,129	445,230
Total equity and liabilities	804,270	768,111	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 NINE AND THREE-MONTH PERIOD ENDED 30 SEPTEMBER 2013

	9 months ended 30 September		3 months ended 30 September		Year ended 31 December
	2013	2012	2013	2012	2012
	(Unaudited)				(Audited)
	U.S. dollars in thousands				
	(except for income per share data)				
SALES	481,859	473,121	161,046	157,108	618,001
COST OF SALES	295,271	298,362	98,484	99,051	391,742
GROSS PROFIT	186,588	174,759	62,562	58,057	226,259
Selling, marketing, research and development expenses – net	80,332	78,958	27,423	26,221	104,932
General and administrative expenses	37,829	37,387	12,544	12,257	49,197
Other expenses (income) - net	2,020	(717)	25	70	(718)
INCOME FROM OPERATIONS	66,407	59,131	22,570	19,509	72,848
FINANCIAL EXPENSES - net	5,004	5,828	1,294	592	7,240
INCOME BEFORE TAX ON INCOME	61,403	53,303	21,276	18,917	65,608
TAX ON INCOME	12,737	11,863	4,250	4,526	13,628
INCOME FOR THE PERIOD	48,666	41,440	17,026	14,391	51,980
PROFIT ATTRIBUTABLE TO:					
OWNERS OF THE PARENT	48,259	41,112	16,854	14,281	51,570
NON-CONTROLLING INTERESTS	407	328	172	110	410
TOTAL INCOME	48,666	41,440	17,026	14,391	51,980
EARNINGS PER SHARE:					
Basic	0.83	0.72	0.29	0.25	0.9
Fully diluted	0.82	0.71	0.29	0.25	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 NINE AND THREE-MONTH PERIOD ENDED 30 SEPTEMBER 2013

	9 months ended 30 September		3 months ended 30 September		Year ended 31 December
	2013	2012	2013	2012	2012
	(Unaudited)		(Unaudited)		(Audited)
	U.S. dollars in thousands				
INCOME FOR THE PERIOD	48,666	41,440	17,026	14,391	51,980
Other Comprehensive Income:					
Items that will not be reclassified subsequently to profit or loss:					
Remeasurement of net defined benefit liability*	-	-	-	-	(4,756)
Items that could be reclassified subsequently to profit or loss:					
Translation differences	4,117	452	11,212	7,743	4,393
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	52,783	41,892	28,238	22,134	51,617
OTHER COMPREHENSIVE INCOME ATTRIBUTABLE TO:					
OWNERS OF THE PARENT	52,316	41,564	28,048	22,024	51,207
NON-CONTROLLING INTERESTS	467	328	190	110	410
TOTAL INCOME	52,783	41,892	28,238	22,134	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 NINE AND THREE-MONTH PERIODS ENDED 30 SEPTEMBER 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 9 MONTH PERIOD ENDED 30 SEPTEMBER 2013 (unaudited):								
Comprehensive income:								
Income for the period	-	-	-	48,259	-	48,259	407	48,666
Other comprehensive income:								
Translation differences	-	-	4,057	-	-	4,057	60	4,117
Total comprehensive income for the period	-	-	4,057	48,259	-	52,316	467	52,783
Plans for allotment of company shares to employees of subsidiary:								
Acquisition of company shares by subsidiary	-	-	-	-	(851)	(851)	-	(851)
Receipts in respect of allotment of company shares to employees	-	(1,117)	-	-	1,675	558	-	558
Allotment of shares and options to senior employees:								
Recognition of compensation related to employee stock and options grants	-	1,137	-	-	-	1,137	-	1,137
Proceeds from issuance of shares to senior employees	46	1,318	-	-	-	1,364	-	1,364
Dividend paid to the non-controlling interests in subsidiary	-	-	-	-	-	-	(97)	(97)
Dividend paid, including erosion	-	-	-	(3,892)	-	(3,892)	-	(3,892)
	46	1,338	-	(3,892)	824	(1,684)	(97)	(1,781)
Non-controlling interest arising on business combination	-	-	-	-	-	-	98	98
BALANCE AT 30 SEPTEMBER 2013 (unaudited)	16,759	103,437	20,806	354,844	(2,219)	493,627	2,703	496,330

*Restated, see note 3b.

