FRUTAROM INDUSTRIES LTD.
DIRECTORS' REPORT ON THE COMPANY'S STATE OF AFFAIRS
FOR THE PERIOD ENDING MARCH 31, 2016

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

A. REVIEW OF ACTIVITY

Frutarom Industries Ltd. (the **"Company"**) is a global company established in Israel in 1933. Frutarom became a public company in 1996 upon registration of its shares for trade on the Tel Aviv Stock Exchange. In February 2005, the Company's Global Depository Receipts were also listed on the London Stock Exchange Official List. The Company, itself and through its subsidiaries ("**Frutarom**" or the "**Group**") develops, produces and markets flavors and fine ingredients used in the manufacture of food, beverages, flavors, fragrances, pharma/nutraceuticals, cosmetics and personal care products. Frutarom operates 53 production sites, 69 research and development laboratories, and 88 sales offices in Europe, North America, Latin America, Israel, Asia, Africa and New Zealand and markets and sells over 49,000 products to more than 28,000 customers in more than 150 countries and has approximately 4,400 employees.

Frutarom operates in the framework of two main activities which constitute its core activities: the Flavors activity and the Specialty Fine Ingredients activity (the "**core businesses**"):

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

  In accordance with the Company's strategy, Frutarom's flavor activity has grown rapidly and profitably by combining organic growth and acquisitions, and in 2015 accounted for approx. 77% of the Company's total core activity sales and 70% of its overall sales (as opposed to 33% of overall sales in 2000). This accelerated growth results from focusing on the fast growing field of natural flavors, the development of innovative unique solutions combining taste and health for the large multinational market segment, focusing on mid-size and local customers in emerging and developed markets – and private label manufacturers in particular, emphasizing customized service including technological and marketing support and assistance in the development of products; the offer of high level tailor-made services and products, as are normally provided for large multinational companies and as the result of

Frutarom's strategic acquisitions, which have been and continue being successfully integrated with Frutarom's global activities.

- **Specialty Fine Ingredients Activity** – Frutarom develops, produces, markets and sells natural flavor extracts, natural functional food ingredients, natural pharma/nutraceutical extracts, natural algae-based biotech products, natural colors, natural antioxidants that help in providing solutions in the field of food protection, essential oils, specialty citrus products, aromatic chemicals, and natural gums and resins. The Specialty Fine Ingredients products are sold primarily to the food, beverage, flavor, fragrance, pharma/nutraceutical, cosmetics and personal care industries.

  Frutarom focuses its Specialty Fine Ingredients activity on developing a portfolio of high value-added products which give it a competitive edge over its rivals. Most of the specialty fine ingredients in taste and health are natural products which enjoy a higher rate of growth in demand than non-natural products. This activity, which has grown following the acquisitions of Ingrenat and Nutrafur in Spain, Vitiva in Slovenia, the US-based Scandia and Grow, and of Extrakt Chemie in Germany is focused on expanding the portfolio of natural products offered to customers, with particular emphasis on the field of natural, functional and healthy foods. Specialty Fine Ingredients activity accounted for 23% of the core activity in 2015 and 21% of its overall sales.

- **Trade & Marketing** – in addition to its core activities, Frutarom also imports and markets various raw materials that it does not itself manufacture, as part of the service offered to customers which includes providing them comprehensive solutions for their needs. This Trade & Marketing activity is synergetic and supports Frutarom's core activities by leveraging its global sales organization, supply chain and purchasing systems, as well as its global management, and allows Frutarom to offer a wider variety of products and more solutions and added value to its customers – mainly those in the mid-sized and domestic categories in emerging markets – and strengthen its partnerships with them. This activity, which greatly expanded following the acquisitions of Etol in 2012, PTI in 2013 and Montana Food in 2014, centers mainly on Central and Eastern Europe, Latin America and Israel. In 2015 sales from this activity accounted for 9% of total Frutarom turnover.

RAPID GROWTH STRATEGY – COMBINING PROFITABLE ORGANIC GROWTH AND STRATEGIC ACQUISITIONS

Frutarom continues to resolutely implement its rapid profitable growth strategy while strengthening its research and development, supply chain and manufacturing, and sales and marketing infrastructures along a continuing evaluation of additional strategic acquisitions.

- **Increasing the Share of the Flavors Activity** – The successful implementation of Frutarom's rapid and profitable growth strategy has allowed Frutarom to significantly increase its activity in the Flavors segment, the more profitable of its activities, achieving growth at a higher rate than that of the markets where it operates. In the framework of expanding its Flavor activity, Frutarom set off on a strategic course some 10 years ago to also establish market leadership in the field of savory taste solutions which is growing due to the rising standard of living and lifestyle and changes in consumption habits that bring increased demand for processed foods and convenience foods. This is also brought about through the acquisition of leading companies in their fields with unique solutions and a strong position in strategic target markets.

Since 2000 Frutarom’s Flavors activity has grown at an average annual rate (CAGR) of 23%. Revenues from Flavors made up approx. 70% of Frutarom's total revenues in 2015 (compared to 33% in 2000).

- **Development of New Products and Solutions Combining Taste and Health** - Frutarom develops innovative taste and health solutions addressing customers' requirements and future needs. These solutions are in line with the major trends in the global food market and with consumer demand, including the combination of taste with health, health supplements, anti-aging products and food products targeting specific population and age groups. The added value offered by Frutarom and its unique abilities to blend together solutions for taste, natural colors for food, natural substances for food protection, texture and ingredients with added health attributes give it an important competitive advantage among customers in both developed and emerging markets. These new and innovative products mostly have higher margins and therefore will contribute not only to growth in sales but also towards improving Frutarom’s product mix and profitability.
- **Focus on Natural Products** – Frutarom is engaged in developing and expanding its portfolio of natural products in response to consumer demand and prevalent trends in the global food industry towards healthier and more natural foods. This field is growing at a rapid pace and Frutarom's unique capabilities give it a competitive edge. In accordance with this strategy, Frutarom continues to expand the portfolio of unique natural products that it offers its customers by means of its internal R&D, through collaborations with universities, research institutes and startups, and also through its acquisitions. As part of the strategy of focusing on natural products with health-promoting attributes, Nutrafur and Vitiva were acquired in 2015 and in 2016 Grow and Extrakt Chemie were acquired and an investment was made in Algalo. Frutarom further expanded its activities in natural products recently by entering the field of natural food colors (through its acquisitions of Montana Food, Vitiva and Ingrenat) and by significantly increasing its operations in the field of natural antioxidants for food protection solutions (through the acquisition of Vitiva, Ingrenat and Nutrafur). Similarly, Frutarom has further strengthened its activity in the field of specialty natural citrus products which constitute important components in the development and production of many flavors and food and beverage products, and has established a excellence center for citrus in the US state of Florida, one of the world centers for citrus (through its acquisitions of CitraSource and the activity of Scandia). In addition, Frutarom increased its activity in the field of natural innovative solutions for incorporating fruit

components into food products (by acquiring Taura and Inventive). Today over 70% of Frutarom sales consist of natural products.

- **Improvements in Specialty Fine Ingredients Product Mix** – Over the past few years Frutarom has been taking steps to improve its product mix in its Specialty Fine Ingredients activity. Frutarom's R&D teams are successfully developing specialty innovative natural products directed towards both the areas of taste and health. The successful penetration of these products will also contribute to the growth in the sales of the Specialty Fine Ingredients activity and to its improved profitability. The latest acquisitions, as mentioned, will contribute towards the continuation of the growth trend in this activity.

- **Strategic Change in the Geographic Mix** – The successful implementation of Frutarom's strategy over the past few years, which included among other things substantial expansion of its sales and market share in North America and in emerging markets with higher growth rates, has led to Frutarom tripling its revenues in emerging markets and in North America between 2010 and 2015. Sales in North America accounted for 16% of total sales in 2015 compared with 9% in 2010. Meanwhile the Flavors activity in North America grew by a factor of six. Emerging markets accounted for 44% of Frutarom sales in 2015 compared with 27% in 2010. The rapid growth of activity outside of Western Europe has led to sales in Western Europe (which have grown by 23% since 2010) constituting 32% of Frutarom's total sales in 2015 compared with 51% in 2010.

  The six acquisitions carried out by Frutarom in 2013 and 2014 (JannDeRee in South Africa; PTI in Russia; Aroma in Guatemala; Hagelin in the United States, with sales also to Africa and Latin America; US-based CitraSource; and Montana Food in Peru and Chile) have also contributed towards Frutarom's accelerated growth and raising market share and sales in emerging markets and North America. To these are now added the acquisitions made since the beginning of 2015 of Sonarome in India with activity also in Africa, as well as BSA in Canada with activity also in India, US-based F&J and Scandia, Inventive of Hong Kong with activity in China, AMCO in Poland and of Wiberg of Austria with activity in Canada, in the western US, and in many emerging markets. Frutarom will continue developing and expanding its activity in the growing emerging markets and North America through, among other things, focused reinforcement of its R&D, production, marketing and sales platforms in key growing target countries and the continued execution of further strategic acquisitions.

  The first quarter of 2016 saw the inauguration of Frutarom's new plant in South Africa which will allow Frutarom to significantly increase and strengthen its activity in the sub-Saharan countries and provide its customers in the region with development services and advanced applications along with the use of efficient cutting-edge means of production.

  Construction of Frutarom's new state-of-the-art plant in China, which features sophisticated laboratories for research, development and applications, has been completed, and for the first time Frutarom will have the ability to also locally develop and produce savory flavors (before this plant was built Frutarom had the means to produce just sweet flavors in China).

Frutarom continues and will continue to expand its activity also in Western European markets while leveraging its extensive product portfolio, continuing to capitalize on its many cross-selling opportunities, and continuing to carry out further strategic acquisitions.

- **Focus on Providing Quality Service and Product Development for Large Multi-national Customers and for Medium-sized Local Customers** – Frutarom continues to expand the services provided to customers, its product portfolio, and the range of solutions for both large multi-national customers and mid-size local customers, with special emphasis on the rapidly growing private label market.

  - In the market segment of large multinational food and beverage manufacturers, Frutarom will continue to focus on innovative and unique products and on expanding its portfolio of natural taste and health solutions.

  - In the market segment of mid-size and local customers, Frutarom offers the same high level of service, products and solutions tailored to their specific requirements as generally provided to large multi-national customers. Frutarom also offers mid-size and local customers and private label customers, usually with more limited resources than large and multi-national customers, assistance in their product development, while providing support in marketing and flexibility regarding minimal quantities and delivery dates.

- **Acquisitions and Mergers, and their Contribution towards Achieving Profitable Growth** – Frutarom has extensive experience with successful execution of acquisitions and mergers, and it acts to integrate the acquired companies and activities into its existing business, utilizing commercial and operational synergies to leverage the many cross-selling and cost savings opportunities and to achieve continued improvement of its margins.

  Since 2011 Frutarom has performed 30 strategic acquisitions, 16 of these since the beginning of 2015, that are integrated into its global activities and are contributing and will keep contributing to continued sales growth and improved profits and margins.

  Frutarom's acquisition strategy focuses on:
  (1) expanding its share of sales and market share in North America and in emerging markets;
  (2) continuing to increase the share of its Flavors activity, including continuing to establish a leading position in the field of savory taste solutions;
  (3) broadening and deepening its portfolio of natural solutions it offers its customers in the areas of Flavors, Health, Colors, and Food Protection.

  Frutarom is working on successfully integrating all 16 acquisitions it has made since the beginning of 2015 and fully tapping the strong potential they bring.

The integration of these acquisitions is proceeding successfully and according to plan. The managements of the acquired activities together with Frutarom's regional and local managements in each geographic area or of the relevant business unit assume the leading role in the merger processes. In addition, Frutarom has developed advanced dedicated computer systems that support the quick and efficient integration of acquired activities and their monitoring while realizing synergies in the areas of R&D, marketing, sales, purchasing, production and logistics.

Frutarom foresees much synergetic potential in the acquisitions it has carried out and is working to realize and fully utilize them, both for accelerating growth through the fullest possible tapping of cross-selling opportunities and the many marketing and technological synergies contributed by these acquisitions, and for attaining the significant operational savings expected to be reflected in its results in upcoming quarters.

