FRUTAROM INDUSTRIES LTD.
DIRECTORS' REPORT OF THE COMPANY'S STATE OF AFFAIRS
FOR THE PERIOD ENDING JUNE 30, 2014

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 its subsidiaries ("**Frutarom**" or the **"Group**") develop, produce and market flavors and fine ingredients used in the manufacture of food, beverages, flavors, fragrances, pharmaceuticals/ nutraceuticals, cosmetics 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 over 145 countries and employing 2,700 people throughout the world.

Frutarom has two main areas of activity that constitute its core operations: its Flavors activity and its Specialty Fine Ingredients activity ("**core business**").

- **The Flavors Activity** – Frutarom develops, produces, markets and sells solutions for sweet and savory flavorings, including flavor concentrates and products also containing fruit, vegetable, or other natural ingredients ("food systems"), used mainly in the manufacture of foods, beverages and other consumer products. Frutarom develops thousands of different flavors, mostly customized to the needs of individual customers. Frutarom also develops new products to meet changing consumer preferences and future customer needs. Having undergone rapid and profitable growth both organically and through acquisitions, the Flavors activity now accounts for over 70% of Frutarom's total sales (compared to 33% in 2000).

  This rapid growth comes from focusing on the fast-growing field of natural flavors, developing unique innovative solutions combining taste and health for the large multi-national market segment, and working with mid-size and local customers in emerging and developed market, with particular attention to private labels. It has also been achieved thanks to an emphasis placed on providing customized service which includes technological and marketing support, assistance in the development of products and the offer of customized products and services as normally provided to large multinationals. A key factor for growth has also been Frutarom's strategic acquisitions which have been, and continue to be, successfully incorporated into Frutarom's global activities.

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

  In its Specialty Fine Ingredients activities, Frutarom focuses on maintaining a product portfolio with high added value which gives it a competitive edge over its rivals. Most of its specialty fine ingredients in the areas of taste and health are natural products which are characterized by higher growth on average than for non-natural products. In recent years Frutarom has strived to expand the portfolio of natural products offered to customers, with particular emphasis on the area of natural, functional and healthy foods.

Trade and Marketing Operations – In addition to its core business, Frutarom also engages in importing and marketing various raw materials not manufactured in-house in order to provide comprehensive solutions for its customers' needs. The trade and marketing activity is synergetic in supporting Frutarom's core business, leveraging its global sales organization, supply chain, global management and purchasing systems by allowing Frutarom to offer a wider range of products, solutions and added value to its customers, mainly those that are medium sized and locally based, and to strengthen the partnership with these customers. This activity, which grew following the acquisitions of Etol and PTI, is centered mainly in Central and Eastern Europe and Israel. Sales from Trade and Marketing activity accounted for 9.0% of Frutarom's overall sales during the first half of 2014.

Rapid growth strategy –
Profitable organic growth and strategic acquisitions

Frutarom continues to act determinedly towards implementing its rapid and profitable growth strategy with the reinforcement of its research and development, supply chain and manufacturing, marketing and sales infrastructures along with continued assessment of additional strategic acquisitions.

- **Increasing the Share of the Flavors Activity** - The successful implementation of its rapid and profitable growth strategy has allowed Frutarom to significantly boost the share of its Flavors activity, the more profitable among its operations, achieving growth at a quicker pace than that of the markets in which it operates. Sales in this field now constitute 71.5% of Frutarom's total sales (compared to 33% in 2000).

- **Development of New Products and Solutions Combining Taste and Health** - Frutarom develops innovative flavor and health solutions addressing customers' requirements and their future needs. These solutions are in line with the major trends in the global food market and with consumer demand, including the combining of taste and health, nutraceutical supplements, anti-aging products and food products targeting specific populations and age groups. The added value offered by Frutarom and the Company's unique abilities in combining taste and texture solutions with raw materials that have health benefits give it a critical competitive edge among customers in both developed and emerging markets. Most of these new products generate higher profit margins and therefore contribute not only to a growth in sales but also to an improvement in Frutarom's product mix and profitability.

- **Improvements in Specialty Fine Ingredients Product Mix** – Over the past few years Frutarom has also improved the product mix in its Specialty Fine Ingredients activity. Frutarom's R&D teams have successfully developed specialty state-of-the-art natural products targeting both the flavors and health markets. The successful penetration of these products contributes to both an increase in sales by the Specialty Fine Ingredients operations and to improved profitability.

- **Strategic Change in the Geographic Mix** - The successful implementation of Frutarom's strategy in recent years, including a substantial increase in the scope of sales and market share in high-growth emerging markets and the United States, led to Frutarom's sales in the first half of 2014 tripling in developing markets and doubling in the United States (compared to the equivalent period in 2010). Meanwhile the Flavors activity in the United States grew by a factor of 5.5.

  The rapid growth of activity outside Western Europe has led to sales in Western Europe (which grew by 23% from their level in 2010) making up 35% of total Frutarom sales during the first half year compared to 51% in 2010. Over the same period the share of sales in emerging markets rose from 25% to 43%. Frutarom aims at accelerating its growth and increasing the share of its sales from emerging

markets and the United States and will continue to invest and to focus towards this end, including through concentrated reinforcement of its R&D, production, marketing and sales infrastructures in important target countries and continued strategic acquisitions.

The five acquisitions executed by Frutarom in 2013 and at the beginning of 2014 (JannDeRee in South Africa, PTI in Russia, Aroma in Guatemala, Hagelin in the United States with significant sales in Africa and in Latin America, and the American CitraSource) are also contributing to Frutarom's accelerated growth and raising its market share in emerging markets and the United States, and will continue doing so in the years to come.

Frutarom is continuing and will continue expanding operations in Western European markets too. Major countries in Western Europe report signs of recession coming to an end and the beginning of slow expansion, a trend that if continued will contribute to an improvement in sales growth in these important markets.

The rapid growth of Frutarom's activities in the global markets has led to a situation whereby sales by Frutarom in Israel now constitute less than 5% of its overall sales (compared with 30% in 2000).

- **Focus on providing quality service and product development for large multinational customers and for medium size and local customers –** Frutarom continues to expand the services it provides to its customers, and its product portfolio and solutions for both large multi-national customers and mid-size local customers, with special emphasis on the rapidly growing private label market.

- In the large multinational food and beverage manufacturing sector, Frutarom will continue to focus on customized products and on expanding its natural flavor and health solutions portfolio.

- In 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 multinational customers. Frutarom also offers mid-size, local, and private label customers - often more limited in resources than large and multinational customers - assistance in product development while providing market support and flexibility concerning minimal order quantities and delivery dates.

- **Mergers and acquisitions and their contribution towards achieving profitable growth** - Frutarom has extensive M&A experience, striving to integrate acquired companies and activities into its existing operations and realize commercial and operational synergies to make optimize use of the many cross-selling and cost savings opportunities towards the continued improvement in profit 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 growth in sales and improved margins, Frutarom continued applying its acquisition strategy with a focus on expanding its sales and market sector in emerging markets and in the United States. In 2013 it acquired JannDeRee of South Africa, PTI in Russia, Aroma in Guatemala and US-based Hagelin. In early 2014 Frutarom also purchased CitraSource located in the United States. The merger of these five latest acquisitions is moving ahead successfully and according to plan while capitalizing on the operational, marketing and technological synergies whose effects will mainly come into play in the quarters to follow and next year.

- **Acquisition of PTI** - on November 20, 2013 Frutarom completed acquiring 75% of the share capital of the Cyprus-based Vantodio Holdings Limited ("**Vantodio**"), owner of Protein Technologies Ingredients ("**PTI**") located in Russia, for 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 special emphasis on processed meat and convenience foods. PTI has two production sites near Moscow, a state-of-the-art R&D, marketing and sales center in Moscow which includes development and application labs, and 17 distribution centers throughout Russia and other countries in the region. PTI's results have been consolidated into Frutarom's financial statements since October 1, 2013.

  As a result of purchasing PTI, Frutarom is one of the only global manufacturers of Flavors with significant production sites in Russia and significant local R&D, sales, marketing and distribution frameworks in this field in the countries of the region. In order to leverage and capitalize on the many cross-selling opportunities this acquisition generates by expanding the customer base and Frutarom's product portfolio, Frutarom is working to merge and leverage to the utmost the R&D, marketing, production, supply chain and logistics systems of its Savory activity with those of PTI in Russia and other countries of the region while providing technological support for the merged activity from its various sites. The integration of PTI's activities with Frutarom's in the Central and Eastern European countries where they both operate will contribute additional synergies and significant operational savings.

  For further information regarding the acquisition of PTI, see the Company's immediate reports published on November 18 and 20, 2013.

- **Acquisition of Aroma S.A.** – on November 25, 2013 Frutarom acquired the International Aroma Group, a Panama company, holder of the Guatemalan Aroma group ("**Aroma**"), in return for a cash payment of US$13 million and a future performance-based payment. The company was consolidated into Frutarom's reports on December 1, 2013.

  Aroma, established in 1990, develops, manufactures and markets flavor solutions, mainly sweet flavors for beverages, dairy products, confectionary, snack foods and convenience foods. Aroma has 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 located mainly in Central America.

  The acquisition of the Guatemalan Aroma joins the acquisition of the Brazilian Mylner completed by Frutarom at the beginning of 2012 and Frutarom's independent operations in Costa Rica, which include a development lab and sales and marketing network. The acquisition strengthens and deepens Frutarom's presence and market share in the important markets of Central and South America by expanding its product offerings as well as expanding and reinforcing its R&D and sales and marketing infrastructures with the support of Frutarom's US development labs while strengthening local production capabilities and improving customer service in the region.

  For further information regarding the acquisition of Aroma, see the Company's immediate report published on November 25, 2013.