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE NINE AND THREE-MONTH PERIODS ENDED 30 SEPTEMBER 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 JULY 2013 (unaudited)	16,728	102,980	9,612	337,990	(2,873)	464,437	2,513	466,950
CHANGES DURING THE 3 MONTH PERIOD ENDED 30 JUNE 2013 (unaudited):								
Comprehensive income:	-	-	-	16,854	-	16,854	172	17,026
Income for the period								
Other comprehensive income:								
Translation differences	-	-	11,194	-	-	11,194	18	11,212
Total comprehensive income for the period	-	-	11,194	16,854	-	28,048	190	28,238
Plans for allotment of company shares to employees of subsidiary:								
Acquisition of company shares by subsidiary	-	-	-	-	(525)	(525)	-	(525)
Receipts in respect of allotment of company shares to employees	-	(785)	-	-	1,179	394	-	394
Allotment of shares and options to senior employees:								
Recognition of compensation related to employee stock and options grants	-	360	-	-	-	360	-	360
Proceeds from issuance of shares to senior employees	31	882	-	-	-	913	-	913
BALANCE AT 30 SEPTEMBER 2013 (unaudited)	16,759	103,437	20,806	354,844	(2,219)	493,627	2,703	496,330

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE NINE AND THREE-MONTH PERIODS ENDED 30 SEPTEMBER 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 2012 (audited)	16,597	97,356	12,356	*266,692	(2,981)	*390,020	-	390,020
CHANGES DURING THE 9 MONTH PERIOD ENDED 30 SEPTEMBER 2012 (unaudited):								
Comprehensive income -								
Income for the period	-	-	-	41,112	-	41,112	328	41,440
Other comprehensive income -								
Translation differences	-	-	452	-	-	452	-	452
Total comprehensive income for the period	-	-	452	41,112		41,564	328	41,892
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	-	(414)	-	-	895	481	-	481
Allotment of shares and options to senior employees -								
Recognition of compensation related to employee stock and options grants	-	1,168	-	-	-	1,168	-	1,168
Receipts in respect of allotment of company shares to senior Employees	3	99	-	-	-	102	-	102
Dividend paid, including erosion (note 5)	-	-	-	(3,029)	-	(3,029)	-	(3,029)
	3	853	-	(3,029)	(435)	(2,608)	-	(2,608)
Non-controlling interest arising on business combination	-	-	-	-	-	-	1,825	1,825
BALANCE AT 30 SEPTEMBER 2012 (unaudited)	16,600	98,209	12,808	304,775	(3,416)	428,976	2,153	431,129

*Restated, see note 3b.

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE NINE AND THREE-MONTH PERIODS ENDED 30 SEPTEMBER 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 company's shareholders' equity**	**Non-controlling interests**	**Total**
	U.S. dollars in thousands							
BALANCE AT 1 JULY 2012 (unaudited)	16,597	97,823	5,065	290,494	(2,716)	407,263	2,043	409,306
CHANGES DURING THE 3 MONTH PERIOD ENDED 30 SEPTEMBER 2012 (unaudited):								
Comprehensive income:								
Income for the period	-	-	-	14,281	-	14,281	110	14,391
Other comprehensive income -								
Translation differences	-	-	7,743	-	-	7,743	-	7,743
Total comprehensive income for the period	-	-	7,743	14,281	-	22,024	110	22,134
Plans for allotment of company shares to employees of subsidiary:								
Acquisition of company shares by subsidiary	-	-	-	-	(751)	(751)	-	(751)
Receipts in respect of allotment of company shares to employees	-	(34)	-	-	51	17	-	17
Allotment of shares and options to senior employees -								
Recognition of compensation related to employee stock and options grants	-	321	-	-	-	321	-	321
Receipts in respect of allotment of company shares to senior Employees	3	99	-	-	-	102	-	102
	3	386	-	-	(700)	(311)	-	(311)
BALANCE AT 30 SEPTEMBER 2012 (unaudited)	16,600	98,209	12,808	304,775	(3,416)	428,976	2,153	431,129

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE NINE AND THREE-MONTH PERIODS ENDED 30 SEPTEMBER 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 (audited)	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 statements.