Following are brief summaries of the acquisitions performed since the beginning of 2016 until publication of this report. The USD sales figures shown below for each of the purchased activities relate to the average USD exchange rate for the reported period, and the purchase price relates to the USD exchange rate on the date of acquisition.

Acquisitions performed in 2016:

- **Acquisition of a controlling share in AMCO** – On January 11, 2016 Frutarom completed the purchase of 75% of the share capital of the Polish company AMCO Sp. z o.o. ("**AMCO**") for approximately US$ 22.4 million (88.5 million PLN). The purchase agreement includes a mutual option for acquiring the remaining shares starting two and a half years from the closing date of the transaction at a price based on the company's business performance. The transaction was financed through bank debt.

  AMCO has an R&D and sales and marketing center along with an efficient and modern state-of-the-art production site in Warsaw, Poland with large production capacity and significant room to expand. AMCO employs a staff of 70, including 12 engaged in R&D with advanced academic degrees. AMCO's main activity is the development, production and marketing of unique and innovative savory taste solutions that include seasoning blends, marinades, and functional ingredients for the food industry.

  AMCO sales in the 12-month period ending September 2015 reached approximately US$ 19.5 million (approx. 71 million PLN).

  AMCO's activity is largely synergetic with Frutarom's activities and enables Frutarom to reinforce its supply of its savory taste solutions products and to continue expanding and deepening its activity and market share in Poland and neighboring countries. Following the acquisition, Frutarom's flavor activities in Poland was merged with AMCO's, this being the first time Frutarom has had a production site locally in Poland to provide for improved service and delivery times to customers. Poland, with its population of 38 million, is a major growing country of Europe and considered one of its largest consumer markets, with a stable economy and strong industrial sector. The country has a large and efficient food industry which also manufactures finished food products for Western, Central and Eastern European markets. According to forecasts by analysts, the Polish market is expected to grow by 4-5% annually in upcoming years, a much higher rate of growth than expected for Western Europe. The company's founders who have been running AMCO successfully are continuing in their managerial roles with the company and as shareholders.

For further information on the acquisition of control of AMCO, see the Company's immediate reports from November 11, 2015 and January 12, 2016.

- **Acquisition of Wiberg** – On January 28, 2016 Frutarom completed the purchase of 100% of the shares of the Austrian company SAGEMA GmbH (which owns, *inter alia*, 50% of Canadian subsidiary Wiberg Corporation and 51% of Turkish subsidiary WIBERG BAHARAT SANAYİ VE TİCARET ANONİM SİRKETİ) as well as the purchase of 100% of the shares of the German company Wiberg GmbH (hereinafter collectively: "**Wiberg**") for approximately US$ 129.9 million (€ 119.1 million).

  According to Wiberg's managerial reports, in 2015[1] its sales amounted to approx. US$ 172 million (approx. € 155 million).

  The purchase was funded in its entirety through bank financing.

  Wiberg activity was consolidated into Frutarom's financial reports on February 1, 2016.

  Wiberg was founded in 1947 and now ranks as a top international group in its field, boasting a strong reputation and brand name in the specialty and innovative savory solutions that include flavor extracts, seasoning blends and functional ingredients for the food industry, with special emphasis on processed meats and convenience foods as well as activity focused on innovative culinary solutions for restaurants, catering firms and chefs which constitutes a distinctive and premium market. Wiberg employs some 670 personnel and operates five production sites, the largest of which is a modern and efficient facility in Germany with a large production capacity and substantial room for expansion, and in Austria, Turkey, Canada, and Los Angeles in the USA. Company headquarters in Salzburg, Austria includes a modern R&D center and advanced laboratories. Wiberg has sales and marketing platforms in some 70 countries, with a presence in Western,

[1] Figures for 2015 include full consolidation of the companies described above and their subsidiaries.

Central and Eastern Europe, North America, Africa and Asia. Wiberg's broad customer base encompasses thousands of food manufacturers, including some of the tops in their fields.

Frutarom is working on capitalizing to the fullest on the many synergies between its own activities and those of Wiberg in the various countries in order to achieve operational efficiencies and maximal savings estimated[2] at more than US$ 12 million (on an annual basis) of which most are expected to manifest themselves towards the end of 2016 and in the first quarter of 2017. The merger plan is successfully moving ahead, and within its framework Frutarom's main plant for savory products in Stuttgart, Germany is expected to be closed down this year and its activity transferred to Wiberg's efficient plant. The process of merging the R&D and sales and marketing platforms in the various countries has already begun as well. In addition, Wiberg's substantial activity is expected to join the global purchasing system being built by Frutarom, with emphasis on the purchasing in their source countries of raw materials used for the manufacture of its products, as well as on maximum future capitalization of the economies of scale built up by Frutarom in recent years.

For further information on the acquisition of Wiberg, see the Company's immediate reports from December 14, 2015 and January 31, 2016.

- **Investment in Algalo** – On January 3, 2016 Frutarom signed an agreement for investing in Algalo Industries Ltd. ("**Algalo**") whereby it will invest a total of NIS 10 million (approx. US$ 2.56 million) for the building of a modern biotechnology facility which will specialize in cultivating, harvesting and processing algae using advanced specialized methods, in exchange for the allocation of 50% of Algalo shares. Frutarom was granted exclusive marketing rights worldwide for Algalo products. NIS 5 million of the overall amount was paid in cash on the day the transaction was completed and the balance will be paid subject to the fulfilling of milestones set in the agreement. The transaction was completed upon signing and was financed through bank credit.

[2] The above-stated assessment concerning the synergetic potential of the acquisitions and attaining significant operational savings and the ancillary savings constitutes a forward-looking statement, as defined in the Securities Law, which rests upon estimates by Company management based on the potential synergies between the Company's activity and the acquired activities. Such an assessment could fail to materialize, in full or in part, or materialize in a different manner, including materially differently than expected, as a result of unexpected occurrences in merging the activity that are connected with the human resources, the R&D, the salesforce, the operations (including the closure of manufacturing facilities and/or transfer of production and other activities between different facilities), the logistics, the technology, the procurement, the systems and the services of the merged activities. In addition, Frutarom could fail to capitalize on the expected synergies (including those whose purpose is cost savings) that are inherent in the acquisitions.

Algalo is a biotech startup company which has developed a unique and innovative method for the cultivation, harvesting and processing of a wide variety of algae that yield active ingredients for use by the food, dietary and clinical nutrition supplements and cosmetics industries such as specialty high-powered antioxidants, lipids and unique proteins and carotenoids which, among other things, help in maintaining cardio-vascular health, a strong immune system, and healthy skeletal and bone structure.

The unique patent applied for growing method developed by Algalo allows for the efficient and competitive cultivation of algae containing high concentrations of active elements.

Algalo's activity will join Frutarom's well-established activity in the field of algae cultivation and production of active ingredients (polysaccharides) being sold to some the world's leading cosmetics companies for use in their skin care and protection products.

Since the investment Algalo has been establishing industrial production infrastructures and significantly expanding its production capacity in advance of the global marketing launch in the second half of 2016.

For further information on the investment in Algalo, see the Company’s immediate report from January 4, 2016.

- **Acquisition of Grow** – On January 11, 2016 Frutarom signed an agreement for the purchase of 100% of the share capital of US-based Grow Company Inc. (“**Grow**”) in exchange for approximately US$ 20 million. The purchase agreement includes a mechanism for future consideration conditional upon Grow's business performance over the period of one year following the purchase date. The transaction was completed at the time of signing and was financed through bank credit.

  Grow has accumulated many years of know-how and unique biotechnological production methods for producing natural nutritious ingredients with scientifically-proven health qualities (backed up by clinical studies). These ingredients improve the body's absorption of vitamins, minerals and other nutrients. Among Grow's customers are dietary supplement, natural remedy, functional foods, cosmetic and flavors companies. Grow's unique technology and products strengthen Frutarom's technological infrastructure and its portfolio of natural solutions for the food and health sectors. Frutarom will work towards capitalizing on the many cross-selling opportunities arising from the acquisition and supporting the expansion of research, development and production of specialty natural solutions combining taste and health in response to consumer demand and the trends prevailing in the global food market calling for healthier and more natural foods . This is a fast-growing area in which Frutarom's unique capabilities give it a solid competitive edge.

Grow has an R&D and marketing center and an efficient production site in New Jersey. The company's owners, and foremost among them the CEO who as a renowned researcher in this field with many years of experience also serves as its Chief Science Officer, has joined Frutarom's managerial ranks in its Specialty Fine Ingredients Division.

For further information on the acquisition of Grow, see the Company's immediate report from January 12, 2016.

- **Acquisition of Extrakt Chemie** – On May 2, 2016, subsequent to the balance sheet date, Frutarom signed an agreement for the purchase of 100% of the rights and of the general partner in the German partnership Extrakt Chemie Dr. Bruno Stellmach GmbH &Co. KG ("**Extrakt Chemie**"), along with the property on which Extrakt Chemie's plant is situated, for a cash payment of approximately US$ 6 million (approx. € 5.3 million) and the assumption of approx. US$ 2.2 million (approx. € 2 million) of debt. The purchase agreement includes a mechanism for future consideration conditional on Extrakt Chemie's business performance during 2016 and 2017. The transaction was completed at the time of signing and was financed through independent means.

  Extrakt Chemie, which was established in 1969, has a long-standing reputation and knowhow in specialty ingredient extracts, primarily for pharma, natural medications, nutritional supplements, foods and cosmetics. The company develops, produces and markets specialty solutions of natural extracts, some of which incorporate plant-sourced enzymes, for use mainly as raw material (API) in the pharmaceutical market, with proven benefits in, among other things, the treatment of liver diseases, digestive problems and the prevention of infections.

  Extrakt Chemie has a leading position in the German market. Its 150 customers include top global pharma companies with whom the company has long-lasting relationships. The company is also active in other Western European countries such as Denmark, Switzerland, France and Austria as well as in the Australian market. Extrakt Chemie has an efficient production site with GMP certification for pharmaceutical products, and significantly higher production capacity than the current scope of production, located in Stadthagen, near Hannover in northwest Germany, which includes a research and development laboratory. The company has a staff of about 35 employees.

  The acquisition of Extrakt Chemie is part of Frutarom's overall drive towards optimization and operational efficiency in the field of natural plant extracts within its Specialty Fine Ingredients activity.

  Revenues of Extrakt Chemie for the fiscal year ended February 29, 2016 amounted to approx. USD 10 million (approx. € 9 million).

For further information on the acquisition of Extrakt Chemie, see the Company's immediate report from May 3, 2016.

Frutarom is well positioned business-wise and competitively to continue implementing its rapid and profitable growth strategy through, among other things, carrying out further strategic acquisitions in its core business fields and main target markets. Frutarom's proven track record in successfully executing and integrating its acquisitions and capitalizing on their inherent cross-selling opportunities and synergies, together with a strong acquisition pipeline, will allow it to continue meeting its strategic goals, expand its portfolio of natural and specialty products combining taste and health solutions, continue to expand its activity in emerging markets and North America and to improve the operational efficiency of its resources.

- **Increase in Profit and Profit Margins** – Over recent years Frutarom has succeeded in attaining, along with its growth in revenues, significant increases in profits and in its gross and operating margins. Frutarom is working and will continue to work on strengthening its competitiveness while boosting profits and profitability by focusing, among other things, on the following objectives:
  - **Successful integration of acquisitions while maximizing synergies** – Integration of the 14 acquisitions made from 2011 to 2014 has been successfully completed, and according to plan has contributed and will keep contributing to growth in sales and to improved profits and margins. Frutarom continues working towards capitalizing on the abundant cross-selling opportunities arising from these acquisitions, gaining maximum advantage from the many technological capabilities brought to the Company, and realizing the savings resulting from the integration of R&D, sales, marketing, supply chain, operations and purchasing systems. The successful integration of the 16 acquisitions performed since the beginning of 2015 is also expected to contribute towards the continuing trend of improvement in Frutarom's results. Following are highlights of the progress being made in the merging of companies recently acquired by Frutarom:
    - The overall drive towards optimization and operational efficiency among the natural plant extract facilities of the Specialty Fine Ingredients division is proceeding successfully and according to plan. The significant increase in production capacity for natural extracts following the acquisitions of Vitiva, Ingrenat and Nutrafur has provided for substantial streamlining, including the closure of the Frutarom plant at North Bergen in New Jersey in the fourth quarter of 2015 and transfer of its activity to its other plants. At the same time efforts continue for increasing production capacity at the Vitiva, Ingrenat and Nutrafur plants and for transferring production between the various sites according to their varying technological extracting

specializations hand-in-hand with significant improvement in their operational efficiency. Also joining this array is the recently acquired Extrakt Chemie with its much larger than exploited capacity for production of GMP pharma products as well.