- **Acquisition of Hagelin** – on December 12, 2013 Frutarom acquired 100% of the share capital of the US-based Hagelin & Company Inc. and the complete holdings in US-based BRC Operating Company LLC (jointly: "**Hagelin**" in return for a cash payment of US$52.4 million. Hagelin was consolidated into Frutarom's reports starting from December 31, 2013.

  Hagelin, founded in 1967, develops, produces and markets flavors and unique flavor technologies for the food industry, with emphasis on the growing field of beverage flavors. Hagelin enjoys higher profit margins than those of Frutarom's Flavors sector (the most profitable of Frutarom's sectors) within which it was integrated.

  Hagelin's activity in the UK was integrated into Frutarom's activities during the first quarter of 2014 with the transfer of production from the Hagelin site to Frutarom's UK production site and the joining of the R&D, marketing and sales systems with those of Frutarom in the UK and the United States. Frutarom is working towards integrating Hagelin's activities with its own in the US and the maximal leveraging of the many synergies which this acquisition brings.

Hagelin's R&D, sales and marketing systems in the United States have been merged with those of Frutarom, and it is striving to capitalize on the operational synergies towards achieving substantial savings.

For further information regarding the acquisition of Hagelin, see the Company's immediate report published on December 12, 2013.

- **Acquisition of CitraSource** - On February 24, 2014 Frutarom acquired the business operations and assets of Florida-based CitraSource for the net payment of US$7.1 million plus a future payment based on performance parameters.

  This acquisition reinforces Frutarom's position as a leading global manufacturer in the area of specialty citrus products. CitraSource specializes in the R&D, production, marketing and sales of unique solutions in the field of citrus products to leading global customers in the markets of flavors and fragrances and of food and beverages. CitraSource also has global purchase capabilities in citrus which contribute towards strengthening Frutarom's global purchase system. CitraSource operations have been integrated into the Specialty Fine Ingredients Division starting from March 1, 2014.

  For further information regarding the acquisition of CitraSource, see the Company's immediate report published on February 25, 2014.

Had the acquisitions made in 2013 and the beginning of 2014 been consolidated starting from January 1, 2013, Frutarom's 2013 sales would have reached US$791.5 million, its EBITDA would have amounted to US$134.5 and its net income would have been US$70.9 million.

- **Increase in Profit and Profit Margins -** Over the last few years, alongside its growth in sales, Frutarom has also achieved significant growth in profits and its gross and operating profit margins. Frutarom continually strives to strengthen its competitive edge while increasing profits and profit margins by focusing, among other things, on the following objectives:

  - **Successful integration of acquisitions and maximization of synergies –** The eight acquisitions carried out in 2011-2012 were successfully integrated according to plan. These acquisitions are already contributing as planned to growth in sales and improved profit and margins, and will continue to do so. Frutarom continues working towards capitalizing on the many resulting cross-selling opportunities, making maximum use of the enhanced technological capabilities it has gained through the acquisitions, and actualizing the potential of savings brought about through the integration of the R&D, sales, marketing, supply chain, operations and purchasing systems of those acquisitions. Integration of the five acquisitions carried out in 2013 and at the beginning of 2014 is successfully moving forward and these are contributing and will

continue contributing to Frutarom's growth in sales and profits this year and in the years ahead.

- **Integration of R&D systems -** Frutarom strives to make maximum use of the extensive R&D capabilities, innovation, and technological capabilities it has gained in recent years following its acquisitions and in the implementation of a new customer relations management system along with R&D and application projects aimed at expanding the product portfolio, improving the quality of its solutions and the level of service to customers by channeling projects to relevant knowledge centers and leveraging the knowhow and expertise developed at the various Frutarom sites over the last few decades.

- **Building and strengthening global purchasing -** Frutarom continues to build and strengthen its global purchasing infrastructure, utilizing the significant added purchasing power acquired through its recent acquisitions, and further expanding its pool of suppliers with an emphasis on the purchasing of raw materials used in production directly from their countries of origin (particularly natural raw materials). Integration of the Company's R&D infrastructures also contributes to a strengthening of global purchasing capabilities by capitalizing on potential harmonization of raw materials and suppliers used by Frutarom in the development and manufacture of its products.

- **Streamlining projects –** Frutarom continues implementing and executing additional projects for consolidating and unifying production and operations sites and for achieving maximum logistics, purchasing and supply chain efficiencies which will contribute to strengthening its competitive advantage and improving its profitability and earnings over the coming years.

Frutarom's solid capital structure (total assets of about one billion US dollars and equity totaling US$557 million, representing 55.8% of total assets, as of June 30, 2014) and its net debt position (total loans less cash resources) standing at US$188 million as of June 30, 2014, supported by the cash flow achieved along with bank backing, will enable it to continue realizing the growth strategy it has implemented over the past few years, including further strategic acquisitions while strengthening its competitiveness and standing as one of the world's leading 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

Frutarom's total assets as of June 30, 2014 totaled US$997.2 million, compared with US$777.1 million as of June 30, 2013 and US$970.8 million as of December 31, 2013.

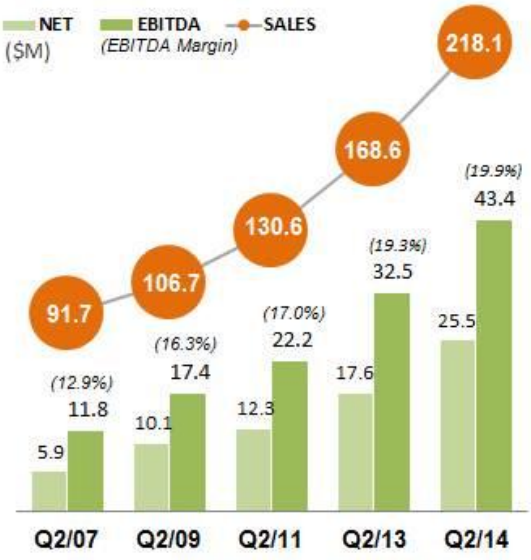
Frutarom's current assets as of June 30, 2014 totaled US$405.0 million, compared with US$315.3 million as of June 30, 2013 and US$375.0 million as of December 31, 2013.

Fixed assets net of cumulative depreciation and other net assets as of June 30, 2014 totaled US$ 588.4 million, compared with US$458.3 million as of June 30, 2013 and US$592.3 million as of December 31, 2013.

The increase in total assets was mainly due to consolidation of acquisitions carried out in 2013 and at the beginning of 2014.

C. RESULTS OF OPERATIONS – Q2 2014

Development of Frutarom's sales and profits:



Revenues	Revenues Reached Over $200 M
Growth	6.2% YoY Pro-forma growth[1]
Gross Profit	Over $ 85 M 41.6% gross margin in core activities
EBITDA	Reached $43.4 M , 19.9% EBITDA margin 21.6% EBITDA margin in core activities
Net Profit	Over $25M 11.7% net margin

Q2 2014 presented another record quarter for Frutarom in sales, which reached US$218.1 million, as well as for gross profits, operating profits, EBITDA which reached US$43.4 million for 19.9% of sales, and also for net profits which reached US$25.5 million and earnings per share which both set all-time highs for Frutarom.

The results for Q2 2014 include all four acquisitions made in 2013 and CitraSource, which was acquired on February 24, 2014. These acquisitions also contributed to the continued trend of improvement in Frutarom's results.

Sales

Frutarom sales in Q2 2014 grew by 29.3% to reach a record US$218.1 million compared with US$168.6 million in Q2 2013.
In pro-forma terms[1] the growth for the quarter reached 6.2% compared with the parallel quarter, with negligible currency exchange-rate effects.

Frutarom's sales in the Flavors field in Q2 2014 increased by 25.3%, to reach US$156.7 million compared with US$125.1 million in the same quarter last year, and represented 71.9% of total sales.
In pro-forma terms the growth for the quarter in Flavors reached 5.5% in comparison with the parallel quarter, with negligible currency exchange-rate effects.

[1] assuming acquisitions performed in 2013 had been consolidated as of January 1, 2013 and that CitraSource, which was acquired during the first quarter of 2014, had been consolidated as of March 1, 2013 ("**Pro-forma Terms**").

Frutarom's sales in Specialty Fine Ingredients grew in Q2 2014 by 13.1% and totaled US$42.6 million compared with US$37.6 million in Q2 2013.
In pro-forma terms the growth in the quarter for Specialty Fine Ingredients reached 8.9% compared to the parallel quarter, with currency exchange-rate effects contributing 2.5% to growth. Innovative natural high added value products developed at the R&D labs and successfully launched in recent years contributed to the profitable growth and improvement in margins and profit by the Specialty Fine Ingredients activities.

Frutarom's sales from Trade & Marketing (not a core activity of Frutarom) grew significantly following the acquisition of PTI and are based mainly in Central and Eastern Europe and in Israel. Frutarom's sales in Q2 2014 from this field jumped 190.2% to reach US$20.8 million as opposed to US$7.2 million in the parallel quarter last year.
In pro-forma terms the growth in the quarter reached 10.0%.