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE NINE AND THREE-MONTH PERIODS ENDED 30 SEPTEMBER 2013

	9 months ended 30 September		3 months ended 30 September		Year ended 31 December
	2013	2012	2013	2012	2012
	U.S. dollars in thousands				
	(Unaudited)		(Unaudited)		(Audited)
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash generated from operations (See appendix)	65,005	70,321	35,041	27,247	104,774
Income tax received (paid)	(6,903)	(7,682)	2,263	(4,553)	(13,563)
Net cash provided by operating activities	58,102	62,639	37,304	22,694	91,211
CASH FLOWS USED IN INVESTING ACTIVITIES:					
Purchase of property, plant and equipment	(12,230)	(9,587)	(4,122)	(3,077)	(12,558)
Purchase of intangibles	(616)	(1,653)	(186)	(300)	(2,284)
Interest received	152	240	109	52	195
Acquisition of subsidiaries - net of cash acquired (note 4)	(5,822)	(65,280)	-	(192)	(75,280)
Proceeds from sale of property, plant and equipment	139	194	83	85	271
Net cash used in investing activities	(18,377)	(76,086)	(4,116)	(3,432)	(89,656)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES:					
Dividend paid to the non-controlling interests in subsidiary	(97)	-	-	-	-
Receipts from senior employees in respect of allotment of shares	1,364	102	913	102	4,152
Interest paid	(2,858)	(4,910)	(959)	(1,335)	(5,553)
Receipt of long-term bank loans	22	81,237	-	-	131,231
Repayment of long-term bank loans	(30,117)	(59,118)	(5,398)	(11,570)	(116,802)
Receipt of short-term bank credit and loans – net	3,737	8,231	(5,592)	2,093	7,319
Purchase of company shares by subsidiary – net of receipts in respect of the shares	(293)	(849)	(131)	(734)	(908)
Dividend paid	(3,892)	(3,029)	-	-	(3,029)
Net cash used in financing activities	(32,134)	21,664	(11,167)	(11,444)	16,410
INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS AND BANK CREDIT	7,591	8,217	22,021	7,818	17,965
Balance of cash and cash equivalents and bank credit at beginning of period	53,933	36,472	40,241	37,221	36,472
Profits (losses) from exchange differences on cash, cash equivalents and bank credit	(437)	(434)	(1,175)	(784)	(504)
BALANCE OF CASH, CASH EQUIVALENTS AND BANK CREDIT AT END OF PERIOD	61,087	44,255	61,087	44,255	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 NINE AND THREE-MONTH PERIODS ENDED 30 SEPTEMBER 2013

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

	9 months ended 30 September		3 months ended 30 September		Year ended 31 December
	2013	2012	2013	2012	2012
	(Unaudited)		(Unaudited)		(Audited)
	U.S. dollars in thousands				
Income before tax	61,403	53,303	21,276	18,917	65,608
Adjustments required to reflect the cash flows from operating activities:					
Depreciation and amortization	20,149	19,464	6,500	6,458	26,012
Recognition of compensation related to employee stock and option grants	1,137	1,168	360	321	1,553
Liability for employee rights upon retirement – net	334	(55)	160	(98)	(655)
Loss (gain) from sale and write-off of fixed assets and other assets	(94)	100	(71)	69	92
Erosion of loans	805	528	732	528	1,003
Interest paid - net	2,706	4,670	850	1,283	5,358
Loss from change in fair value of financial Instruments	-	350	-	145	289
Gain on a bargain purchase	-	(1,729)	-	-	(1,729)
	25,037	24,496	8,531	8,706	31,923
Operating changes in working capital:					
Decrease (increase) in accounts receivable:					
Trade	(14,993)	(12,959)	7,464	2,286	(1,712)
Other	(1,944)	2,326	(938)	(197)	(206)
Decrease (increase) in other long-term receivables	214	-	62	-	136
Increase (decrease) in accounts payable:					
Trade	(2,849)	(1,703)	(3,933)	(7,049)	1,506
Other	3,596	1,912	3,119	2,713	3,772
Increase (decrease) in other long-term Payables	215	-	249	-	(379)
Decrease (increase) in inventory	(5,674)	2,946	(789)	1,871	4,126
	(21,435)	(7,478)	5,234	(376)	7,243
Cash flows from operating activities	65,005	70,321	35,041	27,247	104,774

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

FRUTAROM INDUSTRIES LTD.

EXPLANATORY NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 SEPTEMBER 2013

(UNAUDITED)

NOTE 1 - GENERAL:

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

b. The Company's activity is subject to seasonal fluctuations, with generally higher sales in the first half of a given year and lower sales in the second half of a given year (in particular in the fourth quarter).
Many of the Company's products are used by its customers in the manufacture of beverages and dairy products such as soft drinks, ice cream and yogurts, for which demand generally increases during the summer months. As a result, sales of certain flavors and fine ingredients produced by the Company are higher in the first half of the year than in the second half.