These actions will contribute towards a significant improvement in cost structure and competitiveness in the field of natural plant extracts which are at the core of Frutarom's growth strategy.

- Following the acquisition of Wiberg, Frutarom is working towards consolidating and streamlining its production framework in Germany and various countries in order to achieve maximum operational efficiency and savings which are estimated[3] at over US$ 12 million (on an annual basis), most of which will manifest itself towards the end of 2016 and during the first quarter of 2017. As part of these measures, during this year Frutarom's central production plant for savory products at Stuttgart, Germany is expected to be shut down and its activity transferred to Wiberg's efficient plant.
- Transfer of production at Hagelin (acquired in 2013) in the US from its New Jersey site to Frutarom's factory in Cincinnati has been completed, and also anticipated in the second quarter of 2016 is the merger of F&J's flavors activity with Frutarom's US flavors activity with the transfer of production to its Cincinnati plant and the closure of F&J's plant in New Jersey.
- The merging of Scandia's activity with that of CitraSource (which was acquired in 2014) has been completed, together with the building of an excellence center for citrus in Florida.
- The R&D, sales and marketing and administration of FoodBlenders have been merged into Frutarom's UK activity.
- The activity of Taiga International of Belgium has been merged with Frutarom's activities in Europe and the US, with production transferred and the plant in Belgium closed.
- Frutarom's flavors activity in Poland has been merged with that of AMCO such that for the first time Frutarom now has a local production site in Poland which allows it to improve its service and delivery times to its customers.
- Frutarom's flavors activity in India has integrated into Sonarome's Indian activity.
- Collaboration and the realization of synergies between Taura's New Zealand and Belgian activities and Frutarom's R&D and sales and marketing platforms in Europe, Asia, India and the US are starting to bear fruit and will contribute towards accelerating the growth of this activity which was acquired in June 2015.

[3] See footnote 2 above.

- Steps continue being taken towards combining Inventive’s activity in the Far East with those of Frutarom, including preparations for the expected transfer of Inventive’s R&D laboratory and sales and marketing center in Shanghai, China to Frutarom’s new plant in Shanghai.

- **Investing in R&D for natural specialty products in the fields of taste and health** which contribute to improving the product mix and Frutarom's profitability.

- **Integration of R&D systems** – Frutarom is working to make maximum utilization of the many innovative R&D and technological capabilities gained over recent years through its acquisitions, as well as implementing its new customer relationship management (CRM) system and cross-organizational joint R&D and applications projects for broadening its product portfolio, and improving the quality of solutions and level of service to customers, channeling the projects to the relevant know-how centers and leveraging the knowledge and expertise developed at the various Frutarom sites over recent decades.

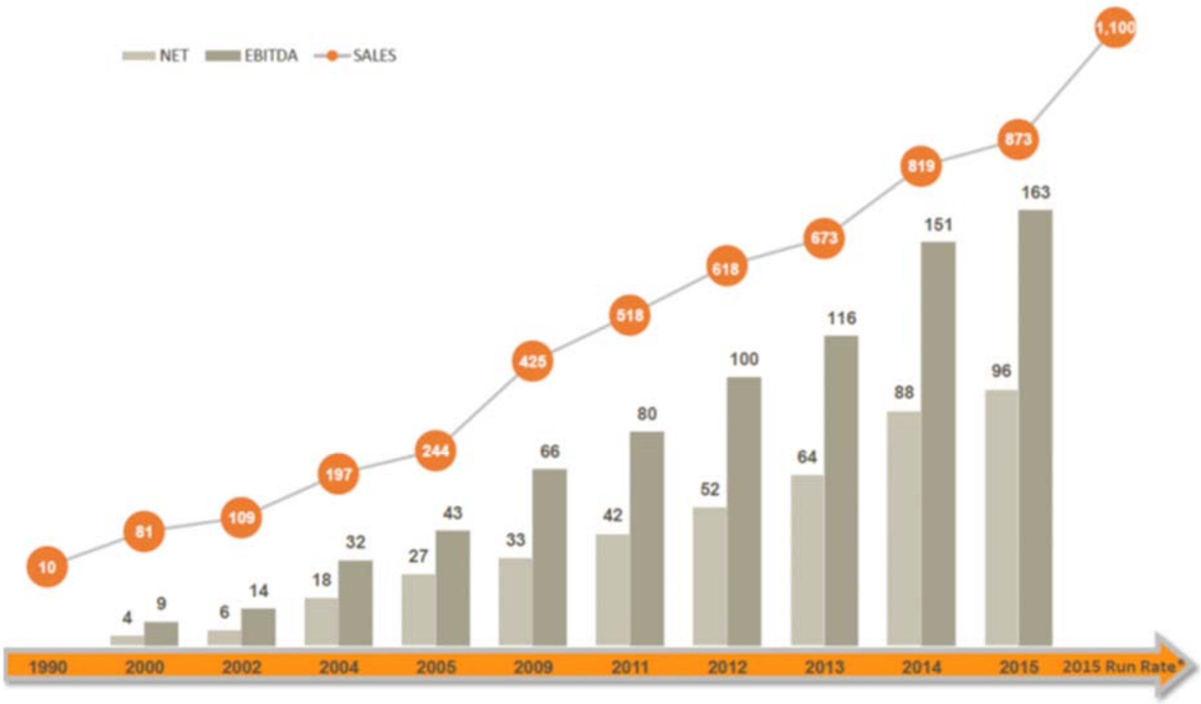
- **Building up and strengthening the global purchasing system** – Frutarom continues to build and strengthen its global purchasing infrastructure with maximum utilization of its increased purchasing power gained following the recent acquisitions while expanding its pool of suppliers with emphasis on increased purchase of raw materials (especially natural raw materials) used in the manufacture of its products from their countries of origin. Integration of the Company's R&D systems also contributes to the strengthening of the global purchasing capacities, capitalizing on the harmonization of the raw materials and suppliers for the development and manufacture of its products.

- **Resource optimization** – Frutarom is continuing to implement additional projects for combining and consolidating production and operational sites and towards achieving utmost efficiency also in the areas of purchasing, logistics and supply chain which will contribute over the coming years as well to strengthening its competitive position and improving its profits and margins. These actions should lead to operational savings on an annual basis in the range of US$ 20 million to US$ 22 million which will partly manifest themselves in 2016 and partly in 2017[2].

Frutarom's sturdy capital structure (total assets of US$ 1,499 million and equity of US$ 589 million as of March 31, 2016 constituting 39% of the total balance sheet), and net debt (total loans minus cash) of US$ 462 million as of March 31, 2016, supported by the strong cash flow generated and together with bank backing, will allow it to continue implementing its rapid and profitable growth strategy as it has done over the past few years, including further strategic acquisitions, while strengthening its competitiveness and position as one of the leading global companies in the field of flavors and fine ingredients, and to realize its vision:

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

Continuing growth in sales, in profits, and in profit margins



* Annual rate of sales assuming the acquisitions made by Frutarom during 2015 and until the date of this report had been completed on January 1, 2015 and according to average exchange rates in 2015.

After reviewing its strong competitive position, its recent acquisitions and pipeline of future acquisitions, Frutarom updated its sales target for 2020 to US$ 2 billion along with an EBITDA margin of over 22% in its core businesses[4].

[4] The assessment concerning continued growth in sales, the improvement in profit and profit margin, and reaching the targets specified above as a result of fulfilling the Company's strategy, constitutes forward-looking statement, as defined in the Securities Law, that rests upon estimates by Company

B. FINANCIAL STATUS

Frutarom's total assets as of March 31, 2016 totaled US$ 1,498.7 million, compared with US$ 947.7 million as of March 31, 2015 and 1,318.5 as of December 31, 2015.

The Group's current assets as of March 31, 2016 totaled US$ 578.2 million, compared with US$ 409.7 million as of March 31, 2015 and 476.8 as of December 31, 2015.

Property, plant and equipment net of cumulative depreciation plus other net property as of March 31, 2016 totaled US$ 890.5 million, compared with US$ 534.8 million as of March 31, 2015 and 706.6 as of December 31, 2015.

The increase in total, current and long-term assets derives mainly from the acquisitions completed in 2015 and the first quarter of 2016, which have already been fully consolidated into Frutarom's balance sheet but some of whose operational results have only been partially reflected in Frutarom's results for Q1 2016.

Currency effects

More than 70% of Frutarom's sales are conducted in currencies other than the US dollar (mainly the Euro, Russian Ruble, Pound Sterling, Swiss Franc, New Israeli Shekel, Chinese Yuan, Canadian Dollar, Brazilian Real, South African Rand and Peruvian Nuevo Sol). Changes in the exchange rates affect Frutarom's results as reported in US dollars.

However, Frutarom's exposure to currency fluctuations is reduced by the fact that part of its raw material purchases and operational expenditures in the various countries in which it operates are paid for in the respective local currencies so that most of the effect applies to the translation of sales revenues and profits into dollar terms.

The trend of a significant strengthening of the US dollar against most other global currencies began taking shape in the fourth quarter of 2014. This trend, which continued during 2015, brought about a 13.3% reduction in reported sales and profits (in pro-forma terms) in 2015. The strengthening of the US dollar diminished at the beginning of 2016 and the effect of the exchange rates on the translation of Frutarom’s sales and profits weakening accordingly.

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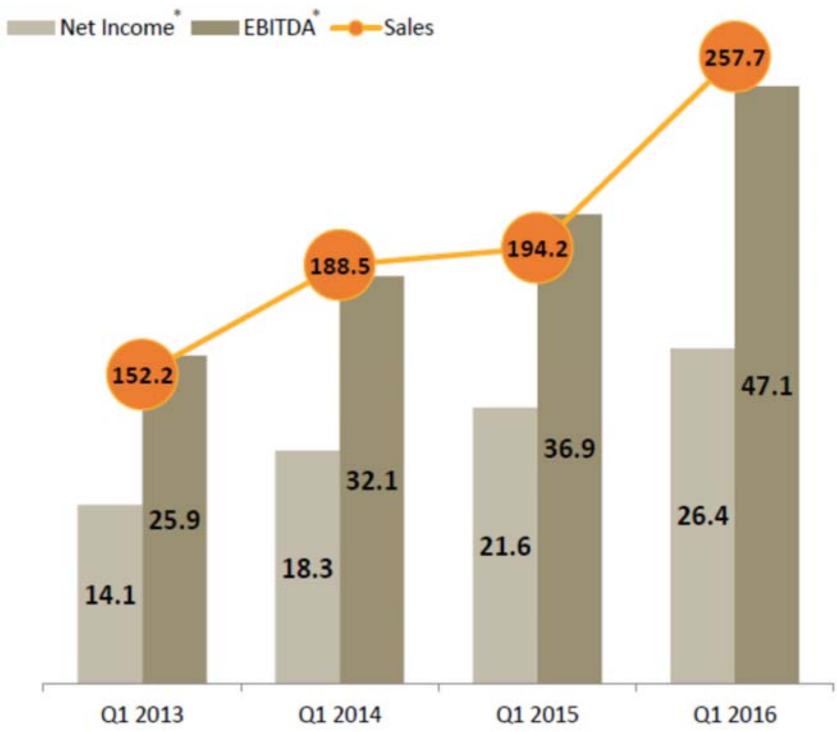
management. Such an assessment could fail to materialize, in full or in part, or materialize in a different manner, including materially differently than expected. There is no certainty that Frutarom can continue identifying suitable acquisitions under satisfactory conditions, obtain the financing required to fund them, and to manage its activity and the acquired activities in an efficient manner in order to ensure that the financial benefits, capitalization on the synergy and the economies of scale become realized.

During the first quarter of 2016 the strengthening of the US dollar against most other global currencies lowered Frutarom's reported sales in dollar terms by 4.2%. The effect on profits reported in dollar terms was similar.