Sales breakdown by activity in Q2 for 2004 - 2014 (US$ M and %)

		Q2 2004	Q2 2005	Q2 2006	Q2 2007	Q2 2008	Q2 2008	Q2 2010	Q2 2011	Q2 2012	Q2 2013	Q2 2014
Flavor Activity	Sales	23.7	43.1	49.5	61.7	98.1	75.8	77.4	92.7	122.5	125.1	156.7
	%	53.1%	64.2%	68.4%	67.3%	74.0%	71.0%	67.7%	71.0%	74.3%	74.2%	71.9%
Fine Ingredient Activity	Sales	19.7	23.7	22.5	28.9	32.5	29.7	36.2	37.2	36.5	37.6	42.6
	%	44.2%	35.3%	31.1%	31.5%	24.5%	27.9%	31.7%	28.5%	22.2%	22.3%	19.5%
Inter-activity Sales	Sales	-0.8	-1.2	-1.1	-1.0	-0.9	-0.8	-0.4	-0.9	-0.5	-1.2	-1.9
	%	-1.8%	-1.8%	-1.6%	-1.1%	-0.7%	-0.8%	-0.4%	-0.7%	-0.3%	-0.7%	-0.9%
Total Core Activity	Sales	42.6	65.6	70.9	89.6	129.7	104.7	113.2	129.0	158.5	161.5	197.3
	%	95.8%	97.8%	97.9%	97.7%	97.8%	98.1%	99.0%	98.8%	96.2%	95.8%	90.5%
Trade & Marketing	Sales	1.9	1.5	1.5	2.1	2.9	2.0	1.1	1.6	6.3	7.2	20.8
	%	4.2%	2.2%	2.1%	2.3%	2.2%	1.9%	1.0%	1.2%	3.8%	4.2%	9.5%
Total Sales		44.6	67.1	72.3	91.7	132.6	106.7	114.3	130.6	164.8	168.6	218.1

Following is a summary of the profit and loss statements for the second quarters of 2013 - 2014 (US$ Millions):

Q2 2014 was another record quarter for Frutarom in sales, gross profit, operating profit, EBITDA, net profit and earnings per share, the highest ever reached in Frutarom history.

	Core Businesses Flavors and Specialty Fine Ingredients			**Trade and Marketing**			**Total Frutarom Group**		
	Q2 2013	**Q2 2014**	**% growth**	**Q2 2013**	**Q2 2014**	**% growth**	**Q2 2013**	**Q2 2014**	***% growth***
Sales	161.5	197.3	*22.2%*	7.2	20.8	*190.2%*	168.6	218.1	*29.3%*
Gross profit	66.3	82.1	*24.0%*	0.6	3.8	*496.4%*	66.9	85.9	*28.5%*
Profitability	*41.0%*	*41.6%*		*8.8%*	*18.2%*		*39.6%*	*39.4%*	
Operating profit	24.7	34.6	*39.8%*	0.2	0.7	*278.4%*	24.9	35.3	*41.7%*
Profitability	*15.3%*	*17.5%*		*2.7%*	*3.5%*		*14.8%*	*16.2%*	
EBITDA	32.3	42.6	*31.8%*	0.2	0.8	*315.5%*	32.5	43.4	*33.5%*
Profitability	*20.0%*	*21.6%*		*2.7%*	*3.9%*		*19.3%*	*19.9%*	
Financing expenses							2.3	2.3	*-0.8%*
Income before taxes							22.6	33.1	*46.0%*
Net income							17.6	25.5	*44.5%*

Gross Profit

Gross profit from Frutarom's core businesses (Flavors and Specialty Fine Ingredients) rose by 24.0% to reach US$82.1 million, with gross margin reaching 41.6% compared with 41.0% in Q2 2013.

Gross profit from all Frutarom activities in Q2 2014 rose by 28.5%, reaching US$85.9 million (39.4% of revenues) compared with US$66.8 million (39.6% of revenues) in Q2 2013 (and this despite the growth in the relative share of sales attributable to Trade and Marketing, which isn't a core activity for Frutarom, with its lower profit margin level).

Organic sales growth, improved product mix, and measures being taken by Frutarom towards operational streamlining all contributed to the improvement in gross profit and margin for its core businesses in Q2 2014. Following its most recent acquisitions the Company still continues striving to optimize the use of its resources towards generating operational savings and strengthening its competitive edge.

Meanwhile, Frutarom is working on building up and strengthening its global purchasing system, leveraging its increased purchasing power from the recent acquisitions and continually expanding its pool of suppliers, while emphasizing the purchasing of raw materials used in the manufacture of its products from source countries (particularly natural raw materials). The global purchasing system will also contribute to the continued trend of improvement in profits and margins.

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

R&D, sales and marketing, G&A and other expenses in Q2 2014 totaled US$50.6 million, (23.2% of sales) compared to US$41.9 million (24.9% of sales) in the same quarter last year.

The expenses rose mainly following consolidation of the five operations acquired in 2013 and at the beginning of 2014. The drop in the percentage of these expenses from total revenues is due both to the internal growth in sales and the realization of some of the operational synergies that mostly arose from the acquisitions performed in 2011 and at the beginning of 2012. Frutarom, as stated, strives towards continued successful integration of its latest acquisitions over the past year while achieving maximum efficiency, improving its cost structure, and strengthening its future competitiveness, while making optimal use of its sites throughout the world.

In Q2 2014 the sales and marketing, R&D, G&A and other expenses included US$0.2 million in non-recurring expenses attributable to acquisitions as opposed to non-recurring expenses totaling US$2.0 million in Q2 2013.

Operating Profit and EBITDA

Operating profit from Frutarom's core business rose 39.8% in Q2 2014, reaching US$34.6 million (17.5% of sales) compared with US$24.7 million (15.3% of sales) in the same quarter last year.

Operating profit from all Frutarom activities in Q2 2014 rose by 41.7% to reach US$35.3 million (16.2% of sales) compared with US$24.9 million (14.8% of sales) in the same quarter last year.

Frutarom's EBITDA for Q2 2014 from its core businesses increased by 31.8%, reaching US$42.6 million (21.6% of sales) compared with US$32.3 million for the same period last year (20.0% of sales).

Frutarom's EBITDA for Q2 2014 from all activity rose by 33.5% to reach a record level US$43.4 million (19.9% of sales) compared with US$32.5 million during the same period last year (19.3% of sales).

Financing Expenses / Income

In Q2 2014 financing expenses totaled US$2.3 million (1.0% of sales), similar to the financing expenses of US$2.3 million (1.4% of sales) in the second quarter of last year.

Profit before Taxes

Profit before taxes for Q2 2014 rose 46.0%, reaching US$33.1 million (15.2% of sales) compared with US$22.6 million (13.4% of sales) in the same quarter last year.

Taxes on Income

Taxes on income for Q2 2014 totaled US$7.6 million (22.9% of profit before tax) compared with US$5.0 million (22.1% of profit before tax) in Q2 2013.

Net Profit

In Q2 2014 net profit rose by 44.5% to reach the highest quarterly net income ever achieved by Frutarom: US$25.5 million (11.7% of sales). This compares with US$17.6 million (10.5% of sales) in Q2 2013.

Earnings per Share

Earnings per share in Q2 2014 grew 44.2% to a record level US$0.43 compared with US$0.30 in the same quarter last year.

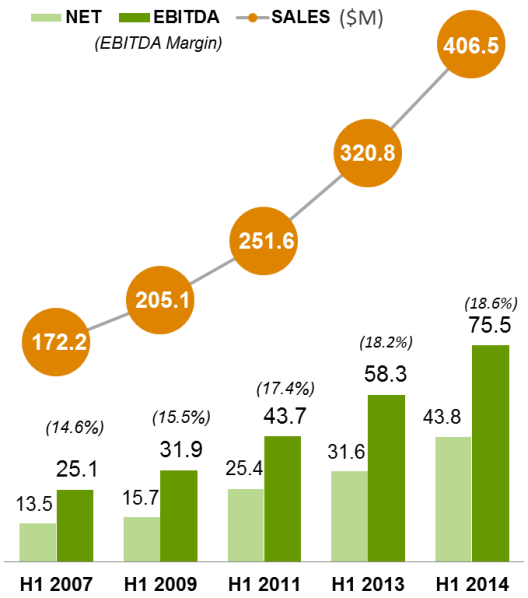
Summary of the quarterly profit and loss reports for 2011 - 2014 (US$ M):

	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q2 2012	Q2 2012	Q3 2012	Q4 2012	Q2 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014
Revenues	121.0	130.6	135.3	131.6	151.2	164.8	157.1	144.9	152.2	168.6	161.0	191.8	188.5	218.1
Gross profit	45.7	48.5	47.7	46.8	54.9	61.8	58.1	51.5	57.2	66.9	62.6	70.2	73.5	85.9
R&D, G&A, Selling, 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	49.9	49.6	50.6
Operating profit	16.6	17.0	12.9	12.2	17.8	21.8	19.5	13.7	18.9	24.9	22.6	20.3	23.9	35.3
EBITDA	21.5	22.2	18.6	18.1	25.0	28.5	26.3	20.7	25.8	32.6	29.4	28.3	32.1	43.4
Financing expenses	-0.9	0.8	2.6	3.2	0.9	4.3	0.6	1.4	1.4	2.3	1.3	2.5	1.5	2.3
Profit before tax	17.5	16.2	10.3	8.9	16.9	17.5	18.9	12.3	17.5	22.6	21.3	17.8	22.5	33.1
Net profit	**13.1**	**12.3**	**8.7**	**7.9**	**13.5**	**13.5**	**14.4**	**10.5**	**14.0**	**17.6**	**17.0**	**15.0**	**18.3**	**25.5**

Seasonality

The Company's business in recent years has been affected by seasonal fluctuations which, until the acquisition of PTI, were expressed in weaker sales and profit margins for the first and fourth quarters. Following the acquisition of PTI, where seasonality in its sales over recent years has been expressed in its fourth quarter being its strongest and the first quarter being its weakest in terms of both amount of sales and in profits and margins, Frutarom's seasonality profile has somewhat changed.

D. RESULTS OF OPERATIONS – H1 2014



Revenues	Reached $406 M
Growth	Revenues grew 26.7% 4.6% YoY Pro-forma growth[1]
Gross Profit	Reached $159.4 M **41.3%** gross margin in core activities
EBITDA	**Over $ 75 M**, 18.6% EBITDA margin **20.1%** EBITDA margin in core activities
Net Profit	Reached $43.8 M **10.8%** net margin

The first half of 2014 was another record breaking half year for sales which reached US$406.5 million, gross profit, operating profit, EBITDA which reached US$75.5 million which was 18.6% of sales, net income which reached US$43.8 million, and earnings per share – the highest ever achieved in Frutarom history.