NOTE 2 - BASIS OF PREPARATION OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

a. The interim condensed consolidated financial information of the group as of 30 September 2013 and for the 9 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:

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

NOTE 3 - PRINCIPAL ACCOUNTING POLICIES (continued):

b. **First-time implementation of IFRS**

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.

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

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

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 September 30, 2012 (unaudited):			
Retirement benefit obligation, net	13,502	4,784	18,286
Deferred tax liabilities	26,745	(1,210)	25,535
Retained earnings	308,349	(3,574)	304,775
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.

- 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 thousands 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.

In the third quarter, the merger into a single legal entity of JannDeRee and Frutarom South Africa was completed; the merged entity – Frutarom South Africa – operates in the same site under the same management and the R&D, marketing, sales, manufacture and finance departments were all merged into one system.

NOTE 4 – BUSINESS COMBINATIONS (continued):

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.

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 including Good Will	4,673
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 – Plan to increase efficiency of company's operations (continued)**:**

a. As part of the procedures designed to increase the efficiency of its operations, the Company completed during the period the transfer of production operations conducted in the Nesse site located in Germany to other Company sites. The Company recorded in the reported results of operations (under "other expense") a one-off expense of $ 1,916 thousands in respect of provision for dismissal of employees, project costs 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 globally 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				
9 months ended 30 September 2013 (unaudited):					
Revenues	355,133	111,812	19,792	(4,878)	481,859
Segment results	51,520	14,533	515	(161)	66,407
9 months ended 30 September 2012 (unaudited):					
Revenues	345,599	111,230	18,031	(1,739)	473,121
Segment results	47,319	10,963	836	13	59,131
3 months ended 30 September 2013 (unaudited):					
Revenues	119,425	36,671	7,346	(2,396)	161,046
Segment results	17,801	4,748	138	(117)	22,570
3 months ended 30 September 2012 (unaudited):					
Revenues	114,164	37,238	6,346	(640)	157,108
Segment results	15,334	3,886	219	70	19,509
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

NOTE 7 – SEGMENT REPORTING (continued)**:**

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

	9 months ended 30 September		3 months ended 30 September		Year ended 31 December
	2013	2012	2013	2012	2012
	U.S. dollars in thousands				
	(Unaudited)		(Unaudited)		(Audited)
Reported segment income	66,407	59,131	22,570	19,509	72,848
Financing expenses	5,004	5,828	1,294	592	7,240
Profit before taxes on income	61,403	53,303	21,276	18,917	65,608

NOTE 8 – Subsequent Events

A. On November 18, 2013 the company agreed the conditions for the acquisition of 75% of the share capital of the Cypriot company Vantodio Holdings Limited company ("**Vantodio**"), holder of the Russian Protein Technologies Group ("**PTI**") for a cash payment of US $ 50.3 million (based on company value of US $ 67 million), which were paid on 20, November 2013; The acquisition agreement sets out a call option for the company to purchase the remaining 25% of Vantodio's shares as well as a put option for the seller to sell those shares; both options are exercisable from the end of the third year through the end of the fifth year, on the basis of a multiplier of between six and seven on the average EBITDA achieved over the three years preceding exercise and other performance factors.
The acquisition was financed in full through bank credit.
For further details about the acquisition, see immediate report of the company published on 18, November and 20 of November, 2013.

B. On November 25, 2013 the company signed an agreement for purchase of the full share capital of the International Aroma Group, a Panamanian company, holder of the Guatemalan Aroma group ("**Aroma**"), in return for a net cash payment of US$12.5 million (US$13 million less Aroma's cash balance and cash equivalents in the amount of US$0.5 million). The share purchase agreement contains a mechanism for payment of future consideration, under which an additional payment will be made at the rate of the EBITDA achieved above US$2.25 million over the years 2013 to 2015, and a price adjustment mechanism based on net assets as of November 30, 2013. The transaction was completed at the time of signing.
The acquisition was financed through the Company's cash balance.
For further details about the acquisition, see immediate report of the company published on November 25, 2013.

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 June 30, 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 June 30, 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 Quarterly 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 is in the final stages of testing the acquired company's existing processes and audits in the matter of financial reporting and disclosure.

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 third 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 June 30, 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: November 26, 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 third 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 June 30, 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: November 26, 2013 `

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Alon Granot
Executive Vice President and CFO