C. <u>RESULTS OF OPERATIONS FOR FIRST QUARTER 2016</u>



* The figures are adjusted for non-recurring expenses

<u>The first quarter</u> was again a record quarter in sales which reached US$ 257.7 million, and for Frutarom's gross profit, operating profit, EBITDA and net income.

The accelerated growth in revenues in the quarter resulted from a combination of accelerated internal growth in Frutarom's core activities - the Flavors division and the Specialty Fine Ingredients division, and the acquisitions performed by the Company.

Non-recurring expenses were recorded this quarter concerning the actions being taken by Frutarom towards optimizing its resources, amalgamating plants, and towards attaining maximal operational efficiency. These non-recurring expenses reduced reported gross profit for the quarter by US$ 1.5 million, operating profit by US$ 7 million and net income by US$ 4.9 million. Most of the non-recurring expenses recorded during the quarter concern the reorganization being carried out by the Company on its savory activity in Germany following the acquisition of Wiberg and center around closing Frutarom's main production plant at Stuttgart during 2016 and the transfer of its production activity to Wiberg's modern and efficient plant in Germany, including provisions for severance pay, along with steps to combine the R&D and sales and marketing platforms for savory activity in Europe. In addition, non-recurring expenses were recorded with regards to the acquisitions performed during the quarter.

The acquisitions carried out contributed to increased sales and profits, but the quarterly results do not yet reflect the profitability expected following the merger and streamlining actions being taken by the Company. Most of the savings expected from completing the mergers of the activities and from realizing the substantial savings arising from consolidating production sites and the R&D, sales and marketing, supply chain, operations and purchasing platforms of the acquired companies will manifest themselves in Frutarom's results during 2016 and at the beginning of 2017 as the merger and streamlining measures move ahead to contribute, as stated, to further improvement in Frutarom's margins and profits.

Sales

Sales in the first quarter of 2016 rose 32.7% to a record of US$ 257.7 million compared with US$ 194.2 million in the parallel period, reflecting year-over-year constant currency growth of 5.9% in pro-forma terms.

Changes in the exchange rates of currencies in which the Company operates as against the US dollar had a 4.2% negative impact on sales growth in pro-forma terms vs. Q1 2015.

The reported dollar sales from Frutarom’s **core activities** (the Flavors and Specialty Fine Ingredients activities) in the first quarter of 2016 rose 37.1% to reach a record US$ 240.8 million compared with US$ 175.6 million in Q1 2015, reflecting tear-over-year constant currency growth in pro-forma terms of 6.3%. Currency effects negatively impacted results in pro-forma terms by 3.7%.

Sales from the **Flavors activity** in the first quarter of 2016 as reported in US dollars rose 36.8% to reach a record US$ 182.4 million as against US$ 133.4 million in Q1 2015, reflecting constant currency growth in pro-forma terms of 5.3% against the parallel period. Currency effects negatively impacted results in pro-forma terms by 4.4%.

Sales from **Specialty Fine Ingredients** activity in the first quarter of 2016 as reported in US dollars rose 39.3% to a record US$ 60.2 million compared with US$ 43.2 million in Q1 2015 and reflect constant currency growth in pro-forma terms of 11.0% against the parallel period. Currency effects negatively impacted sales by 1.3% in pro-forma terms.

Sales from **Trade and Marketing** (which does not constitute part of Frutarom's core activity) as reported in US dollars grew by 1.0% on a constant currency basis. Without adjusting for currency effects, sales in Q1 2016 declined by 9.0% to US$ 16.9 million compared with US$ 18.6 million in Q1 2015. Currency effects negatively impacted sales by 10.0%.

Sales Breakdown by Activity in Q1 for 2006 - 2016 (US$ millions and %):

		Q1 2006	Q1 2007	Q1 2008	Q1 2009	Q1 2010	Q1 2011	Q1 2012	Q1 2013	Q1 2014	Q1 2015	Q1 2016
Flavor Activity	**Sales**	44.7	49.9	84.4	67.4	75.4	80.2	109.0	110.6	134.2	133.4	182.4
	%	63.0%	62.0%	69.2%	68.5%	66.5%	66.3%	72.1%	72.7%	71.2%	68.7%	70.8%
Fine Ingredient Activity	**Sales**	25.5	29.1	35.3	29.6	37.6	39.1	37.5	37.5	41.0	43.2	60.2
	%	35.9%	36.2%	28.9%	30.1%	33.1%	32.3%	24.8%	24.7%	21.7%	22.3%	23.4%
Inter-company sales	**Sales**	-0.6	-1.1	-1.3	-0.7	-0.8	-0.7	-0.6	-1.2	-2.3	-1.0	-1.8
	%	-0.9%	-1.4%	-1.1%	-0.8%	-0.7%	-0.6%	-0.4%	-0.8%	-1.2%	-0.5%	-0.7%
Total Core Activity	**Sales**	69.6	77.9	118.4	96.3	112.2	118.6	145.9	146.9	172.9	175.6	240.8
	%	98.0%	96.8%	97.0%	97.8%	98.9%	98.0%	96.4%	96.5%	91.7%	90.4%	93.4%
Trade & Marketing	**Sales**	1.4	2.6	3.6	2.2	1.2	2.4	5.4	5.3	15.7	18.6	16.9
	%	2.0%	3.2%	3.0%	2.2%	1.1%	2.0%	3.6%	3.5%	8.3%	9.6%	6.6%
Total Sales		71.0	80.5	122.0	98.4	113.5	121.0	151.2	152.2	188.5	194.2	257.7

Profit and Profitability

In Q1 2016 Frutarom achieved record results in sales, gross profit, operating profit, EBITDA and net income.

These record results were achieved despite the effects of shifts in the exchange rates of currencies in which the Company operates against the US dollar which had a 4.2% negative impact on the sales and profit reported in USD (in pro-forma terms).

As stated above, during the quarter non-recurring expenses were recorded concerning steps being taken by Frutarom towards optimizing its resources, amalgamating plants, attaining maximal operational efficiency and in connection with merging the acquisitions. These non-recurring expenses reduced reported gross profit for the quarter by US$ 1.5 million, operating profit and EBITDA by US$ 7 million and net income by US$ 4.9 million.

Profits from the **core businesses**, comprising the Flavors and Specialty Fine Ingredients activities, reached record levels and, adjusted for non-recurring expenses, gross profit from the core businesses rose in Q1 2016 by 37.1% to reach US$ 96.8 million (gross margin of 40.2%), operating profit rose by 29.6% to reach US$ 36.7 million (operating margin of 15.2%), and EBITDA grew by 29.1% to reach US$ 46.0 million (EBITDA margin of 19.1%).

The operating margin for the **Flavors activity** in the first quarter (adjusted for non-recurring expenses) amounted to 16.2% (compared with 17.3% in Q1 2015) and the EBITDA margin reached 20.1% (compared with 21.3% in Q1 2015). The operating margin for the **Specialty Fine Ingredients activity** (adjusted for non-recurring expenses) in the first quarter reached 11.7% (compared with 12.8% in Q1 2015) and the EBITDA margin reached 15.4% (compared with 16.9% in Q1 2015).

The steps being taken by the Company, including completion of the merging of acquired companies and the measures it is taking to combine its plants, optimize its production resources and consolidate its R&D, sales, operations, production and purchasing platforms, which are progressing according to plan, will bring substantial operational savings and strengthen its competitiveness with maximum utilization of its sites around the world. These measures (including the savings anticipated from merging with Wiberg) should bring operational savings on an annual basis in the range of US$ 20-22 million which will mostly manifest themselves at the end of 2016 and at the beginning of 2017[2].

In addition, the building and strengthening of the global purchasing platform for raw materials used by Frutarom in manufacturing its products is continuing according to plan. This platform will exploit Frutarom’s market power which has grown significantly in recent years, shifting to direct purchasing from producers in source countries, mainly for natural raw materials (which account for over 70% of the raw materials used by Frutarom). The global purchasing platform will be another contributing factor to further improvement in purchasing costs and gross margins.

Tables summarizing profits and margins in the 1st quarter:

In millions of US dollars	Core Businesses Flavors and Specialty Fine Ingredients			Total Frutarom Group		
	Adjusted for non-recurring expenses		% increase	Adjusted for non-recurring expenses		% increase
	Q1 2015	Q1 2016		Q1 2015	Q1 2016	
Gross profit	70.6	96.8	37.1%	75.1	100.6	34.0%
Margin	*40.2%*	*40.2%*		*38.7%*	*39.1%*	
Operating profit	28.3	36.7	29.6%	29.5	37.4	26.8%
Margin	*16.1%*	*15.2%*		*15.2%*	*14.5%*	
EBITDA	35.6	46.0	29.1%	36.9	47.1	27.5%
Margin	*20.3%*	*19.1%*		*19.0%*	*18.3%*	
Net income				21.6	26.4	22.1%
Margin				*11.1%*	*10.3%*	

Reported results in US dollars:

In millions of US dollars	Core Businesses Flavors and Specialty Fine Ingredients		Total Frutarom Group	
	Q1 2015	Q1 2016	Q1 2015	Q1 2016
Sales	175.6	240.8	194.2	257.7
Gross profit	70.6	95.3	75.1	99.1
Margin	*40.2%*	*39.6%*	*38.7%*	*38.5%*
Operating profit	28.0	29.7	29.2	30.4
Margin	*15.9%*	*12.3%*	*15.0%*	*11.8%*
EBITDA	35.3	39.0	36.6	40.1
Margin	*20.1%*	*16.2%*	*18.8%*	*15.5%*
Net income			21.4	21.5
Margin			*11.0%*	*8.3%*

Financial Expenses / Income

Financial expenses in Q1 2016 totaled US$ 4.5 million (1.7% of sales), compared with US$ 1.8 million (0.9% of sales) in Q1 2015.

Interest expenses for Q1 2016 amounted to US$ 2.2 million, compared with US$ 0.9 million in Q1 2015. Interest expenses rose as a result of an increase in the amount of loans that financed the acquisitions. Financial expenses from exchange-rate differences reached US$ 2.3 million compared to expenses of US$ 1.0 million in Q1 2015.

Taxes on Income

Taxes on income for Q1 2016 totaled US$ 4.5 million (17.4% of profit before tax) compared with US$ 5.9 million (21.7% of profit before tax) in Q1 2015.

Net Income

Net income in Q1 2016 (adjusted for the non-recurring expenses) grew by 22.1% to reach US$ 26.4 million. Reported net income amounted to US$ 21.5 million, compared with US$ 21.4 million in Q1 2015.

Earnings per Share

Earnings per share in Q1 2016 (adjusted for the non-recurring expenses) rose 19.5% to reach US$ 0.44 compared with US$ 0.37 for the same quarter last year.

Reported earnings per share were US$ 0.36 compared with US$ 0.37 in the parallel period.

Seasonality

In recent years, with Frutarom's internal growth and acquisitions, seasonal effects on its results have diminished. Nonetheless, increased demand for beverages, yogurts, ice cream and other food products during the summer months brings about higher sales and improvement to a certain extent in Frutarom's profitability margins in the second and third quarters of the year.

D. 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 to a reasonable level.

Net cash flow from operating activities in Q1 2016 totaled US$ 18.2 million compared with US$ 19.9 million in the same quarter last year. Higher tax payments (in Q1 2016 tax payments of US$ 3.9 million were recorded as against US$ 3.0 million in Q1 2015) contributed as well to the decrease in net cash flow from operating activities this quarter.

Frutarom strives and will continue to strive towards maintaining an optimal level of working capital appropriate for its forecasted growth while taking seasonality under consideration as well as the availability of the various raw materials and their current and expected future prices.

E. **SOURCES OF FINANCING**

Sources of Capital

Frutarom's capital equity as of March 31, 2016 totaled US$ 589.3 million (39.3% of the balance sheet) compared with US$ 497.5 million (52.5% of the balance sheet) as of March 31, 2015 and US$ 551.7 million (41.8% of the balance sheet) as of December 31, 2015.

Loans (Average) -

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

  Average long-term credit from banks and financial institutions in Q1 2016 totaled US$ 354.4 million as compared with US$ 196.7 million in Q1 2015. The increase in credit derives from loans taken during the period to finance the acquisitions carried out.