In the first half the results include all four acquisitions performed in 2013 and CitraSource which was consolidated as of March 1, 2014. These acquisitions also contributed to continued trend of improvement in Frutarom's results.

Sales

Sales by Frutarom in the first half of 2014 grew by 26.7% and attained a half-year sales record of US$406.5 million compared with US$320.8 million in H1 2013.

In pro-forma terms, growth in the first half reached 4.6% compared with the parallel half last year, with negligible currency exchange-rate effects.

Frutarom sales in the Flavors field in the first half of 2014 increased by 23.4% to reach US$290.9 million compared with US$235.7 million in the first half of last year and constituted 71.5% of total sales.

In pro-forma terms, growth in the first half for Flavors reached 3.8% compared with the parallel half last year, with negligible currency exchange-rate effects.

Frutarom sales in Specialty Fine Ingredients grew in the first half of 2014 by 11.2% and totaled US$83.5 million compared with US$75.1 million in the first half of last year.

In pro-forma terms, growth in the first half for Specialty Fine Ingredients reached 7.9% compared with the parallel half last year, with currency exchange-rate fluctuations

contributing 2.3% to sales growth. Innovative natural products with high added value that were developed in the R&D labs and successfully launched in recent years contributed to the profitable growth and the improvement in margins and profit.

Frutarom's sales from Trade & Marketing (not a core activity of Frutarom) rose significantly following the purchase of PTI and are based mainly in Central and Eastern Europe and in Israel. In 1H 2014 Frutarom's sales in this field rose 192.6% to reach US$36.4 million compared with US$12.4 million in the same period last year.

In pro-forma terms, growth in the first half in the field of Trade and Marketing reached 9.2% compared with the parallel half last year.

Sales breakdown by activity in H1 for 2004 - 2014 (US$ M and %)

		H1 2004	H1 2005	H1 2006	H1 2007	H1 2008	H1 2008	H1 2010	H1 2011	H1 2012	H1 2013	H1 2014
Flavor Activity	Sales	42.6	83.4	94.2	111.6	182.5	143.1	152.8	172.9	231.4	235.7	290.9
	%	48.1%	63.3%	65.7%	64.8%	71.7%	69.8%	67.1%	68.7%	73.2%	73.5%	71.5%
Fine Ingredient Activity	Sales	43.6	47.1	48.0	58.0	67.8	59.3	73.8	76.3	74.0	75.1	83.5
	%	49.3%	35.7%	33.5%	33.7%	26.6%	28.9%	32.4%	30.3%	23.4%	23.4%	20.5%
Inter-activity Sales	Sales	-1.3	-2.0	-1.8	-2.1	-2.3	-1.5	-1.2	-1.5	-1.1	-2.5	-4.3
	%	-1.5%	-1.5%	-1.2%	-1.2%	-0.9%	-0.8%	-0.5%	-0.6%	-0.3%	-0.8%	-1.1%
Total Core Activity	Sales	84.9	128.5	140.4	167.5	248.0	200.9	225.4	247.7	304.3	308.3	370.1
	%	95.9%	97.5%	98.0%	97.3%	97.4%	97.9%	99.0%	98.4%	96.3%	96.1%	91.0%
Trade & Marketing	Sales	3.6	3.3	2.9	4.7	6.6	4.2	2.3	3.9	11.7	12.4	36.4
	%	4.1%	2.5%	2.0%	2.7%	2.6%	2.1%	1.0%	1.6%	3.7%	3.9%	9.0%
Total Sales		88.5	131.8	143.3	172.2	254.6	205.1	227.7	251.6	316.0	320.8	406.5

Following is a summary of the profit and loss statements for the first half of 2013 - 2014 (US$ Millions):

In the first half of 2014 Frutarom achieved records for the half year sales, gross profit, operating profit, EBITDA, net profit and earnings per share.

	Core Businesses Flavors and Specialty Fine Ingredients			**Trade and Marketing**			**Total Frutarom Group**		
	H1 2013	**H1 2014**	**% growth**	**H1 2013**	**H1 2014**	**% growth**	**H1 2013**	**H1 2014**	***% growth***
Sales	308.4	370.1	*20.0%*	12.4	36.4	*192.6%*	320.8	406.5	*26.7%*
Gross profit	122.7	152.8	*24.6%*	1.4	6.6	*386.2%*	124.0	159.4	*28.5%*
Profitability	*39.8%*	*41.3%*		*11.0%*	*18.2%*		*38.7%*	*39.2%*	
Operating Profit	43.5	58.2	*33.9%*	0.4	1.0	*178.0%*	43.8	59.3	*35.2%*
Profitability	*14.1%*	*15.7%*		*3.0%*	*2.9%*		*13.7%*	*14.6%*	
EBITDA	57.9	74.3	*28.5%*	0.4	1.2	*199.7%*	58.3	75.5	*29.6%*
Profitability	*18.8%*	*20.1%*		*3.2%*	*3.3%*		*18.2%*	*18.6%*	
Financing expenses							3.7	3.7	*0.6%*
Income before taxes							40.1	55.5	*38.4%*
Net income							31.6	43.8	*38.3%*

Gross Profit

Gross profit from Frutarom's core businesses rose in the first half by 24.6% to reach US$152.8 million, with gross margin reaching 41.3% compared with 39.8% in H1 2013.

Gross profit from all Frutarom activities in H1 2014 rose by 28.5% to reach US$159.4 million (39.2% of revenues) compared with US$124.0 million (38.7% of revenues) in H1 2013 (and this despite the growth in the relative share of sales attributable to Trade and Marketing, which isn't a core activity for Frutarom, with its lower profit margin level).

Organic sales growth, improved product mix, and operational streamlining measures being taken by Frutarom all contributed to the improvement in gross profit and margin of its core businesses in H1 2014. The Company continues striving to optimize the use of its resources, also following the latest acquisitions it has performed, towards generating operational savings and strengthening its competitive edge.

Meanwhile, Frutarom is working on building up and strengthening its global purchasing system, leveraging its increased purchasing power from acquisitions it's carried out and continually expanding its pool of suppliers, while emphasizing the purchasing of raw materials used in the manufacture of its products from source countries (particularly natural raw materials). The global purchasing system will also contribute to the continued trend of improvement in profits and margins.

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

Sales and marketing, R&D, G&A and other expenses in H1 2014 totaled US$100.2 million, (24.6% of sales) compared to US$80.2 million (25.0% of sales) in the same period last year.

Expenses rose mainly following consolidation of the five operations acquired in 2013 and at the beginning of 2014. The drop in the percentage of these expenses from total revenues is due both to the internal growth in sales and the realization of some of the operational synergies that mostly arose from the acquisitions performed in 2011 and at the beginning of 2012. Frutarom, as stated, strives towards continued successful integration of its latest acquisitions carried out in the past year while achieving maximum efficiency, improving its cost structure, and strengthening its future competitiveness, while making optimal use of its sites throughout the world.

In H1 2014 the sales and marketing, R&D, G&A and other expenses included non-recurring expenses totaling US$0.2 million for acquisitions. Non-recurring expenses in the equivalent period last year amounted to US$2.1 million.

Operating Profit and EBITDA

Operating profit from Frutarom's core business in the first half of 2014 rose 33.9%, reaching US$58.2 million (15.7% of sales) compared with US$43.5 million (14.1% of sales) in the same period last year.

Operating profit from all Frutarom activities in the first half of 2014 rose by 35.2% to reach US$59.3 million (14.6% of sales) compared with US$43.8 million (13.7% of sales) in the same period last year.

Frutarom's EBITDA from its core businesses in H1 2014 increased by 28.5%, reaching US$74.3 million (20.1% of sales) compared with US$57.9 million for the same period last year (18.8% of sales).

Frutarom's EBITDA in the first half of 2014 from all activity rose by 29.6% to reach US$75.5 million (18.6% of sales) compared with US$58.3 million during the same period last year (18.2% of sales).

Financing Expenses / Income

In the first half of 2014 there was no material change in financing expenses in comparison with the equivalent period last year, and these totaled US$3.7 million.

Profit before Taxes

Profit before taxes for H1 2014 rose 38.4% to reach US$55.5 million (13.7% of sales) compared with US$40.1 million (12.5% of sales) in the same period last year.

Taxes on Income

Taxes on income for H1 2014 totaled US$11.8 million (21.2% of profit before tax) compared with US$8.5 million (21.2% of profit before tax) in H1 2013.

Net Profit

Net profit in the first half of 2014 reached a half-year record of US$43.8 million, climbing 38.3% from US$31.6 million in the first half of 2013. The net margin came to 10.8% compared to 9.9% for the same period last year.

Earnings per Share

Earnings per share in H1 2014 rose 36.8% to a record level of US$0.74 compared with US$0.54 per share for the first half of last year.

E. LIQUIDITY

Frutarom continues to generate a strong cash flow from operating activities which helps it reduce its level of debt and continue making strategic acquisitions while keeping debt at a reasonable level. During Q2 2014 the Company generated US$20.5 million in cash flow from operating activities compared to US$16.4 million in Q2 2013, a 24.8% increase despite the growth in sales as against the previous quarter.

During the first half of the year the cash flow from operating activities increased by 41.7% from US$20.8 million to US$29.5 million. Frutarom continually acts to maintain an optimal level of working capital suitable for its expected growth, taking into account seasonality as well as the supply of the various raw materials and their current and expected future prices.

F. SOURCES OF FINANCING

Sources of Equity

Frutarom's equity as of June 30, 2014 totaled US$556.9 million (55.8% of the overall balance sheet) compared with US$467.0 million (60.1% of the balance sheet) as of June 30, 2013 and US$521.1 million (53.7%) as of December 31, 2013.

Loans (Average)

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

  Average long-term credit from banks in Q2 2014 totaled US$208.3 million, compared with US$142.0 million in the same quarter in 2013.