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

  Average short-term credit extended to the Company by banks and financial institutions in Q1 2016 totaled US$ 173 million as compared with US$ 37.4 million during Q1 2015.

Frutarom’s cash balances on March 31, 2016 totaled US$ 75.3 million compared with US$ 57.7 million on March 31, 2015 and US$ 69.0 million on December 31, 2015.

Frutarom’s net debt on March 31, 2016 totaled US$ 461.4 million on December 31, 2015 compared with US$ 174.9 million on March 31, 2015 and US$ 414.9 million on December 31, 2015. The increase in the net amount of debt derives from the loans taken by Frutarom for financing the acquisitions it performed.

Accounts Payable and Accounts Receivable (Average)

In Q1 2016 the Company used US$ 179.5 million in credit from suppliers and other trade creditors compared with US$ 109.0 million in the parallel period, and extended US$ 169.7 million in credit to its customers compared with US$ 145.9 million the year before. The increase in suppliers' and customers' trade credit is largely due to an increase in the overall scope of activity following the acquisitions performed by Frutarom.

In accordance with the information presented in this report with respect to the Company's financial position, liquidity, positive cash flow generated from operating activities, and its sources of financing, and provided that there will not be any significant deterioration in its sales and/or profitability, the Company believes the cash flow it generates from current operations can be expected to cover the full repayment of its anticipated liabilities without any need for external sources of funds.

EXPOSURE TO AND MANAGEMENT OF MARKET RISKS

In the first quarter of 2016 and during the overall period from December 31, 2015 until the publication date of this report there were no substantial changes concerning exposure to market risks or the ways in which they are managed.

CURRENCY EXPOSURE PER PRIMARY LINKAGE BASES

There was no significant change from the figures presented in the periodic report for 2015.

SENSITIVITY TESTS

Sensitivity to Changes in the US Dollar – New Israeli Shekel Exchange Rate

	Profit (Loss) from changes		**Fair value**	**Profit (Loss) from changes**	
% of change	**+10%**	**+5%**	**-**	**-5%**	**-10%**
Exchange rate	**4.143**	**3.954**	**3.766**	**3.578**	**3.389**
	US$ 000s				
Cash and cash equivalents	(31)	(15)	307	15	31
Customers	(1,211)	(606)	12,114	606	1,211
Other accounts receivable	(18)	(9)	184	9	18
Other long-term receivables	(3)	(2)	32	2	3
	(1,263)	**(632)**	**12,637**	**632**	**1,263**
Bank credit	345	173	3,452	(173)	(345)
Suppliers and service providers	546	273	5,459	(273)	(546)
Other payables	968	484	9,679	(484)	(968)
	1,859	**930**	**18,590**	**(930)**	**(1,859)**
Total exposure, net	**596**	**298**	**(5,953)**	**(298)**	**(596)**

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	**0.763**	**0.729**	**0.694**	**0.659**	**0.625**
	US$ 000s				
Cash and cash equivalents	(529)	(264)	5,289	264	529
Customers	(1,314)	(657)	13,136	657	1,314
Other accounts receivable	(99)	(50)	991	50	99
	(1,942)	**(971)**	**19,416**	**971**	**1,942**
Bank credit	8,011	4,005	80,106	(4,005)	(8,011)
Suppliers and service providers	590	295	5,899	(295)	(590)
Other payables	742	371	7,420	(371)	(742)
	9,343	**4,671**	**93,425**	**(4,671)**	**(9,343)**
Total exposure, net	**7,401**	**3,700**	**(74,009)**	**(3,700)**	**(7,401)**

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	**0.967**	**0.923**	**0.879**	**0.835**	**0.791**
	US$ 000s				
Cash and cash equivalents	(2,626)	(1,313)	26,263	1,313	2,626
Customers	(6,845)	(3,422)	68,448	3,422	6,845
Other accounts receivable	(1,472)	(736)	14,718	736	1,472
Other long-term receivables	(9)	(5)	94	5	9
	(10,952)	**(5,476)**	**109,523**	**5,476**	**10,952**
Bank credit	21,308	10,654	213,083	(10,654)	(21,308)
Suppliers and service providers	4,409	2,205	44,094	(2,205)	(4,409)
Other payables	5,996	2,998	59,956	(2,998)	(5,996)
	31,713	**15,857**	**317,133**	**(15,857)**	**(31,713)**
Total exposure, net	**20,761**	**10,381**	**(207,610)**	**(10,381)**	**(20,761)**

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

	Profit (Loss) from changes		Fair value	Profit (Loss) from changes	
% of change	**+10%**	**+5%**	**-**	**-5%**	**-10%**
Exchange rate	**1.057**	**1.009**	**0.961**	**0.913**	**0.865**
			US$ 000s		
Cash and cash equivalents	(181)	(91)	1,811	91	181
Customers	(533)	(267)	5,334	267	533
Other accounts receivable	(297)	(148)	2,965	148	297
	(1,011)	**(506)**	**10,110**	**506**	**1,011**
Bank credit	9,259	4,629	92,585	(4,629)	(9,259)
Suppliers and service providers	543	272	5,432	(272)	(543)
Other payables	317	159	3.170	(159)	(317)
	10,119	**5,060**	**101,187**	**(5,060)**	**(10,119)**
Total exposure, net	**9,108**	**4,554**	**(91,077)**	**(4,554)**	**(9,108)**

Sensitivity to Changes in the US Dollar - Ruble

	Profit (Loss) from changes		Fair value	Profit (Loss) from changes	
% of change	**+10%**	**+5%**	**-**	**-5%**	**-10%**
Exchange rate	**74.324**	**70.946**	**67.568**	**64.189**	**60.811**
			US$ 000s		
Cash and cash equivalents	(899)	(450)	8,991	450	899
Customers	(1,415)	(708)	11,152	708	1,415
Other accounts receivable	(90)	(45)	902	45	90
	(2,404)	**(1,203)**	**24,045**	**1,203**	**2,404**
Suppliers and service providers	54	27	540	(27)	(54)
Other payables	344	172	3,443	(172)	(344)
Other long-term liabilities	-	-	-	-	-
	398	**199**	**3,983**	**(199)**	**(398)**
Total exposure, net	**(2,006)**	**(1,004)**	**20,062**	**1,004**	**2,006**

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$ 000s		
Cash and cash equivalents	(1,168)	(584)	11,684	584	1,168
Customers	(3,943)	(1,971)	39,428	1,971	3,943
Other accounts receivable	(267)	(134)	2,672	134	267
	(5,378)	**(2,689)**	**53,784**	**2,689**	**5,378**
Bank credit	248	124	2,477	(124)	(248)
Suppliers and service providers	1,319	659	13,185	(659)	(1,319)
Other payables	1,095	548	10,953	(548)	(1,095)
Other long-term liabilities	4,553	2,276	45,529	(2,276)	(4,553)
	7,215	**3,607**	**72,144**	**(3,607)**	**(7,215)**
Total exposure, net	**1,837**	**918**	**(18,360)**	**(918)**	**(1,837)**

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

	Profit (Loss) from changes		Fair value	Profit (Loss) from changes	
% of change	**+10%**	**+5%**	**-**	**-5%**	**-10%**
			US$ 000s		
Short-term loans - CNY	8	4	1,365	(4)	(8)
Total exposure to change in fair value	**8**	**4**	**1,365**	**(4)**	**(8)**

F. SUMMARY OF SENSITIVITY TEST TABLES

The functional currency of most Group companies is the local currency in each of their respective countries, therefore currency translations of monetary balances of these companies 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	**4.143**	**3.954**	**3.766**	**3.578**	**3.389**
	US$ 000				
Total Exposure, net	**596**	**298**	**(5,953)**	**(298)**	**(596)**

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	**0.763**	**0.729**	**0.694**	**0.659**	**0.625**
	US$ 000				
Total Exposure, net	**7,401**	**3,700**	**(74,009)**	**(3,700)**	**(7,401)**

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	**0.967**	**0.923**	**0.879**	**0.835**	**0.791**
	US$ 000				
Total exposure, net	**20,761**	**10,381**	**(207,610)**	**(10,381)**	**(20,761)**

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

	Profit (Loss) from changes		Fair value	Profit (Loss) from changes	
% of change	+10%	+5%	-	-5%	-10%
Exchange rate	**1.057**	**1.009**	**0.961**	**0.913**	**0.865**
	US$ 000				
Total exposure, net	**9,108**	**4,554**	**(91,077)**	**(4,554)**	**(9,108)**

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	**74.324**	**70.946**	**67.568**	**64.189**	**60.811**
	US$ 000				
Total exposure, net	**(2,006)**	**(1,004)**	**20,062**	**1,004**	**2,006**

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

	Profit (Loss) from changes		Fair value	Profit (Loss) from changes	
% of change	+10%	+5%	-	-5%	-10%
	US$ 000				
Total exposure, net	**1,837**	**918**	**(18,360)**	**(918)**	**(1,837)**

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

	Profit (Loss) from changes		Fair value	Profit (Loss) from changes	
% of change	+10%	+5%	-	-5%	-10%
	US$ 000				
Total exposure to change in fair value, net	**8**	**4**	**1,365**	**(4)**	**(8)**

ASPECTS OF CORPORATE GOVERNANCE

Approval Process of the Financial Statements

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

Members of the Company's Board of Directors

The Board of Directors of the Company has eight members, six of whom are directors having accounting and financial expertise as detailed above. For more details regarding the Company's Board of Directors, see Regulation 26 in Section D of the Company's periodic report for 2015, published on March 17, 2016 ("**Annual Periodic Report for 2015"**).

Members of the Balance Sheet Committee

The members of the Balance Sheet Committee are Mr. Yacov Elinav, External Director and the chairman of the committee, Mr. Isaac Angel, External Director, and Mr. Gil Leidner, Director. It should be noted that the committee's membership is not identical to that of the Audit Committee which, in addition to the directors mentioned above also includes Ms. Dafna Sharir, an External Director. The Balance Sheet Committee members have financial and accounting expertise and the ability to read and comprehend financial reports, and have provided the Company with a written declaration to this effect. Mr. Yacov Elinav and Mr. Isaac Angel are independent directors by virtue of their status as External Directors. Mr. Gil Leidner is an independent director in accordance with the determination of the Company's Audit Committee from May 19, 2011 and the Board of Director's resolution dated August 17, 2011. For details regarding the skills, education, experience and knowhow of the members of the Balance Sheet Committee, based on which the Company refers to them as directors with financial and accounting expertise, refer to Regulation 26 in Section D of the Annual Periodic Report for 2015 (Additional Information on the Corporation).

Procedures Undertaken by the Balance Sheet Committee for Forming its Recommendation to the Board of Directors

The Company's financial reports were discussed at the meeting of the Balance Sheet Committee held on May 19, 2016. Members of the committee were sent the financial statements for the first quarter of 2016 two business days prior to the meeting. All three members of the Balance Sheet Committee attended the meeting, as well as the Company's independent auditors, the Company's President & CEO Mr. Ori Yehudai, the Executive Vice President & CFO Mr. Alon Granot, Vice President Finance Mr. Guy Gill, and Ms. Tali Mirsky, Global Vice President Legal Affairs and Company Secretary. Presentations were made at the meeting by the Company and by the independent auditors. The Balance Sheet Committee discussed at the meeting, inter alia, the estimates and evaluations in the financial reports, the effectiveness of the internal control on financial reporting, the completeness and fairness of the disclosure in the financial reports, the accounting policy adopted, the accounting handling of the Group's material issues, and the valuations, including the assumptions and estimations on which the information in the financial reports is based. In the framework of the discussion, the Balance Sheet Committee formed its recommendations to the Board of Directors in accordance with the Reports Approval Regulations. The committee's recommendations were delivered to members of the Company's Board two business days before the Board's meeting at which the financial reports were discussed, which members of the Board consider a reasonable period of time in light of the scope and complexity of the recommendations.

<u>Financial Statements' Procedure of Approval by the Board of Directors</u>

The members of the Board of Directors receive a draft of the financial statements several days before the date of the Board meeting at which they are submitted for approval. The Company's independent auditors and members of the Company's senior management are also invited to attend the meeting, including the President & CEO Mr. Ori Yehudai, Executive Vice President & CFO Mr. Alon Granot, Executive Vice President and COO Global Supply Chain Mr. Amos Anatot, Vice President Finance Mr. Guy Gill, 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 the meeting. During the meeting, the Board of Directors discusses the recommendations of the Balance Sheet Committee regarding the financial statements, and the President & CEO and the Executive Vice President & CFO also present to the Board the Group's business and financial results for the relevant period in comparison to previous periods, with emphasis on noteworthy developments that transpired over the period. During the presentation of the Group's results, members of Company management answer questions and address comments from the Directors. Following the presentation of the Company's financial results, the Company's independent auditors answer the Directors' questions. In conclusion the Board of Directors votes on approving the financial statements. All of the members of the Board of Directors were present at the Board meeting held on May 23, 2016 where the financial statements for the first quarter of 2016 were unanimously approved.

<u>Change to the Company's Articles of Association</u>

Following the balance sheet date, on May 8, 2016 the General Meeting of the Company approved, *inter alia*, the amending of the Company's Articles of Association with regards to signatures on stock certificates. For further information see the Company's immediate report from March 31, 2016 on the calling of the General Meeting and from May 9, 2016 on the change to the Articles of Association.

<u>Senior Office Holders' Remuneration</u>

On March 16, 2016 the Company's Board of Directors approved, following approval of the Board of Directors' Compensation Committee on March 13, 2016, the bonuses to senior office holders in the Company for 2015, which are in accordance with the compensation policy. On the same date the Company's Board of Directors also approves the repurchase of Company shares for the purpose of granting them to office holders and others in the framework of the 2012 Plan. For further details regarding this resolution and the grant made pursuant thereto, see the Company's immediate reports on this matter from March 17, 2016.

Also, following the balance sheet date, on May 8, 2016 the General Meeting of the Company approved, *inter alia*, amendments to the Company's compensation policy. For further details see Regulation 22 in Section D ("Additional Information on the Corporation") of the Annual Periodic Report for 2015.

DISCLOSURE RELATING TO THE CORPORATE FINANCIAL REPORTING

A. DIVIDEND DISTRIBUTION

On March 16, 2016, concurrently with the approval of the financial statements for December 31, 2015, the Company's Board of Directors decided on the distribution of a dividend of NIS 0.41 per share for a total amount of NIS 24,253 thousand (approx. US$ 6,415 thousand as of the date of this report).

B. EVENTS MENTIONED IN THE FINANCIAL STATEMENTS SUBSEQUENT TO THE DATE OF REPORT ON THE FINANCIAL POSITION

- On April 3, 2016 a subsidiary of the Company entered into a loan agreement with a foreign corporation. For further information, see the Company's immediate report from April 3, 2016.
- On April 20, 2016 the Company granted options to employees and office holders. For further information, see the outline and immediate reports issued by the Company on April 4, 2016 and April 25, 2016.
- On May 2, 2016 the Company signed an agreement for the for the purchase of 100% of the rights and of the general partner in the German partnership Extrakt Chemie Dr. Bruno Stellmach GmbH &Co. KG ("**Extrakt Chemie**"), along with the property on which Extrakt Chemie's plant is situated, for a cash payment of approximately US$ 6 million (approximately € 5.3 million) and the assumption of approximately US$ 2.2 million (approximately € 2 million) of debt. The purchase agreement includes a mechanism for future consideration conditional on Extrakt Chemie's business performance during 2016 and 2017. The transaction was completed at the time of signing and was financed through independent means. For further information, see the Company's immediate report from May 3, 2016.
- On May 8, 2016 an annual and special general meeting of the Company's shareholders was convened. For information on the meeting see the Company's report on the calling of the meeting from March 31, 2016 and on the results of the meeting from May 9, 2016.
- On May 23, 2016 after receiving agreement in principle from the Company's lenders, the Company's Board of Directors approved a revision to the financial covenants to which the Company committed itself towards the lenders and subject to receiving their final approval, as follows:
    - The sum of the Company's capital equity shall not fall below US$ 375,000 thousand.
    - The proportion of the Company's capital equity out of the overall balance sheet shall not fall below 25%.
    - The ratio of the Group's total financial liabilities, less cash, to its EBITDA shall not surpass 4.00 – with EBITDA to be the calculated on a pro-forma basis and net of non-recurring expenses.

  No changes were made to any of the Company's other commitments towards said lenders, including with regards to any negative pledge on the Company's assets or restrictions on distribution that the Company has taken upon itself, and all as described in the periodic report. Furthermore, as of March 31, 2016 and the date of this report, the Company stands in compliance with its current financial covenants and with the financial covenants described above.

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 estimations presented in the periodic report for 2014.

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

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

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

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

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

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

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

The Board of Directors of the Company held two meetings during Q1 2016.

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

May 23, 2016

Below are details in accordance with the Securities Regulations (Periodic and Immediate Reports), 1970.

Valuation subject	Purchase Price Allocation of Wiberg and Valuation of Intangible assets and proposed assignment of goodwill- Temporary appraisal
Valuator	Ernst & Young Israel Ltd.
Valuation requester	Frutarom Industries Ltd., by Mr. Guy Gill, VP Finance
Engagement date	May 2016
Approval to attach to reports	The valuator gave written approval to attach the valuation to the Company's reports
Valuation timing	Allocation of cost acquisition as of January 29, 2016. Valuation was conducted during May 2016.
Value of valuation subject prior to valuation date	€ 119,125 thousand
Value of valuation subject according to valuation	€ 119,125 thousand
Identification of evaluator and its characterization	Ernst & Young Israel Ltd. Is part of the global Ernst & Young network and provides consulting and management services in a wide variety of areas for companies operating in different areas. The company has rich experience in the following areas: valuations, due diligence (financial and accounting) valuation of goodwill and intellectual assets, performance of financial analysis, current analysis of Israeli public companies, business plans, mergers and acquisitions, operational transaction services and more. Evaluator: Tal Klein Evaluator's education • BA in Economics and business administration, Ben Gurion University; • MA in economics and finance, Tel Aviv University. Experience and expertise: • Purchase Price Allocation and valuation of intangible assets. • Valuations of companies and enterprises, impairment testing and performance of financial assessments. • Valuation of financial derivatives and performance of complex finance models. • Working capital and debt advisory. The valuator is has no dependence on Frutarom and there are no indemnification agreements with the valuator.
Valuation Model	• MEEM (Multi Excess Earnings Method) • Relief from royalties.

	• DCF
Valuation Assumptions	• Customer relations discount rate: ▸ Europe: 13%. ▸ Canada: 14%. • Know-how discount rate: ▸ Europe: 13.5%. ▸ Canada: 14.5%. • Customer relations attrition rate: 9.2% • Know-how attrition rate: 5%. • Know-how royalties rate: 3.2% • Long term growth rate: ▸ Europe: 1.9% ▸ Canada: 2.1% Data used as a basis for comparison: results of operations in recent years and forecasts.
Prior Valuation	Not conducted

*The process hasn't been completed as of the date of these financial statements

FRUTAROM INDUSTRIES LTD.

INTERIM FINANCIAL INFORMATION

(Unaudited)

31 MARCH 2016

FRUTAROM INDUSTRIES LTD.

INTERIM FINANCIAL INFORMATION

(Unaudited)

31 MARCH 2016

TABLE OF CONTENTS

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

Introduction

We have reviewed the accompanying financial information of Frutarom Industries Ltd. and its subsidiaries (hereafter - the group), which includes the condensed consolidated statement of financial position as of 31 March, 2016 and the related condensed consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the three-month period then ended. The board of directors and management of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34, "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A 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 International Standards on Auditing 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, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements do not present fairly, in all material respects, the financial position of the Company as of March 31, 2016, and the result of its operations , changes in shareholders' equity and cash flows for the three months period then ended in accordance with International Accounting Standard 34, "Interim Financial Reporting".

Haifa, Israel
23, May, 2016

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

Kesselman & Kesselman, Building 25, MATAM, P.O BOX 15084 Haifa, 3190500, Israel
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FRUTAROM INDUSTRIES LTD.

CONDESED CONSOLDIATED STATEMENT OF FINANCIAL POSITION

31 MARCH 2016

	31 March		31 December
	2016	2015	2015
	(Unaudited)		(Audited)
	U.S. dollars in thousands		
A s s e t s			
CURRENT ASSETS:			
Cash and cash equivalents	75,346	57,690	68,997
Accounts receivable:			
Trade	198,291	154,120	155,871
Other	29,816	12,502	24,290
Prepaid expenses and advances to suppliers	23,053	11,471	14,305
Inventory	251,723	173,957	213,297
	578,229	409,740	476,760
NON-CURRENT ASSETS:			
Property, plant and equipment	281,103	203,235	232,786
Intangible assets	609,433	331,593	473,807
Investment in associates	25,202	-	-
Payments on account of acquisition of subsidiary	-	-	131,838
Deferred income tax assets	3,388	2,863	3,063
Others	1,313	309	228
	920,439	538,000	841,722
Total assets	1,498,668	947,740	1,318,482

Dr. John Farber)
Chairman of the Board)

Ori Yehudai)
President and CEO)

Alon Granot)
Executive Vice
President and CFO)

Date of approval of the interim financial information by the board of directors: May 23, 2016

FRUTAROM INDUSTRIES LTD.

CONDESED CONSOLDIATED STATEMENT OF FINANCIAL POSITION

31 MARCH 2016

	31 March		31 December
	2016	2015	2015
	(Unaudited)		(Audited)
	U.S. dollars in thousands		
Liabilities and equity			
CURRENT LIABILITIES:			
Short-term bank credit and loans and current maturities of long-term loans	237,124	72,864	264,480
Accounts payable:			
Trade	94,587	71,043	70,799
Other	89,769	53,495	57,259
Liability for put option for the shareholders of a subsidiary	38,526	-	-
Dividend payable	6,415	5,571	-
	466,421	202,973	392,538
NON-CURRENT LIABILITIES:			
Long-term loans, net of current maturities	299,641	159,712	219,449
Retirement benefit obligations, net	33,945	30,173	32,220
Deferred income tax liabilities	48,307	21,799	40,550
Liability for shareholders of subsidiaries and other	61,058	35,618	82,041
	442,951	247,302	374,260
Total liabilities	909,372	450,275	766,798
EQUITY:			
Equity attributable to owners of the parent company:			
Ordinary shares	16,950	16,888	16,912
Other capital surplus	111,726	108,850	110,466
Translation differences	(92,909)	(90,655)	(113,249)
Retained earnings	548,655	461,487	533,880
Less - cost of company shares held by the company	(3,279)	(2,763)	(3,111)
Non-controlling interests	8,153	3,658	6,786
Total equity	589,296	497,465	551,684
Total equity and liabilities	1,498,668	947,740	1,318,482

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

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED STATEMENT OF INCOME

FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2016

	3 months ended 31 March		Year ended 31 December
	2016	2015	2015
	(Unaudited)		(Audited)
	U.S. dollars in thousands, except for income per share data		
SALES	257,741	194,199	872,796
COST OF SALES	158,630	119,067	534,737
GROSS PROFIT	99,111	75,132	338,059
Selling, marketing, research and development expenses- net	44,927	31,262	141,237
General and administrative expenses	18,711	14,386	63,742
Other expenses - net	5,080	320	2,826
INCOME FROM OPERATIONS	30,393	29,164	130,254
Income from investment in associates, net of tax	150	-	-
FINANCIAL EXPENSES - net	4,505	1,838	12,197
INCOME BEFORE TAXES ON INCOME	26,038	27,326	118,057
INCOME TAX	4,533	5,929	21,972
NET INCOME FOR THIS PERIOD	21,505	21,397	96,085
PROFIT ATTRIBUTED TO:			
Owners of the parent company	21,190	21,405	94,859
Non-controlling interest	315	(8)	1,226
TOTAL INCOME	21,505	21,397	96,085
EARNINGS PER SHARE:			
Basic	0.36	0.37	1.62
Fully diluted	0.35	0.36	1.60