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

  Average short-term credit provided to the Company by banks in Q2 2014 totaled US$37.6 million compared to US$36.8 million in the corresponding quarter last year.

  The increase in net debt is the result of the loans taken by Frutarom for financing its acquisitions.

Accounts Payable and Receivables (Average)

In Q2 2014 the Company had accounts payable and other payables amounting to US$112.9 million compared with US$84.8 million in the same quarter last year. During Q2 2014 the Company granted US$155.1 million in credit to its customers compared with US$126.0 million in Q2 2013. The increase in accounts payable and receivables derives mainly from the five acquisitions conducted by Frutarom in 2013 and at the beginning of 2014.

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

EXPOSURE TO AND MANAGEMENT OF MARKET RISKS

There were no substantial changes in Q2 2014 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 2013 published by the Company on March 19, 2014. As at June 30, 2014, the Group has long term loans, net of current maturities, totaling US$152.9 million and short term debt, including current maturities of long term loans, of US$84.5 million total. The Company has cash balances of US$49.1 million.

G. SENSITIVITY TESTS

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

	Profit (Loss) from changes		Fair value	Profit (Loss) from changes	
% of change	**+10%**	**+5%**	**-**	**-5%**	**-10%**
Exchange rate	**3.782**	**3.610**	**3.438**	**3.266**	**3.094**
	US$ 000				
Cash and cash equivalents	(1)	-	9	-	1
Customers	(1,167)	(583)	11,666	583	1,167
Other debtors	(115)	(57)	1,148	57	115
Other long term debtors	(4)	(2)	42	2	4
	(1,287)	**(642)**	**12,865**	**642**	**1,287**
Credit from banking corporations	79	39	785	(39)	(79)
Suppliers and service providers	697	348	6,968	(348)	(697)
Other creditors	703	351	7,027	(351)	(703)
	1,479	**738**	**14,780**	**(738)**	**(1,479)**
Total exposure, net	**192**	**96**	**(1,915)**	**(96)**	**(192)**

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	**0.645**	**0.616**	**0.587**	**0.557**	**0.528**
	US$ 000				
Cash and cash equivalents	(543)	(271)	5,427	271	543
Customers	(1,781)	(891)	17,811	891	1,781
Other debtors	(107)	(53)	1,069	53	107
	(2,431)	**(1,215)**	**24,307**	**1,215**	**2,431**
Credit from banking corporations	708	354	7,076	(354)	(708)
Suppliers and service providers	734	367	7,335	(367)	(734)
Other creditors	1,045	523	10,454	(523)	(1,045)
	2,487	**1,244**	**24,865**	**(1,244)**	**(2,487)**
Total exposure, net	**56**	**29**	**(558)**	**(29)**	**(56)**

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	**0.806**	**0.769**	**0.732**	**0.696**	**0.659**
	US$ 000				
Cash and cash equivalents	(1,509)	(754)	15,087	754	1,509
Customers	(5,143)	(2,572)	51,434	2,572	5,143
Other debtors	(364)	(182)	3,640	182	364
Other long term debtors	(3)	(1)	25	1	3
	(7,019)	**(3,509)**	**70,186**	**3,509**	**7,019**
Credit from banking corporations	2,911	1,456	29,114	(1,456)	(2,911)
Suppliers and service providers	2,575	1,288	25,752	(1,288)	(2,575)
Other creditors	1,575	787	15,745	(787)	(1,575)
	7,061	**3,531**	**70,611**	**(3,531)**	**(7,061)**
Total exposure, net	**42**	**22**	**(425)**	**(22)**	**(42)**

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	**0.979**	**0.935**	**0.890**	**0.846**	**0.801**
	US$ 000				
Cash and cash equivalents	(345)	(172)	3,448	172	345
Customers	(839)	(420)	8,393	420	839
Other debtors	(168)	(84)	1,683	84	168
	(1,352)	**(676)**	**13,524**	**676**	**1,352**
Credit from banking corporations	8,425	4,213	84,250	(4,213)	(8,425)
Suppliers and service providers	333	166	3,325	(166)	(333)
Other creditors	914	456	9,142	(456)	(914)
Other long-term creditors	2,322	1,161	23,217	(1,161)	(2,322)
	11,994	**5,996**	**119,934**	**(5,996)**	**(11,994)**
Total exposure, net	**10,642**	**5,320**	**(106,410)**	**(5,320)**	**(10,642)**

Sensitivity to Changes in the US Dollar- Russian Ruble Exchange Rate

	Profit (Loss) from changes		Fair value	Profit (Loss) from changes	
% of change	**+10%**	**+5%**	**-**	**-5%**	**-10%**
Exchange rate	**37.402**	**35.702**	**34.002**	**32.302**	**30.602**
	US$ 000				
Cash and cash equivalents	(363)	(181)	3,628	181	363
Customers	(1,992)	(996)	19,921	996	1,992
Other debtors	(198)	(99)	1,975	99	198
	(2,553)	**(1,276)**	**25,524**	**1,276**	**2,553**
Credit from banking corporations	101	50	1,008	(50)	(101)
Suppliers and service providers	652	326	6,522	(326)	(652)
Other creditors	1	1	10	(1)	(1)
	754	**377**	**7,540**	**(377)**	**(754)**
Total exposure, net	**(1,799)**	**(900)**	**17,984**	**900**	**1,799**

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	(1,253)	(626)	12,527	626	1,253
Customers	(1,988)	(994)	19,879	994	1,988
Other debtors	(180)	(90)	1,797	90	180
	(3,421)	**(1,710)**	**34,203**	**1,710**	**3,421**
Credit from banks	110	55	1,104	(55)	(110)
Suppliers and service providers	382	191	3,824	(191)	(382)
Other creditors	413	207	4,134	(207)	(413)
Other long term creditors	126	63	1,264	(63)	(126)
	1,031	**516**	**10,326**	**(516)**	**(1,031)**
Total exposure, net	**(2,390)**	**(1,194)**	**23,877**	**1,194**	**2,390**

H. SUMMARY OF SENSITIVITY TESTS TABLES

The functional currency of most Group companies is the local currency in each of their respective countries of residence. The currency translations of balance sheet balances of these companies therefore have no effect on the Company's profit and loss statement 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	**3.782**	**3.610**	**3.438**	**3.266**	**3.094**
	US$ 000				
Total Exposure net	**192**	**96**	**(1,915)**	**(96)**	**(192)**

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	**0.645**	**0.616**	**0.587**	**0.557**	**0.528**
	US$ 000				
Total Exposure net	**56**	**29**	**(558)**	**(29)**	**(56)**

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	**0.806**	**0.769**	**0.732**	**0.696**	**0.659**
	US$ 000				
Total exposure, net	**42**	**22**	**(425)**	**(22)**	**(42)**

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	**0.979**	**0.935**	**0.890**	**0.846**	**0.801**
	US$ 000				
Total exposure, net	**10,642**	**5,320**	**(106,410)**	**(5,320)**	**(10,642)**

Sensitivity to Changes in the US Dollar-Russian Ruble Exchange Rate

	Profit (Loss) from changes		Fair value	Profit (Loss) from changes	
% of change	+10%	+5%	-	-5%	-10%
Exchange rate	**37.402**	**35.702**	**34.002**	**32.302**	**30.602**
	US$ 000				
Total exposure, net	**(1,799)**	**(900)**	**17,984**	**900**	**1,799**

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	**(2,390)**	**(1,194)**	**23,877**	**1,194**	**2,390**

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), 5770-2010 ("**Statements Approval Regulations**").

Members of the Company's Board of Directors

The Company's Board of Directors is comprised of eight members, six 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 2013, published on March 19, 2014 ("**Annual Periodic Report for 2013"**).

Balance Sheet Committee and Members

The members of the Company's Balance Sheet Committee are – 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 2013.

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

The Company's financial statements were discussed at a meeting of the Balance Sheet Committee held on August 17, 2014. The members of the committee were sent the Company's financial statements of June 30, 2014 two business days prior to the meeting for their perusal. The three members of the Balance Sheet Committee participated in the discussion, and also present were 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. Tali Mirsky, Global VP Legal Affairs and Corporate Secretary. Presentations by the Company and by the auditors were given at the meeting. The 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 is 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 discussed and 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 present 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 respond to the Directors' comments. Following presentation of the Company's financial results, the Company's independent auditors answer the Directors' questions. Finally, the Board of Directors votes on approval of the financial statements. All of the members of the Board of Directors were present at the Board meeting held on August 19, 2014, where the financial statements of June 30, 2014 were unanimously approved.

DISCLOSURE RELATING TO THE CORPORATE FINANCIAL REPORTING

A. DIVIDEND DISTRIBUTION IN 2014

On March 18, 2014, the Company's Board of Directors resolved to approve a distribution of a cash dividend in the amount of NIS 0.28 per share (total amount of US$4,712 thousand). The dividend was paid out on May 4, 2014.

B. GRANTING OPTION WARRANTS TO EMPLOYEES AND OFFICE HOLDERS

On April 20, 2014 the Company granted option warrants to employees and office holders. For further details see the outline and immediate report published by the Company on April 1 and April 20, 2014. On August 17, 2014 and August 19, 2014 the Compensation Committee and the Board of Directors respectively approved the granting of option warrants to employees and office holders. For further details see the immediate report and outline published by the Company on August 19, 2014.

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 2013.

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 Q2 2014.

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

August 19, 2014

FRUTAROM INDUSTRIES LTD.

INTERIM FINANCIAL INFORMATION

(Unaudited)

30 JUNE 2014

FRUTAROM INDUSTRIES LTD.