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2016

	3 months ended 31 March		Year ended 31 December
	2016	**2015**	**2015**
	(Unaudited)		**(Audited)**
	U.S. dollars in thousands		
INCOME FOR THE PERIOD	21,505	21,397	96,085
Other Comprehensive Income:			
Items that will not be reclassified subsequently to profit or loss -			
Remeasurement of net defined benefit liability	-	-	(858)
Items that could be reclassified subsequently to profit or loss -			
Translation differences	20,519	(42,456)	(65,293)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	42,024	(21,059)	29,934
ATTRIBUTABLE TO:			
OWNERS OF THE PARENT	41,530	(21,091)	28,911
NON-CONTROLLING INTERESTS	494	32	1,023
TOTAL INCOME	42,024	(21,059)	29,934

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

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2016

	EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT							
	Ordinary shares	**Other Capital Surplus**	**Translation differences**	**Retained earnings**	**Cost of Company shares held by the company**	**Total Attributed to Owners of Parent company**	**Total Attributed to Non-controlling Interest**	**Total**
	U.S. dollars in thousands							
BALANCE AT 1 JANUARY 2016 (audited)	16,912	110,466	(113,249)	533,880	(3,111)	544,898	6,786	551,684
CHANGES DURING THE 3 MONTHS ENDED 31 MARCH 2016 (unaudited):								
Comprehensive income :								
Income for the period	-	-	-	21,190	-	21,190	315	21,505
Other comprehensive income for the period	-	-	20,340	-	-	20,340	179	20,519
Total comprehensive income for the period	-	-	20,340	21,190	-	41,530	494	42,024
Plans for allotment of company shares to employees of subsidiary:								
Acquisition of the Company shares by the company	-	-	-	-	(660)	(660)	-	(660)
Receipts in respect of allotment of Company shares to employees	-	(328)	-	-	492	164	-	164
Allotment of shares and options to senior employees:								
Recognition of compensation related to employee stock and options grants	-	353	-	-	-	353	-	353
Proceeds from issuance of shares to senior employees	38	1,235	-	-	-	1,273	-	1,273
Dividend paid	-	-	-	(6,415)	-	(6,415)	-	(6,415)
	38	1,260	-	(6,415)	(168)	(5,285)	-	(5,285)
Non-controlling interest from business combination	-	-	-	-	-	-	873	873
BALANCE AT 31 MARCH 2016 (unaudited)	16,950	111,726	(92,909)	548,655	(3,279)	581,143	8,153	589,296

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

(Continued) - 2

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2015

	EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT							
	Ordinary shares	**Other capital surplus**	**Translation differences**	**Retained earnings**	**Cost of Company shares held by the company**	**Total Attributed to Owners of Parent company**	**Total Attributed to Non-controlling Interest**	**Total**
	U.S. dollars in thousands							
BALANCE AT 1 JANUARY 2015 (audited)	16,822	106,664	(48,159)	445,653	(2,587)	518,393	3,626	522,019
CHANGES DURING THE 3 MONTHS ENDED 31 MARCH 2015 (unaudited):								
Comprehensive income :								
Income for the period	-	-	-	21,405	-	21,405	(8)	21,397
Other comprehensive income for the period	-	-	(42,496)	-	-	(42,496)	40	(42,456)
Total comprehensive income for the period	-	-	(42,496)	21,405	-	(21,091)	32	(21,059)
Plans for allotment of company shares to employees of subsidiary:								
Acquisition of the Company shares by the company	-	-	-	-	(356)	(356)	-	(356)
Receipts in respect of allotment of Company shares to employees		(120)			180	60	-	60
Allotment of shares and options to senior employees:								
Recognition of compensation related to employee stock and options grants	-	400	-	-	-	400	-	400
Proceeds from issuance of shares to senior employees	66	1,906	-	-	-	1,972	-	1,972
Dividend including erosion	-	-	-	(5,571)	-	(5,571)	-	(5,571)
	66	2,186	-	(5,571)	(176)	(3,495)	-	(3,495)
BALANCE AT 31 MARCH 2015 (unaudited)	16,888	108,850	(90,655)	461,487	(2,763)	493,807	3,658	497,465

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

(Concluded) - 3

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2015

	EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT							
	Ordinary shares	**Other capital surplus**	**Translation differences**	**Retained earnings**	**Cost of Company shares held by the company**	**Total attributed to owners of parent Company**	**Total attributed to Non-controlling Interest**	**Total**
	U.S. dollars in thousands							
BALANCE AT 1 JANUARY 2015	16,822	106,664	(48,159)	445,653	(2,587)	518,393	3,626	522,019
CHANGES DURING THE YEAR ENDED 31 DECEBMBER 2015:								
Comprehensive income:								
Income for the year	-	-	-	94,859	-	94,859	1,226	96,085
Other comprehensive income	-	-	(65,090)	(858)	-	(65,948)	(203)	(66,151)
Total comprehensive income for the year	-	-	(65,090)	94,001	-	28,911	1,023	29,934
Plan for allotment of Company shares to employees of subsidiary:								
Acquisition of the Company shares by the Company	-	-	-	-	(1,085)	(1,085)	-	(1,085)
Receipts in respect of allotment of Company shares to employees	-	(374)	-	-	561	187	-	187
Allotment of shares and options to senior employees- Recognition of compensation related to employee stock and option grants	-	1,541	-	-	-	1,541	-	1,541
Proceeds from issuance of shares to senior employees	90	2,635	-	-	-	2,725	-	2,725
Dividend paid to the non-controlling interests in subsidiary	-	-	-	-	-	-	(58)	(58)
Dividend paid	-	-	-	(5,774)	-	(5,774)	-	(5,774)
	90	3,802	-	(5,774)	(524)	(2,406)	(58)	(2,464)
Non-controlling interest from business combination	-	-	-	-	-	-	2,195	2,195
BALANCE AT 31 DECEMBER 2015	16,912	110,466	(113,249)	533,880	(3,111)	544,898	6,786	551,684

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

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2016

	3 months ended 31 March		Year ended 31 December
	2016	**2015**	**2015**
	U.S. dollars in thousands		
	(Unaudited)		(Audited)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash generated from operations (see appendix)	22,096	22,970	112,625
Income tax paid – net	(3,934)	(3,026)	(20,963)
Net cash provided by operating activities	18,162	19,944	91,662
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment	(4,962)	(8,018)	(23,900)
Purchase of intangibles	(430)	(100)	(717)
Interest received	271	87	428
Acquisition of subsidiaries - net of cash acquired	(34,939)	(15,806)	(143,777)
Payments on account of acquisition of subsidiary	-	-	(131,838)
Proceeds from sale of property and other assets	1,316	139	2,191
Net cash used in investing activities	(38,744)	(23,698)	(297,613)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Dividend paid to the non-controlling interests in subsidiary	-	-	(542)
Receipts from senior employees in respect of allotment of shares	1,273	1,972	2,725
Interest paid	(2,047)	(816)	(3,973)
Receipt of long-term bank loans	6,201	7,149	185,616
Repayment of long-term bank loans	(22,152)	(5,862)	(48,638)
Receipt (repayment) of short-term bank loans and credit - net	42,385	(2,081)	87,463
Acquisition of the Company shares by the Company – net of receipts in respect of the Shares	(496)	(296)	(898)
Dividend paid	-	-	(5,774)
Net cash provided (used) by financing activities	25,164	66	215,979
INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS AND BANK CREDIT	4,582	(3,688)	10,028
Balance of cash and cash equivalents and bank credit at beginning of year	68,997	63,975	63,975
Profits (losses) from exchange differences on cash, cash equivalents and bank credit	1,767	(2,597)	(5,006)
BALANCE OF CASH, CASH EQUIVALENTS AND BANK CREDIT AT END OF PERIOD	75,346	57,690	68,997

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

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2016

APPENDIX TO CONDENSED CONSOLIDATED STATEMENT CASH FLOWS

	3 months ended 31 March		Year ended 31 December
	2016	2015	2015
	U.S. dollars in thousands		
	(Unaudited)		(Audited)
Cash generated from operations:			
Income before tax	26,038	27,326	118,057
Adjustments required to reflect the cash flows from operating activities:			
Depreciation and amortization	9,328	7,013	31,385
Recognition of compensation related to employee stock and options grants	353	400	1,541
Liability for employee rights upon retirement – net	304	340	1,428
Loss (gain) from sale and write-off of fixed assets and other assets	(120)	(7)	(250)
Income from investment in associates	(150)	-	-
Erosion of long term loans	338	(2,807)	(3,096)
Interest paid - net	1,776	729	3,545
Changes due to liabilities for put options	-	5,647	13,118
	11,829	11,315	47,671
Changes in operating asset and liability items:			
Decrease (increase) in accounts receivable:			
Trade	(16,467)	(19,122)	1,293
Other	(5,229)	109	(13,447)
Decrease (increase) in other long-term receivables	(1,081)	(268)	(106)
Increase (decrease) in accounts payable:			
Trade	11,029	9,291	(7,226)
Other	7,773	236	(5,484)
Increase (decrease) in other long-term payables	757	1,121	321
Decrease (increase) in inventories	(12,553)	(7,038)	(28,454)
	(15,771)	(15,671)	(53,103)
Cash flows from operating activities	22,096	22,970	112,625

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

NOTE 1 - GENERAL:

Frutarom Industries Ltd. is a global company, founded in 1933. The Company operates through the consolidated company (hereafter - Frutarom Ltd.) and the companies under its control (hereafter – the Group). The Group has two main operations: the Flavours activity and the Fine Ingredients activity, 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.

NOTE 2 - BASIS OF PREPARATION OF CONDESED CONSOLIDATED FINANCIAL STATEMENTS

a. The interim condensed consolidated financial information of the group as of 31 March , 2016 and for the 3 month period ended on that date (hereinafter - the interim financial information) was prepared in accordance with International Accounting Standard No. 34 - "Interim Financial Reporting" (hereafter – "IAS 34"). The interim financial information should be read in conjunction with the annual financial statements as of 31 December, 2015 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, 2015.

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 2015 annual financial statements, except for the following:
Income tax in interim periods is recognized based on management’s best estimate of the weighted average annual income tax rate expected.

NOTE 3 - PRINCIPAL ACCOUNTING POLICIES (continued):

b. 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 2015 financial statements of the group.

NOTE 4 – BUSINESS COMBINATIONS

a. Acquisition of control in Amco SP.Z.O.O

On January 11, 2016 Frutarom completed the acquisition of 75% of the share capital of the Polish Company Amco Sp. z.o.o, (hereafter – "Amco") in consideration for $ 22.4 million (88.5 million PLN). The purchase agreement includes an mutual option for acquiring the remaining shares starting two and a half years from the closing date of the transaction at a price based on the Amco's business performance. As of acquisition date the price of the option is estimated in the amount of $ 9.5 million and is presented as a non-current liability. The transaction was financed using bank debt.

Amco has an R&D and sales and marketing center along with an efficient production site in Warsaw, Poland. Amco employs a staff of 70, including 12 engaged in R&D with advanced academic degrees. Amco's main activity is the development, production and marketing of unique and innovative savory flavor solutions include seasoning blends, marinades, and functional ingredients for the food industry.

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 intangible assets which were recognized include: product formulas, customer relations and goodwill. The product formulas and customer relations are amortized over economic useful lives of 20 years and 10 years, respectively. 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 has not yet been completed as of the date of approval of these financial statements.

NOTE 4 – BUSINESS COMBINATIONS (continued):

a. Acquisition of control in Amco (continued):

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

	Fair value
	U.S. dollars In thousands
Current assets:	
Cash and cash equivalents	1,232
Trade	3,325
Inventory	2,434
Others	51
Non-current assets:	
Property, plant and equipment	3,330
Intangible assets	25,739
Others	3
Current liabilities :	
Bank credit and loans	(532)
Trade payables	(1,547)
Other account payables	(265)
Non-current liabilities:	
Deferred income taxes	(1,543)
Other	(9,807)
	22,420

From the date it was consolidated with the financial statements of the Company through March 31, 2016, the acquired operations have yielded revenues of $ 3,686 thousands and net profit of $ 91 thousands (net of acquisition costs).

NOTE 4 – BUSINESS COMBINATIONS (continued):

b. Acquisition of Wiberg

On January 28, 2016 Frutarom completed the acquisition of 100% of the shares of Sagema GmbH of Austria and Wiberg GmbH of Germany (including Wiberg's 50% ownership share in a Canadian subsidiary (Wiberg Corporation) and 51% ownership share in a Turkish subsidiary (WIBERG BAHARAT SANAYİ VE TİCARET ANONİM SİRKETİ) (hereafter collectively: "Wiberg") in consideration for approx. $ 129.9 million (€ 119.1 million). The purchase was fully funded using bank funding.

Founded in 1947, Wiberg now ranks as a top international group in its field, boasting a superb reputation and strong brand name in the specialty and innovative savory solutions that include flavor extracts, seasoning blends and functional ingredients for the food industry. Wiberg employs approx. 670 personnel throughout the world and operates five production sites, the largest of which is a modern and efficient state-of-the art facility in Germany with extensive production capacity and substantial room for expansion, and in Austria, Turkey, Canada, and Los Angeles in the USA. Wiberg headquarters in Salzburg, Austria includes a modern R&D center and advanced laboratories. Wiberg has sales and marketing functions in some 70 countries in Europe, North America, Africa and Asia.

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 intangible assets which were recognized include: product formulas, customer relations and goodwill. The product formulas and customer relations are amortized over economic useful lives of 20 years and 10 years, respectively. 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 has not yet been completed as of the date of approval of these financial statements.

NOTE 4 – BUSINESS COMBINATIONS (continued):

b. Acquisition of Wiberg (continued):

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

	Fair value
	U.S. dollars In thousands
Current assets:	
Cash and cash equivalents	8,322
Trade	20,871
Inventory	19,300
Others	6,396
Non-current assets:	
Property, plant and equipment	36,767
Investment in associates	21,422
Intangible assets	65,747
Current liabilities :	
Trade payables	(14,907)
Other account payables	(7,544)
Bank credit and loans	(4,334)
Non-current liabilities:	
Loans	(10,123)
Non-controlling interests	(873)
Deferred income taxes	(7,069)
Other	(4,037)
	129,938

From the date it was consolidated with the financial statements of the Company through March 31, 2016, the acquired operations have yielded revenues of $ 26,458 thousands and net profit of $ 1,237 thousands (net of acquisition costs).

c. Acquisition of Grow Company Inc.

On January 11, 2016 the Company signed an agreement for the acquisition of 100% of the shares of the US-based company Grow Company Inc. (hereafter – "Grow") in consideration for $ 20 million. The purchase agreement includes a mechanism for future consideration estimated by the Company in the amount of $ 17.2 million conditional on the Company's business performance during the year following the purchase date. The transaction was completed on the date of signing the agreement and was financed using a bank debt.

NOTE 4 – BUSINESS COMBINATIONS (continued):

c. Acquisition of Grow Company Inc. (continued):

Grow has accumulated many years of know-how and unique biotechnological production methods for producing natural nutritious ingredients possessing health benefits that are scientifically-proven and backed up by clinical studies. These ingredients significantly improve the body's absorption of vitamins, minerals and other vital nutrients.
Grow has an R&D, sales and marketing center along with an efficient production site in New Jersey USA.

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 intangible assets which were recognized include: product formulas, customer relations and goodwill. The product formulas and customer relations are amortized over economic useful lives of 20 years and 10 years, respectively. 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 has not yet been completed as of the date of approval of these financial statements.

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

	Fair value
	U.S. dollars In thousands
Current assets:	
Cash and cash equivalents	37
Trade	1,431
Inventory	1,330
Others	366
Non-current assets:	
Property, plant and equipment	1,220
Intangible assets	34,383
Current liabilities :	
Trade payables	(239)
Other account payables	(97)
Others	(19,931)
	18,500

From the date it was consolidated with the financial statements of the Company through March 31, 2016, the acquired operations have yielded revenues of $ 2,706 thousands and net profit of $ 700 thousands (net of acquisition costs).

NOTE 4 – BUSINESS COMBINATIONS (continued):

d. Investment in Algalo

On January 3, 2016 the Company signed an agreement to invest in Algalo Industries Ltd. (hereafter - "Algalo"). Frutarom will invest a total of NIS 10 million (approx. $ 2.56 million) in exchange for the allocation of 50% of Algalo shares to build a modern biotechnology facility that will specialize in cultivation, harvesting and processing algae using advanced and unique methods. Frutarom will have exclusive worldwide marketing rights for Algalo's products. The Company paid NIS 5 million of the consideration in cash. The remaining balance of the consideration will be paid subject to the achievement of milestones as set out in the agreement. The transaction was completed on the date of signing the agreement and was funded using a bank debt.

Algalo is a biotech startup company, which developed a unique and innovative method for efficient cultivation, harvesting and processing of a wide variety of algae that yield active ingredients for use in the food, dietary and clinical nutrition supplements and cosmetics industries.

d. On a proforma basis – assuming that the companies acquired in 2015 has been consolidated as from 1.1.2015 and the companies acquired in 2016 had been consolidated in the corresponding period in 2015 – the Q1 2015 sale would have amounted to approx. $ 253.3 million. This figure is based on unaudited data provided by the owners of the acquired activities in accordance with the pre-acquisition accounting policies of the acquired activities.

NOTE 5 – DIVIDEND

On 16, March 2016, the Company’s Board of Directors declared the distribution of a dividend of NIS 0.41 per share, in the total amount of $ 6,415 thousands. The dividend was paid to the shareholders on 8 of May, 2016.

NOTE 6 – REORGANIZATION PROCESS

The Company recorded during the period non-recurring expenses totaling $ 7 million. Most of the non-recurring expenses concern the reorganization being carried out by the Company on its savory activity in Germany centered around closing Frutarom's main production plant at Stuttgart during 2016 and the transfer of its production activity to Wiberg's modern and efficient plant in Germany, including provisions for severance pay, along with steps to combine the sales and marketing platforms for savory activity in Europe. In addition, non-recurring expenses were recorded resulting from the global reorganization of the Company's production resources in natural extracts from plants, from other streamlining projects being carried out by the Company at its sites around the world and with regards to the acquisitions performed during the quarter.

NOTE 7 – SEGMENT REPORTING

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

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

	Flavors operations	Fine Ingredients Operations	Trade and Marketing operations	Eliminations	Total Consolidated
	U.S. dollars in thousands				
3 months ended 31 March 2016 (unaudited):					
Revenues	182,379	60,248	16,907	(1,793)	257,741
Segment results	23,048	6,659	676	10	30,393
3 months ended 31 March 2015 (unaudited):					
Revenues	133,353	43,248	18,571	(973)	194,199
Segment results	22,877	5,410	1,170	(293)	29,164
Year ended 31 December 2015 (audited):					
Revenues	607,534	184,944	84,344	(4,026)	872,796
Segment results	108,751	18,900	2,870	(267)	130,254

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

	3 months ended 31 March		Year ended 31 December
	2016	2015	2015
	(Unaudited)		(Audited)
	U.S. dollars in thousands		
Reported segment profits	30,393	29,164	130,254
Income from investment in associates	150	-	-
Financing expenses	4,505	1,838	12,197
Profit before taxes on income	26,038	27,326	118,057

NOTE 8 – SUBSEQUENT EVENTS

Acquisition of Extrakt Chemie

on May 2, 2016, the Company signed an agreement for the acquisition of 100% of the of the rights and the general partner in the German partnership Extrakt Chemie Dr. Bruno Stellmach GmbH &Co. KG (hereafter - "Extrakt Chemie") as well as the property on which Extrakt Chemie’s plant is situated in consideration for approx. $ 6 million in cash (approx. € 5.3 million) plus the assumption of debt (net) amounting to approx. $ 2.2 million (approx. € 2 million). The purchase agreement includes a mechanism for future consideration conditional on the business performance of Extrakt Chemie during 2016 and 2017. The transaction was completed on the date of signing the agreement and was financed using Company's own funds.

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. Sharon Ganot, Global Vice President, Human Resources
5. Guy Gill, Vice President Finance
6. Tali Mirsky-Lachman, Global Vice President, Legal Affairs and Corporate Secretary

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

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

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

In the Annual Report Regarding Effectiveness of Internal Audit on Financial Reporting and on Disclosure attached to the Periodic Report ending on December 31, 2015 (hereinafter: the "**Last Annual Report Regarding Effectiveness**") the Board of Directors and the Company's management assessed the internal audit in the Company; based on this assessment, the Board of Directors and the Company's management concluded that said internal audit, as at December 31, 2015, is effective.

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

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 Annual Report Regarding Effectiveness 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 the Wiberg Company ("Wiberg")

Regarding the description of Wiberg and the acquisition transaction, see Note 4A to the Company's Quarterly Report.

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

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

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

(A) The date on which the transaction was concluded and the internal audit processes required for implementation - insufficient time had passed for assessment and mapping out internal audit processes existing at Wiberg from the date on which the transaction was completed until the date of the report, or for full implementation of the Company's internal audit processes at Wiberg.

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

In order to assess the effectiveness of Wiberg's internal audit, the Company is in the final stages of testing the acquired company's existing processes and audits in the matter of financial reporting and disclosure.

The Company's management would like to emphasize that based on its work experience with Wiberg from the date of acquisition, based on the opinion of Wiberg's internal auditor and based on the opinion of the acquired company's auditing accountants, the exclusion of the acquired company from the Report Regarding Effectiveness of Internal Audit has low probability of affecting the Company's internal audit or the information presented in the financial statements.

Directors' Declarations

Declaration of the President and CEO

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

1. I have reviewed the Quarterly Report of Frutarom Industries Ltd. (the "**Company**") for the first quarter of 2016 (the "**Reports**");
2. To my knowledge, the Reports do not include any false representations of any material fact and do not omit representation of any material fact required in order to ensure that the representations contained in these, in light of the circumstances under which they were included, are not misleading in relation to the period of the Reports;
3. To my knowledge, the financial reports and other financial information contained in the reports duly reflect the Company's financial situation, its results of operations and cash flow for the dates and periods to which the Reports relate in all material aspects;
4. I have disclosed to the Company's auditors, the Board of Directors and the Audit Committee of the Company's Board of Directors, based on my most updated assessment of the internal control on financial reporting and disclosure:
   a. All the material deficiencies and weaknesses in prescribing and implementing the internal control on the financial reporting and on the disclosure, if any, which may reasonably adversely affect the ability of the Company to gather, process or report on financial information in a manner which could raise concerns regarding the reliability of the financial reporting and the preparation of the financial reports in accordance to the provisions of the law; and –
   b. Any fraud, material or not material, which involves the president and CEO or anyone directly reporting to him or other employees who hold significant positions in the internal control on the financial reporting and on disclosure;
5. I, alone, or together with others in the Company:

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

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

c. No events or issues occurring during the period between the periodic report for 2015 and the date of this Report which could change the Board of Directors' and management's conclusion regarding effectiveness of the internal report on the Company's financial statement and on the disclosure have been brought to my attention.

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

Date: May 23, 2016

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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 first quarter of 2016 (the "**Reports**");
2. To my knowledge, the interim financial reports and other financial information contained in the interim Reports do not include any false representations of any material fact and do not omit representation of any material fact required in order to ensure that the representations contained in these, in light of the circumstances under which such representations were included, are not misleading in relation to the period of the Reports;
3. To my knowledge, the interim financial reports and other financial information contained in the interim reports duly reflect the Company's financial situation, its results of operations and cash flow for the dates and periods to which the Reports relate in all material aspects;
4. I have disclosed to the Company's auditors, the Board of Directors and the Audit Committee of the Company's Board of Directors, based on my most updated assessment of the internal control on financial reporting and disclosure:
    a. All the material deficiencies and weaknesses in prescribing and implementing the internal control on the financial reporting and on the disclosure, if any, which may reasonably adversely affect the ability of the Company to gather, process or report on financial information in a manner which could raise concerns regarding the reliability of the financial reporting and the preparation of the financial reports in accordance to the provisions of the law; and –

b. Any fraud, material or not material, which involves the president and CEO or anyone directly reporting to him or other employees who hold significant positions in the internal control on the financial reporting and on disclosure;

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

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

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

c. No events or issues occurring during the period between the periodic report for 2015 and the date of this report, relating to interim financial reports and to any other financial information contained in the interim report, which could, in my opinion, change the Board of Directors' and management's conclusion regarding effectiveness of the internal report on the Company's financial statement and on the disclosure have been brought to my attention.

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

Date: May 23, 2016

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Alon Granot
Executive Vice President and CFO