INTERIM FINANCIAL INFORMATION

(Unaudited)

30 JUNE 2014

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Review Report of Interim Financial Information

Introduction

We have reviewed the accompanying financial information of Frutarom Industries Ltd. and its subsidiaries (hereafter - the group), which includes the condensed consolidated statement of financial position as of 30 June 2014 and the related condensed consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the six and three-month periods then ended. The Board of Directors and management are responsible for preparation and presentation of the financial information for this reporting period in accordance with IAS 34 – "Interim Financial Reporting"; our responsibility is to express a conclusion of the financial data for this interim period based on our review.

We did not review the condensed interim financial information of certain consolidated companies, whose assets included in consolidation constitute approximately 12.2% of total consolidated assets as of 30 June 2014 and whose revenues included in consolidation constitute approximately 14.2% and 13.7% of total consolidated revenues for the six and three-month periods ended on that date, respectively. The condensed financial information of these companies was reviewed by other auditors, whose review reports have been furnished to us; and our conclusion, insofar as it relates to the financial information included for these companies, is based on review reports of the other auditors.

Scope of review

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

Conclusion

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

Haifa, Israel
19 August, 2014

Kesselman & Kesselman
Certified Public Accountants (lsr.)
A member firm of PricewaterhouseCoopers International Limited

FRUTAROM INDUSTRIES LTD.

CONDESED CONSOLDIATED STATEMENT OF FINANCIAL POSITION

30 JUNE 2014

	30 June		31 December
	2014	2013	2013
	(Unaudited)		(Audited)
	U.S. dollars in thousands		
A s s e t s			
CURRENT ASSETS:			
Cash and cash equivalents	49,092	40,241	57,612
Accounts receivable:			
Trade	161,080	127,927	138,373
Other	14,673	13,754	12,442
Prepaid expenses and advances to suppliers	11,899	7,845	11,803
Inventory	168,275	125,502	154,721
	405,019	315,269	374,951
NON-CURRENT ASSETS:			
Property, plant and equipment	213,028	185,567	208,567
Intangible assets	375,327	272,764	383,729
Deferred income tax assets	3,777	3,226	3,424
Other	67	227	115
	592,199	461,784	595,835
Total assets	997,218	777,053	970,786

Dr. John Farber)
Chairman of the Board)

Ori Yehudai)
President and CEO)

Alon Granot)
Executive Vice
President and CFO)

Date of approval of the interim financial information by the board of directors: August 19, 2014

	30 June		31 December
	2014	2013	2013
	(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	84,452	100,543	108,226
Accounts payable:			
Trade	60,115	48,679	58,407
Other	59,198	40,964	52,763
	203,765	190,186	219,396
NON-CURRENT LIABILITIES:			
Long-term loans, net of current maturities	152,935	70,972	140,113
Retirement benefit obligations, net	23,234	24,209	23,126
Deferred income tax liabilities	27,362	23,786	34,084
Liability for put option for the shareholders of a subsidiary	25,854	-	27,522
Other	7,188	950	5,486
	236,573	119,616	230,331
Total liabilities	440,338	310,103	449,727
EQUITY:			
Equity attributable to owners of the parent:			
Ordinary shares	16,788	16,728	16,781
Capital surplus	105,153	102,980	104,293
Translation differences	23,779	9,612	27,296
Retained earnings	410,358	337,990	371,867
Less - cost of company shares held by the company and by subsidiary	(2,422)	(2,873)	(1,981)
	553,656	464,437	518,256
Non-controlling interests	3,224	2,513	2,803
Total equity	556,880	466,950	521,059
Total equity and liabilities	997,218	777,053	970,786

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

FRUTAROM INDUSTRIES LTD.

CONDESED CONSOLIDATED STATEMENT OF INCOME

FOR THE SIX AND THREE-MONTH PERIOD ENDED 30 JUNE 2014

	6 months ended 30 June		3 months ended 30 June		Year ended 31 December
	2014	2013	2014	2013	2013
	(Unaudited)				(Audited)
	U.S. dollars in thousands				
	(except for income per share data)				
SALES	406,548	320,813	218,081	168,648	673,693
COST OF SALES	247,120	196,787	132,193	101,798	416,897
GROSS PROFIT	159,428	124,026	85,888	66,850	256,796
Selling, marketing, research and development expenses – net	69,341	52,909	34,628	27,402	115,223
General and administrative expenses	30,568	25,285	15,746	12,524	52,131
Other expenses - net	262	1,995	190	1,992	2,685
INCOME FROM OPERATIONS	59,257	43,837	35,324	24,932	86,757
FINANCIAL EXPENSES - net	3,733	3,710	2,273	2,291	7,528
INCOME BEFORE TAX ON INCOME	55,524	40,127	33,051	22,641	79,229
TAX ON INCOME	11,764	8,487	7,571	5,009	15,608
INCOME FOR THE PERIOD	43,760	31,640	25,480	17,632	63,621
PROFIT ATTRIBUTABLE TO:					
OWNERS OF THE PARENT	43,203	31,405	25,059	17,498	63,129
NON-CONTROLLING INTERESTS	557	235	421	134	492
TOTAL INCOME	43,760	31,640	25,480	17,632	63,621
EARNINGS PER SHARE:					
Basic	0.74	0.54	0.43	0.30	1.09
Fully diluted	0.73	0.54	0.43	0.30	1.08

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

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX AND THREE-MONTH PERIOD ENDED 30 JUNE 2014

	6 months ended 30 June		3 months ended 31 March		Year ended 31 December
	2014	2013	2014	2013	2013
	(Unaudited)		(Unaudited)		(Audited)
	U.S. dollars in thousands				
INCOME FOR THE PERIOD					
Other Comprehensive Income:	43,760	31,640	25,480	17,632	63,621
Items that will not be reclassified subsequently to profit or loss:					
Remeasurement of net defined benefit liability	-	-	-	-	2,153
Item that could be reclassified subsequently to profit or loss:					
Translation differences	(3,563)	(7,095)	2,895	2,699	10,622
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	40,197	24,545	28,375	20,331	76,396
OTHER COMPREHENSIVE INCOME ATTRIBUTABLE TO:					
OWNERS OF THE PARENT	39,686	24,268	27,948	20,155	75,829
NON-CONTROLLING INTERESTS	511	277	427	176	567
TOTAL INCOME	40,197	24,545	28,375	20,331	76,396

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

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX AND THREE-MONTH PERIOD ENDED 30 JUNE 2014

	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 2014 (audited)	16,781	104,293	27,296	371,867	(1,981)	518,256	2,803	521,059
CHANGES DURING THE 6 MONTH PERIOD ENDED 30 JUNE 2014 (unaudited):								
Comprehensive income:								
Income for the period	-	-	-	43,203	-	43,203	557	43,760
Other comprehensive income for the period	-	-	(3,517)	-	-	(3,517)	(46)	(3,563)
Total comprehensive income for the period	-	-	(3,517)	43,203	-	39,686	511	40,197
Plans for allotment of company shares to employees of subsidiary:								
Self-acquisition of the Company shares	-	-	-	-	(582)	(582)	-	(582)
Receipts in respect of allotment of company shares to employees	-	(94)	-	-	141	47	-	47
Allotment of shares and options to senior employees:								
Recognition of compensation related to employee stock and options grants	-	720	-	-	-	720	-	720
Proceeds from issuance of shares to senior employees	7	234	-	-	-	241	-	241
Dividend paid to the non-controlling interests in subsidiary	-	-	-	-	-	-	(90)	(90)
Dividend paid, including erosion	-	-	-	(4,712)	-	(4,712)	-	(4,712)
	7	860	-	(4,712)	(441)	(4,286)	(90)	(4,376)
BALANCE AT 30 JUNE 2014 (unaudited)	16,788	105,153	23,779	410,358	(2,422)	553,656	3,224	556,880

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

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX AND THREE-MONTH PERIOD ENDED 30 JUNE 2014

	EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT							
	Ordinary Shares	**Other capital Surplus**	**Translation differences**	**Retained earnings**	**Cost of company shares held by the company**	**Total attributed to owners parent company**	**Non-controlling interests**	**Total**
	U.S. dollars in thousands							
BALANCE AT 1 APRIL 2014 (unaudited)	16,781	104,647	20,890	385,339	(2,563)	525,094	2,887	527,981
CHANGES DURING THE 3 MONTH PERIOD ENDED 30 JUNE 2014 (unaudited):								
Comprehensive income:								
Income for the period	-	-	-	25,059	-	25,059	421	25,480
Other comprehensive income for the period	-	-	2,889	-	-	2,889	6	2,895
Total comprehensive income for the period	-	-	2,889	25,059	-	27,948	427	28,375
Plans for allotment of company shares to employees of subsidiary:								
Self-acquisition of the Company shares	-	-	-	-	-	-	-	-
Receipts in respect of allotment of company shares to employees	-	(94)	-	-	141	47	-	47
Allotment of shares and options to senior employees:								
Recognition of compensation related to employee stock and options grants	-	366	-	-	-	366	-	366
Proceeds from issuance of shares to senior employees	7	234	-	-	-	241	-	241
Dividend paid to the non-controlling interests in subsidiary	-	-	-	-	-	-	(90)	(90)
Erosion of dividend paid	-	-	-	(40)	-	(40)	-	(40)
	7	506	-	(40)	141	614	(90)	524
BALANCE AT 30 JUNE 2014 (unaudited)	16,788	105,153	23,779	410,358	(2,422)	553,656	3,224	556,880

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

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX AND THREE-MONTH PERIOD ENDED 30 JUNE 2014

	EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT							
	Ordinary Shares	**Other capital surplus**	**Translation differences**	**Retained earnings**	**Cost of company shares held by the company**	**Total attributed to owners parent company**	**Non-controlling interests**	**Total**
	U.S. dollars in thousands							
BALANCE AT 1 JANUARY 2013 (audited)	16,713	102,099	16,749	310,477	(3,043)	442,995	2,235	445,230
CHANGES DURING THE 6 MONTH PERIOD ENDED 30 JUNE 2013 (unaudited):								
Comprehensive income:								
Income for the period	-	-	-	31,405	-	31,405	235	31,640
Other comprehensive income for the period	-	-	(7,137)	-	-	(7,137)	42	(7,095)
Total comprehensive income for the period	-	-	(7,137)	31,405	-	24,268	277	24,545
Plans for allotment of company shares to employees of subsidiary:								
Self-acquisition of the Company shares	-	-	-	-	(326)	(326)	-	(326)
Receipts in respect of allotment of company shares to employees	-	(332)	-	-	496	164	-	164
Allotment of shares and options to senior employees:								
Recognition of compensation related to employee stock and options grants	-	777	-	-	-	777	-	777
Proceeds from issuance of shares to senior employees	15	436	-	-	-	451	-	451
Dividend paid to the non-controlling interests in subsidiary	-	-	-	-	-	-	(97)	(97)
Dividend paid, including erosion	-	-	-	(3,892)	-	(3,892)	-	(3,892)
	15	881	-	(3,892)	170	(2,826)	(97)	(2,923)
Non-controlling interest arising on business combination	-	-	-	-	-	-	98	98
BALANCE AT 30 JUNE 2013 (unaudited)	16,728	102,980	9,612	337,990	(2,873)	464,437	2,513	466,950

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

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX AND THREE-MONTH PERIOD ENDED 30 JUNE 2014

	EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT							
	Ordinary Shares	**Other capital Surplus**	**Translation differences**	**Retained earnings**	**Cost of company shares held by the company**	**Total attributed to owners parent company**	**Non-controlling interests**	**Total**
	U.S. dollars in thousands							
BALANCE AT 1 APRIL 2013 (unaudited)	16,728	102,730	6,955	320,578	(3,090)	443,901	2,336	446,237
CHANGES DURING THE 3 MONTH PERIOD ENDED 30 JUNE 2013 (unaudited):								
Comprehensive income:								
Income for the period	-	-	-	17,498	-	17,498	134	17,632
Other comprehensive income for the period	-	-	2,657	-	-	2,657	42	2,699
Total comprehensive income for the period	-	-	2,657	17,498	-	20,155	176	20,331
Plans for allotment of company shares to employees of subsidiary:								
Receipts in respect of allotment of company shares to employees	-	(146)	-	-	217	71	-	71
Allotment of shares and options to senior employees:								
Recognition of compensation related to employee stock and options grants	-	396	-	-	-	396	-	396
Proceeds from issuance of shares to senior employees	-	-	-	-	-	-	-	-
Dividend paid to the non-controlling interests in subsidiary	-	-	-	-	-	-	(97)	(97)
Erosion of dividend paid	-	-	-	(86)	-	(86)	-	(86)
	-	250	-	(86)	217	381	(97)	284
Non-controlling interest arising on business combination	-	-	-	-	-	-	98	98
BALANCE AT 30 JUNE 2013 (unaudited)	16,728	102,980	9,612	337,990	(2,873)	464,437	2,513	466,950

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

FRUTAROM INDUSTRIES LTD.
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX AND THREE-MONTH PERIOD ENDED 30 JUNE 2014

	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 2013	16,713	102,099	16,749	310,477	(3,043)	442,995	2,235	445,230
CHANGES DURING THE YEAR ENDED 31 DECEBMBER 2013:								
Comprehensive income:								
Income for the year								
Other comprehensive income:								
Remeasurement of net defined benefit liability	-	-	-	63,129	-	63,129	492	63,621
Translation differences	-	-	10,547	2,153	-	12,700	75	12,775
Total comprehensive income for the period	-	-	10,547	65,282	-	75,829	567	76,396
Plans for allotment of company shares to employees of subsidiary:								
Self-acquisition of the Company shares	-	-	-	-	(851)	(851)	-	(851)
Receipts in respect of allotment of company shares to employees	-	(1,276)	-	-	1,913	637	-	637
Allotment of shares and options to senior employees -								
Recognition of compensation related to employee stock and options grants	-	1,510	-	-	-	1,510	-	1,510
Proceeds from issuance of shares to senior employees	68	1,960	-	-	-	2,028	-	2,028
Dividend paid to the non-controlling interests in subsidiary	-	-	-	-	-	-	(97)	(97)
Dividend paid	-	-	-	(3,892)	-	(3,892)	-	(3,892)
	16,781	104,293	27,296	371,867	(1,981)	518,256	2,705	520,961
Non-controlling interest arising on business combination	-	-	-	-	-	-	98	98
BALANCE AT 31 DECEMBER 2013	16,781	104,293	27,296	371,867	(1,981)	518,256	2,803	521,059

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

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX AND THREE-MONTH PERIOD ENDED 30 JUNE 2014

	6 months ended 30 June		3 months ended 30 June		Year ended 31 December
	2014	2013	2014	2013	2013
	(Unaudited)		(Unaudited)		(Audited)
	U.S. dollars in thousands				
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash generated from operations (see appendix)	37,024	29,964	25,471	21,365	98,493
Income tax paid	(7,546)	(9,166)	(4,944)	(4,923)	(9,802)
Net cash provided by operating activities	29,478	20,798	20,527	16,442	88,691
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchase of property, plant and equipment	(11,227)	(8,108)	(6,384)	(5,720)	(20,111)
Purchase of intangibles	(733)	(430)	(449)	(185)	(868)
Interest received	271	43	161	-	276
Acquisition of subsidiaries - net of cash acquired (see note 4)	(10,882)	(5,822)	(792)	(5,210)	(114,620)
Proceeds from sale of property, plant and equipment	425	56	109	12	264
Net cash used in investing activities	(22,146)	(14,261)	(7,355)	(11,103)	(135,059)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Dividend paid to the non-controlling interests in subsidiary	(90)	(97)	(90)	(97)	(97)
Receipts from senior employees in respect of allotment of shares	241	451	241	-	2,028
Interest paid	(1,891)	(1,899)	(948)	(1,018)	(3,456)
Receipt of long-term bank loans	-	22	-	-	45,693
Repayment of long-term bank loans	(28,449)	(24,719)	(18,530)	(15,084)	(41,750)
Receipt of short-term bank credit and loans – net	19,563	9,329	10,295	6,381	52,809
Self-acquisition of the Company shares – net of receipts in respect of the shares	(535)	(162)	47	71	(214)
Dividend paid	(4,712)	(3,892)	(4,712)	(3,892)	(3,892)
Net cash used in financing activities	(15,873)	(20,967)	(13,703)	(13,639)	51,121
INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS AND BANK CREDIT	(8,541)	(14,430)	(531)	(8,300)	4,753
Balance of cash and cash equivalents and bank credit at beginning of period	57,612	53,933	49,842	48,854	53,933
Profits (losses) from exchange differences on cash, cash equivalents and bank credit	21	738	(219)	(313)	(1,074)
BALANCE OF CASH, CASH EQUIVALENTS AND BANK CREDIT AT END OF PERIOD	49,092	40,241	49,092	40,241	57,612

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

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX AND THREE-MONTH PERIOD ENDED 30 JUNE 2014

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

	6 months ended 30 June		3 months ended 30 June		Year ended 31 December
	2014	2013	2014	2013	2013
	(Unaudited)		(Unaudited)		(Audited)
	U.S. dollars in thousands				
Income before tax	55,524	40,127	33,051	22,641	79,229
Adjustments required to reflect the cash flows from operating activities:					
Depreciation and amortization	15,545	13,649	7,711	7,175	27,693
Recognition of compensation related to employee stock and options grants	720	777	366	396	1,510
Liability for employee rights upon retirement – net	210	174	137	118	166
Loss (gain) from sale and write-off of fixed assets and other assets	(20)	(23)	107	4	(150)
Erosion of loans	(327)	73	(206)	844	1,212
Loss from change in fair value of financial Instruments	(627)	-	1,347	-	-
Interest paid – net	1,620	1,856	793	1,018	3,180
	17,121	16,506	10,255	9,555	33,611
Operating changes in working capital:					
Decrease (increase) in accounts receivable:					
Trade	(23,680)	(22,457)	(11,705)	(9,898)	(8,966)
Other	(1,810)	(1,006)	2,970	3,466	(848)
Decrease (increase) in other long-term receivables	48	152	21	18	258
Increase (decrease) in accounts payable:					
Trade	1,459	1,084	(5,907)	836	3,432
Other	2,328	477	2,517	(752)	(2,999)
Increase (decrease) in other long-term Payables	(288)	(34)	(292)	(34)	(117)
Decrease (increase) in inventory	(13,678)	(4,885)	(5,439)	(4,467)	(5,107)
	(35,621)	(26,669)	(17,835)	(10,831)	(14,347)
Cash flows from operating activities	37,024	29,964	25,471	21,365	98,493

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

FRUTAROM INDUSTRIES LTD.

EXPLANATORY NOTES TO THE CONDENSED CONSOLDIATED FINANCIAL INFORMATION

30 JUNE 2014

(UNAUDITED)

NOTE 1 - GENERAL:

a. Frutarom Industries Ltd. (hereafter – the Company.) is a global company, founded in 1933. The Company operates through the consolidated company (hereafter - Frutarom Ltd.) and the companies under its control (hereafter – the Group). The Group has two main operations: the Flavours activity and the Fine Ingredients activity, which are considered as core business by management.
In addition, the Company imports and markets raw materials produced by others as part of its services and strive to provide complete solutions for customers. This activity is presented as part of trade and marketing operations.
The Group develops, manufactures, markets and sells flavours and fine ingredients used by producers of food and beverage, pharma-nutraceutical, flavours and fragrances, and personal care and cosmetics products as well as other products.

b. The Company's business in recent years has been affected by seasonal fluctuations which, until the acquisition of the Cyprus Company, Vantodio Holdings Limited, which holds the Russian group Protein Technologies Ingredients ("PTI"), were expressed in weaker sales and profit margins for the first and fourth quarters. Following the acquisition of PTI, where seasonality in its sales over recent years has been expressed in its fourth quarter being its strongest and the first quarter being its weakest in terms of both amount of sales and in profits and margins, Frutarom's overall quarterly revenue profile has changed.

NOTE 2 - BASIS OF PREPARATION OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

a. The interim condensed consolidated financial information of the group as of 30 June 2014 and for the 6 and 3 month periods ended on that date (hereinafter - the interim financial information) was prepared in accordance with International Accounting Standard No. 34 - "Interim Financial Reporting" (hereafter – "IAS 34"). The interim financial information should be read in conjunction with the annual financial statements as of 31 December, 2013 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, 2013.

NOTE 3 - PRINCIPAL ACCOUNTING POLICIES:

a. The significant accounting policies and computation methods used in preparing the interim financial information are consistent with those used in preparing the 2013 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.

b. 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 2013 financial statements of the group.

c. Since the issuance of the annual financial statements of the group through the date of approval of these interim financial statements the IASB has issued new IFRS and amendments to existing standards, which have not yet become effective and have not been early adopted by the group, as follows:

IFRS 15 – "Revenue from Contracts with Customers" (hereafter – IFRS 15)

Upon first time application, IFRS 15 shall replace other IFRS provisions relating to revenue recognition.
The core principle of IFRS 15 is that an entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.
IFRS 15 sets out a single revenue recognition model, according to which the entity shall recognize revenue in accordance with the said core principle by implementing a five-step model framework:

- Identify the contract(s) with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognize revenue when the entity satisfies a performance obligation.

IFRS 15 provides guidance about various issues related to the application of the said model, including: recognition of revenue from variable consideration set in the contract, adjustment of the price of transaction set in the contract in order to reflect the effect of the time value of money and costs to obtain or fulfill a contract.

IFRS 15 extends the disclosure requirements regarding revenue and requires, among other things, that entities disclose qualitative and quantitative information about significant judgments made by management in determining the amount and timing of the revenue.

The standard shall be applied retrospectively for annual reporting periods starting on January 1, 2017 or thereafter, taking into account the reliefs specified in the transitional provisions of IFRS 15. Under these provisions, early adoption of the standard is allowed. The group's management estimates that the application of IFRS 15 will not have a material impact on its financial statements.

NOTE 4 – BUSINESS COMBINATIONS

a. Acquisition of CitraSource

On February 24, 2014 Frutarom signed, through a Frutarom subsidiary in the United States, agreements for purchase of the business activity and assets of CitraSource LLC. and 100% of the issued share capital of CitraSource Holdings LLC of Florida, USA ("CitraSource"), which includes, inter alia, a plant for processing specialty citrus ingredients, intellectual property and inventory, and an agreement for the purchase of a refrigerated tank farm used by CitraSource in its routine activities. The acquisition was made in return for a net cash payment of US$7.1 million and also includes additional future payment based upon CitraSource's performance over 2014-2018.

The acquisition was funded using bank credit.

CitraSource, founded in 2003, specializes in research and development, production, marketing and sale of specialty solutions in the field of citrus products to leading global customers in the flavor and aroma, food and beverage markets.

CitraSource's revenues in 2013 grew to US$7 million. CitraSource's customers include leading global flavors, food and beverage manufacturers. CitraSource has extensive knowhow and excellent capabilities for the production of unique materials and flavors across all ranges of citrus (in particular oranges, lemons, grapefruits and tangerines). CitraSource also has global purchase capabilities in citrus, which will contribute to Frutarom’s global purchase system.

CitraSource's activities have been integrated into the Specialty Fine Ingredients of Frutarom.

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. The determination of the fair value of the assets and liabilities is subject to a final appraisal of the allocation of the purchase prices to the fair value of the assets and liabilities; this appraisal, which is conducted by the Company, has not yet been completed as of the date of approval of these financial statements.

Set forth below are the assets and liabilities of CitraSource at date of acquisition:

	Fair value
	U.S. dollars In thousands
Current assets:	
Inventory	2,100
Non-current assets:	
Property, plant and equipment	3,100
Intangible assets	3,882
Non-current liabilities:	
Other	(2,000)
	7,082

NOTE 4 – Acquisition of CitraSource (continue):

b. In pro-forma terms (assuming acquisitions performed in 2013 had been consolidated as of January 1, 2013 and that CitraSource, which was acquired during the first quarter of 2014, had been consolidated as of March 1, 2013), Frutarom sales in the first half of 2013 would have reached US$388.5 million based on unaudited information provided by the owners of the acquired activities under their pre-acquisition accounting policies.

NOTE 5 – Dividend:

On 18, March 2014, the Company's Board of Directors declared the distribution of a dividend of NIS 0.28 per share. On 4 May, 2014, a dividend of $ 4,712 thousands was paid to the shareholders.

NOTE 6 – SEGMENT REPORTING

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

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

	Flavors operations	Fine ingredients operations	Trade and marketing operations	Eliminations	Total consolidated
	U.S. dollars in thousands				
6 months ended 30 June 2014: (unaudited):					
Revenues	290,876	83,532	36,412	(4,272)	406,548
Segment results	47,308	10,942	1,048	(41)	59,257
6 months ended 30 June 2013: (unaudited):					
Revenues	235,708	75,141	12,446	(2,482)	320,813
Segment results	33,719	9,785	377	(44)	43,837
3 months ended 30 June 2014 (unaudited):					
Revenues	156,713	42,558	20,755	(1,945)	218,081
Segment results	28,916	5,824	734	(150)	35,324
3 months ended 30 June 2013 (unaudited):					
Revenues	125,115	37,626	7,153	(1,246)	168,648
Segment results	19,207	5,629	194	(98)	24,932
Year ended 31 December 2013 (audited):					
Revenues	494,389	145,591	39,707	(5,994)	673,693
Segment results	68,754	17,237	916	(150)	86,757

NOTE 6 – SEGMENT REPORTING (continue):

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

	6 months ended 30 June		3 months ended 30 June		Year ended 31 December
	2014	2013	2014	2013	2013
	(Unaudited)		(Unaudited)		(Audited)
	U.S. dollars in thousands				
Reported segment income	59,257	43,837	35,324	24,932	86,757
Financing expenses (income)	3,733	3,710	2,273	2,291	7,528
Profit before taxes on income	55,524	40,127	33,051	22,641	79,229

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 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. Rami 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. Yossi Cohen, Global Chief Information Officer

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

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

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

In the Quarterly Report Regarding Effectiveness of Internal Control on Financial Reporting and on Disclosure attached to the Quarterly Report for the period ending on March 31, 2014 (hereinafter: the "**Last Quarterly Report on Internal Control**") 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 of March 31, 2014, is effective.

With the exception of the matter of the Acquired Company, as defined below, as of the date of the report no event or issue was 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 contained in the Last Quarterly Report on Internal Control.

Subject to the statements above and below, as of the date of the report, based on the assessment of effectiveness of internal control in the Last Quarterly Report on Internal Control and based on information brought to the attention of Management and the Board of Directors as stated above, the internal audit is effective.

Acquisition of Vantodio Holdings, holder of the Russian Protein Technologies Group (“PTI” or the “Acquired Company), and with regard to FAQ(SOX)1:

Regarding the description of PTI and the acquisition transaction, see Note 5J to the Company's 2013 Periodic Report.

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

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

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

(A) The date on which the transaction was concluded and the internal audit processes required for implementation – insufficient time had passed to allow examination and mapping of the existing internal audit process at PTI and to fully implement the Company's internal audit processes at PTI.

(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 and 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 PTI’s internal audit, the Company, starting from the date of completion of the acquisition of the Acquired Company, has been examining the Acquired Company's existing processes and audits in the matter of financial reporting and disclosure, mapping out risks and identifying material processes.

Directors' Declarations

Declaration of the President and CEO

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

1. I have reviewed the Quarterly Report of Frutarom Industries Ltd. (the "**Company**") for the second quarter of 2014 (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 date of the last quarterly report (the report for the period ending March 31,2014) and the date of this Report which could change the Board of Directors' and management's conclusion regarding effectiveness of the internal control over the Company's financial reporting and disclosure have been brought to my attention.

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

Date: August 19, 2014

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Ori Yehudai
President and CEO

Directors' Declarations

Declaration of the Executive Vice President and CFO

The undersigned, Alon Granot, hereby declares as follows:

1. I have reviewed the financial reports and other financial information contained in the interim reports of Frutarom Industries Ltd. (the "**Company**") for the second quarter of 2014 (the "**Reports**");
2. To my knowledge, the interim financial reports and other financial information contained in the interim Reports do not include any false representations of any material fact and do not omit representation of any material fact required in order to ensure that the representations contained in these, in light of the circumstances under which such representations were included, are not misleading in relation to the period of the Reports;
3. To my knowledge, the interim financial reports and other financial information contained in the interim reports duly reflect the Company's financial situation, its results of operations and cash flow for the dates and periods to which the Reports relate in all material aspects;
4. I have disclosed to the Company's auditors, the Board of Directors and the Audit Committee of the Company's Board of Directors, based on my most updated assessment of the internal control on financial reporting and disclosure:
    a. All the material deficiencies and weaknesses in prescribing and implementing the internal control on the financial reporting and on the disclosure, if any, which may reasonably adversely affect the ability of the Company to gather, process or report on financial information in a manner which could raise concerns regarding the reliability of the financial reporting and the preparation of the financial reports in accordance to the provisions of the law; and –
    b. Any fraud, material or not material, which involves the president and CEO or anyone directly reporting to him or other employees who hold

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

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

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

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

   c. No events or issues occurring during the period between the date of the last quarterly report (the report for the period ending March 31,2014) and the date of this Report, relating to the 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 control over the Company's financial reporting and disclosure have been brought to my attention.

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

Date: August 19, 2014

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Alon Granot
Executive Vice President and CFO